

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

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

International Mail Report

Docket No. IM2005-1

FIRST NOTICE OF INTERNATIONAL MAIL
DATA REQUIREMENTS FOR FY 2004

(Issued March 28, 2005)

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 April 11, 2005.

1. This item concerns International Customized Mail (ICM).
 - a. Please provide the FY 2004 revenue, pieces, weight, volume variable cost, and product-specific cost for each ICM contract by accounting period. Please provide this information separated by type of mail.
 - b. Since the requested data in "a." above is incorporated into the data shown on page A-2 of the FY 2004 ICRA Report, please provide a revised page A-2 showing revenue, cost, and volume data excluding ICM data.

- c. Please describe how the volume variable cost for each ICM mailing or contract was computed. Please provide the underlying worksheets or electronic spreadsheets.
 - d. If the ICMs include Initiatives, please provide revised Initiative data that excludes ICM data.
2. Please provide the tables on pages A-7 and B-7 of the FY 2004 ICRA Report broken out for Canada, ICs, and DCs. Please note that the Postal Service was able to provide the attributable cost for these three categories during the preparation period for the last Report to Congress. Refer to Response of the United States Postal Service to the Fourth Notice of International Mail Data Requirements for FY 2003, (Order No. 1401), item 1; filed April 2, 2004; and Response of the United States Postal Service to the Sixth Notice of International Mail Data Requirements for FY 2003 (Order No. 1403), item 1, filed April 23, 2004.
3. Please provide the most recent price elasticities available for each of the outbound products shown on page A-2 of the FY 2004 ICRA Report. Also, please provide the equation forms used to estimate the price elasticities (e.g., linear, log-linear, other).
4. Please provide all memoranda from the UPU that contain the allowable terminal dues charges for all postal administrations for calendar year 2004.
5. Please list any changes in international rates or rate structure that occurred during FY 2004 and their effective dates.
6. How many ICM agreements were in effect during FY 2004?

7. Total outbound mail increased by 4.8 percent between FY 2003 and FY 2004. Most of the increase can be traced to Air Letters and Letter Packages and International Priority Airmail Service (IPAS). The increase would have been larger but for the decline in Periodicals mail.
 - a. Please discuss the reasons for the increase in the volume of Air Letters and Letter Packages and IPAS.
 - b. Please discuss the reasons for the decline in Periodicals volume.

8. Last year, the Postal Service reported that it would shift the volumes, costs, and revenues for Global Direct Inbound from the ICRA Report to the domestic side of the ledger. The FY 2004 ICRA continues to show volume, cost, and revenue figures for this category, albeit substantially reduced. Please explain the rationale for reporting these figures as international mail rather than as domestic mail. Refer to Response of the United States Postal Service to the First Notice of International Mail Data Requirements for FY 2003 (Order No. 1397), item 6, filed April 1, 2004.

9. The information that the Postal Service filed on March 15, 2005 included some of the electronic files used to produce the FY 2004 International CRA and the Cost Segments and Components reports. These files include the manual input report, the "A" report, the row titles, and the segment and component titles. Please provide the equivalent electronic files used to produce the FY 2004 Domestic CRA – PRC Version and the accompanying Cost Segments and Components reports. Please also include the files that contain the operating control strings commands that produce the C report from the manual input. These files are usually referred to as A, B, and F.

10. In Exhibit 7, mail processing costs listed as outputs to the CRA differ from those listed in the Cost Segment and Component Report (3.1). Please reconcile the differences between Exhibit 7 and the CRA's Cost Segment 3.1. If the differences are due to peak load adjustment, please provide the underlying computation.
11. In prior years' submissions, the Postal Service has provided attachments to Exhibit 7 which show expanded inputs for both domestic and international mail categories by cost pool used in the Cost Segment 3 spreadsheet for MODS 1 & 2 Offices, Non-MODS, and BMC. This year's submission does not include the domestic inputs. Please provide the attachments to Exhibit 7 for the domestic mail categories.
12. Please provide supporting spreadsheets for Rural Carriers in Cost Segment 10.
13. Please update CAT/FAT and Load Attributable factors in Exhibit 8 with FY 2004 data. Also, please provide the impact of changes resulting from this update on other cost segments and submit all supporting worksheets or documents that have been revised as a result of this update.
14. The unit total attributable cost for outbound Economy Letters and Letter Packages increased substantially from FY 2003 to FY 2004. Most of the increase can be traced to mail processing and domestic transportation. Because both of these costs rely on statistical sampling systems, small sample size might be considered to be the source of variation. However, a review of the unit processing costs from 1999 to 2004 shows that these costs have been increasing monotonically. There are no random fluctuations over this period. If there were a small sampling problem, the year-to-year cost changes should show increases and decreases. The same pattern essentially holds for domestic

transportation. The unit costs rise from 1999 to 2002, then dip in 2003 and rise in 2004. The latter changes might be indicative of a small sampling problem except that the continuous increases from 1999 to 2002 seem to contradict this notion.

- a. Please analyze and discuss the changes in unit processing costs from 1999 to 2004. Please evaluate the apparent long-term trend in rising unit processing cost and provide an explanation of the trend. Please specifically address the change in unit cost from FY 2003 to FY 2004. The following review of previous Reports to Congress may facilitate the analysis: (1) no discussion of 1999 unit processing cost; (2) the reduction in FY 2000 unit cost corresponded to a decrease in average weight and there was a change in MODS pools; (3) in FY 2001 there was a rate restructuring which led to an increase in average weight that explained most of the increase in the unit cost; (4) the Postal Service contended that the increase in FY 2002 unit cost resulted from a decrease in volume; and (5) statistical variation might explain the change in the FY 2003 unit cost.
 - b. Please analyze and discuss the changes in domestic transportation unit costs from 1998 to 2004. Please specifically address the change in unit cost from FY 2003 to FY 2004. A review of previous Reports to Congress reveals that changes in domestic transportation unit cost for Economy Letters and Letter Packages were addressed only for FY 2002. In that instance, the Postal Service explained that the large change in this unit cost was due to (1) increases in average weight and cubic feet per piece; (2) statistical variation; and (3) a revised methodology for computing density factors.
15. The unit total attributable cost of outbound Economy Parcel Post decreased substantially between FY 2003 and FY 2004. Most of the decrease can be traced to unit processing cost. A review of the unit costs from 1998 to 2004

indicates continuous increases from FY 1999 to FY 2003. Although the large decrease in FY 2004 unit cost could be symptomatic of a small sampling problem, the trend from FY 1999 to FY 2003 would seem to cast doubt on the potential effect of a small sampling problem as an explanation. Please analyze and discuss the changes in unit processing costs from 1998 to 2004. Please specifically address the change in unit processing cost from FY 2003 to FY 2004. The following review of previous Reports to Congress may facilitate the analysis: (1) the Postal Service explained that the reduction in FY 1999 unit cost might be due to a focus on more efficient handling at the primary facility handling Economy Parcel Post; (2) no discussion for FY 2000; (3) rate restructuring led to an increase in average weight which explained some of the variation in the FY 2001 unit cost; (4) the Postal Service attributed the increase in the FY 2002 unit cost to a volume decrease and an increase in average weight; and (5) no discussion of FY 2003 change in unit cost.

16. Unit terminal dues payments have increased substantially from FY 2003 to FY 2004. There appears to be two reasons. First, 30 of 42 postal administrations receiving UPU terminal dues for industrialized countries have increased per-item charges and 23 of 42 of these same postal administrations have increased per-kilogram charges. The per-item increases range from 0.5 percent to 46.3 percent with 11 postal administrations obtaining the highest percentage increase. The per-kilogram increases range from 1.8 percent to 12.9 percent. Second, the U.S. dollar/SDR conversion factor for FY 2004 is 14.9 percent greater than the factor used in the FY 2003 ICRA Report.
 - a. Please confirm the reasoning above.
 - b. Please discuss any additional reasons.
 - c. Please confirm that U.S. dollar/SDR conversion factor accounts for most of the increases experienced in inward land charges and imbalance

charges. Please discuss any additional reasons for the increases.

17. In previous ICRA Reports, the Postal Service has used a lagged dollar/SDR conversion factor. For example, in the FY 2003 ICRA Report, the Postal Service used a dollar/SDR conversion factor for CY 2002 to calculate the settlement charges for the first three quarters of CY 2003. In contrast, in the FY 2004 ICRA Report, the Postal Service uses the dollar/SDR conversion for the last quarter of CY 2003 to calculate the settlement charges for the last quarter of CY 2003. Similarly, the Postal Service uses the dollar/SDR conversion factor for the first three quarters of CY 2004 to calculate the corresponding settlement charges.
 - a. Please discuss the rationale for eliminating the use of a lagged dollar/SDR conversion factor.
 - b. It is the Commission's understanding that terminal dues, inward land charges, and imbalance charges are settled after the calendar year is completed and that the dollar/SDR conversion factor used in this process is the one applicable when the account is settled. In this case, it would appear that the imputed value of settlement charges should, at the minimum, reflect the conversion rate applicable on the last day of the calendar year or a forecasted value based on the average number of days to finalize settlement. In any event, it seems that an average value for the first quarter and an average value for the last three quarters of a fiscal year would not be the values used for settlement except by chance. Please discuss.

18. The unit total attributable cost for outbound Periodicals increased substantially between FY 2003 and FY 2004. Most of the increase can be traced to processing and settlement costs. Because item 17 above addresses settlement cost, this item will focus only on processing. A review of the unit processing costs for the period FY 1998 to FY 2004 shows that other than a decrease in

FY 2001, unit processing cost increased year to year. Although Publishers' Periodicals is a small volume category, the year-to-year changes would seem to suggest that changes in unit cost may not be subject to the small sample problem. Please analyze and discuss the changes in unit processing costs from 1998 to 2004. Please specifically address the change in unit cost from FY 2003 to FY 2004.

19. Although the unit total attributable cost for outbound ISAL increased minimally from FY 2003 to FY 2004, unit processing costs decreased substantially in percentage terms. A review of ISAL unit processing cost shows increases from FY 1998 to FY 2003 and then a dramatic decrease in FY 2004. Please analyze and discuss the changes in unit processing costs from 1998 to 2004. Please specifically address the change in unit processing cost from FY 2003 to FY 2004.
20. The unit total attributable cost for outbound Cards increased substantially between FY 2003 and FY 2004. Most of the increase can be traced to processing and settlement cost. Because Item 17 above addresses settlement cost, this item will focus only on processing. A review of the unit processing costs for the period FY 1998 to FY 2004 shows that unit costs increased from FY 1998 to FY 2000, then alternately decreased and increased through FY 2004. The latter changes may be indicative of a small sampling problem. Also, previous Reports to Congress indicate that there may be a small sampling problem underlying the year-to-year perturbations. Please analyze and discuss the changes in unit processing costs from 1998 to 2004. Please specifically address the change in unit processing cost from FY 2003 to FY 2004.
21. The unit total attributable cost for outbound IPAS increased substantially between FY 2003 and FY 2004. Most of the increase can be traced to processing and settlement cost. Because Item 17 above addresses settlement

- cost, this item will focus only on processing. A review of the unit processing costs for the period FY 1998 to FY 2004 shows that unit costs decreased from FY 1998 to FY 2003, then increased considerably in FY 2004. Please analyze and discuss the changes in unit processing costs from 1998 to 2004. Please specifically address the change in unit processing cost from FY 2003 to FY 2004.
22. The unit total attributable cost for outbound Air Parcel Post increased minimally between FY 2003 and FY 2004, but unit domestic transportation cost increased considerably. A review of the unit domestic transportation costs for the period FY 1998 to FY 2004 shows that unit costs increased from FY 1998 to FY 2001, decreased in FY 2002 and FY 2003, and increased significantly in FY 2004. Please analyze and discuss the changes in unit domestic transportation costs from 1998 to 2004. Please specifically address the change in unit domestic transportation cost from FY 2003 to FY 2004.
23. The total unit attributable cost for inbound Surface Parcel Post increased substantially from FY 2003 to FY 2004. Most of the increase can be traced to domestic transportation which experienced a considerable increase. A review of unit domestic transportation cost reveals mostly alternating year-to-year increases and decreases. This could suggest that the variation in cost could be due to a small sample problem. Please analyze and discuss the changes in unit domestic transportation costs from 1998 to 2004. Please specifically address the change in unit domestic transportation cost from FY 2003 to FY 2004.
24. The total unit attributable cost for inbound Air Parcel Post increased substantially from FY 2003 to FY 2004. Most of the increase can be traced to processing which experienced a considerable increase. A review of unit processing cost shows that, except for a decrease in 1999, unit cost has continuously increased. The lack of alternating year-to-year increases and decreases suggests there may

be no small sample problem. Please analyze and discuss the changes in unit processing costs from 1998 to 2004. Please specifically address the change in unit processing cost from FY 2003 to FY 2004.

25. The total unit attributable cost for inbound Express Mail increased substantially from FY 2003 to FY 2004. Most of the increase can be traced to processing and domestic transportation.

- a. A review of unit processing cost shows that, except for back-to-back decreases in 2000 and 2001, unit cost has continuously increased. The lack of alternating year-to-year increases and decreases suggests there may be no small sample problem. Please analyze and discuss the changes in unit processing costs from 1998 to 2004. Please specifically address the change in unit processing cost from FY 2003 to FY 2004.
- b. A review of unit domestic transportation cost shows that, except for decreases in 1999 and 2001, unit cost has continuously increased. The lack of alternating year-to-year increases and decreases suggests there may be no small sample problem. The increases since FY 2001 have been substantial. In FY 2002 the Postal Service attributed the increase to the FedEx network and in FY 2003 the Postal Service suggested that the increase might have been due to the small sample problem. Please analyze and discuss the changes in unit domestic transportation costs from 1998 to 2004. Please specifically address the change in unit domestic transportation cost from FY 2003 to FY 2004.

It is ordered:

The Postal Service is directed to provide the items in the body of this order on or before April 11, 2005.

By the Commission
(S E A L)

Steven W. Williams
Secretary