

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

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

International Mail Report

Docket No. IM2006-1

FIRST NOTICE OF INTERNATIONAL MAIL
DATA REQUIREMENTS FOR FY 2005

(Issued March 28, 2006)

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 10, 2006.

1. This item concerns International Customized Mail (ICM).
 - a. Please provide the FY 2005 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 2005 ICRA Report, please provide a revised page A-2 showing revenue, cost and volume data without including 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.
 - e. How many ICM agreements were in effect during FY 2005?
2. Please provide a breakout of the inbound FY 2005 IOCS-related costs for Canada, ICs, and DCs. Please note that the Postal Service was able to provide the attributable costs for these three categories during the preparation period for the last Report to Congress. For reference, see U.S. Postal Service Response to Order Numbers 1435 (item 2), 1401 (item 1) and 1403 (item 1).
3. Please provide the most recent price elasticities available for each of the outbound products shown on page A-2 of the FY 2005 ICRA Report. Also, please provide the equation forms used to estimate the price elasticities (e.g., linear, log-linear, other).
4. Please provide any memoranda from the UPU that contain the allowable terminal dues charges for all postal administrations for calendar year 2005.
5. Please list any changes in international rates or rate structure that occurred during FY 2005 and their effective dates.
6. Total outbound mail increased by 1.0 percent between FY 2004 and FY 2005. Within this overall increase was considerable variation between the mail services. Large increases in Global Priority Mail, Parcel Post, and Global

Express Mail were offset by large decreases in Economy Letters and Letter Packages, Periodicals and Post Cards, Postal Cards, and Aerogrammes.

- a. Please discuss the reasons for the increase in the volume of Global Priority Mail, Parcel Post, and Global Express Mail.
 - b. Please discuss the reasons for the decline in the volume of Economy Letters and Letter Packages, Periodicals and Post Cards, Postal Cards, and Aerogrammes.
7. Information filed on March 15, 2006 included some of the electronic files used to produce the FY 2004 International CRA and the Cost Segments and Components reports – PRC version. These files include the manual input report (FY05IPRC.ChgRpt.XLS) and the control matrix (FY05IPRC.cntl.XLS). Also the programs used to produce the International CRA-PRC version (CRA.DIM.XLS and CRA.Model.XLS) were provided. In addition, the manual input for the FY 2005 Domestic CRA-PRC version (FY05PRC.I.XLS) is also provided. In relation to the Domestic CRA files:
- a. Can the control matrix for the International CRA also be used to produce the files for the various reports of the Domestic CRA (the “I” report, the “A” report, etc.)? If not, please provide the Domestic CRA equivalent of the file FY05IPRC.cntl.XLS.
 - b. Can the two CRA programs used to produce the International CRA, the Data Input Model and the CRA model also be used to produce the reports for the Domestic CRA? If it can, please provide the Users’ Manuals for the two models noted above. If it can’t, please provide the Domestic CRA equivalent of the models.
 - c. In the most recently completed rate filing, Docket No. R2005-1, the Postal Service filed a third CRA/Rollforward VBA model called the **Report Writer**. Is this program needed to produce the various CRA reports, such as the “I” report, the “A” report, the “F” report, etc.? If it is, please provide

the most recent version of this model along with the user's manual and programmer's manual.

8. 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 difference between Exhibit 7 and the CRA's Cost Segment 3.1. If the difference is due to a peak load adjustment, please provide the underlying computation.
9. 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.
10. Please provide supporting spreadsheets ("B" workpapers) for Rural Carriers in Cost Segment 10 and Purchased Transportation in Cost Segment 14.
11. The unit total attributable cost for Economy Letters and Letter Packages increased substantially from FY 2004 to FY 2005. Most of the increase can be traced to mail processing, although increases in other non-transportation and settlement contributed importantly to the unit total increase.
 - a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in unit costs for settlement from 2004 to 2005.

12. The unit total attributable cost for Economy Parcel Post increased substantially from FY 2004 to FY 2005. Most of the increase can be traced to mail processing, although increases in other non-transportation, domestic transportation, and settlement contributed importantly to the unit total increase.
 - a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in domestic transportation unit costs from 2004 to 2005.
 - d. Please analyze and discuss the changes in unit costs for settlement from 2004 to 2005.

13. The unit total attributable cost for Air Letters and Letter Packages increased substantially from FY 2004 to FY 2005. Increases in mail processing, other non-transportation, and settlement contributed importantly to the unit total increase.
 - a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in unit costs for settlement from 2004 to 2005.

14. The unit total attributable cost for Cards increased substantially from FY 2004 to FY 2005. Increases in mail processing, other non-transportation, and settlement contributed importantly to the unit total increase.
 - a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.

- b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in unit costs for settlement from 2004 to 2005.
15. The unit total attributable cost for Global Priority Mail increased substantially from FY 2004 to FY 2005. Increases in mail processing, other non-transportation, domestic transportation, and settlement contributed importantly to the unit total increase.
- a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in domestic transportation unit costs from 2004 to 2005. In particular, what is the cause of the enormous increase in domestic transportation between 2004 to 2005?
 - d. Please analyze and discuss the changes in unit costs for settlement from 2004 to 2005.
16. The unit total attributable cost for Global Express Mail increased substantially from FY 2004 to FY 2005. Increases in mail processing, other non-transportation, domestic transportation, and international transportation contributed importantly to the unit total increase.
- a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in domestic transportation unit costs from 2004 to 2005.

- d. Please analyze and discuss the changes in international transportation unit costs from 2004 to 2005.
17. The unit total attributable cost for International Service Airlift increased substantially from FY 2004 to FY 2005. Increases in mail processing, domestic transportation, international transportation, and settlement contributed importantly to the unit total increase.
- a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in domestic transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in international transportation unit costs from 2004 to 2005.
 - d. Please analyze and discuss the changes in unit costs for settlement from 2004 to 2005.
18. The unit total attributable cost for IPAS increased substantially from FY 2004 to FY 2005. Most of the increase can be traced to settlement, and also international transportation.
- a. Please analyze and discuss the changes in unit costs of settlement from 2004 to 2005.
 - b. Please analyze and discuss the changes in international transportation unit costs from 2004 to 2005.
19. The unit total attributable cost for Periodicals decreased substantially from FY 2004 to FY 2005. Most of the decrease can be traced to processing unit costs, although decreases in other non-transportation and international transportation contributed importantly to the unit total decrease.

- a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in international transportation unit costs from 2004 to 2005.

20. The unit total attributable cost for Air Parcel Post increased substantially from FY 2004 to FY 2005. Increases in mail processing, other non-transportation, domestic transportation, and international transportation contributed importantly to the unit total increase.
 - a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in other non-transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in domestic transportation unit costs from 2004 to 2005.
 - d. Please analyze and discuss the changes in international transportation unit costs from 2004 to 2005.

21. Refer to the FY 2006 rate schedule for Airmail Letter-Post. For rate groups 3 and 4 the rate for pieces weighing two ounces is more expensive than mailing two one-ounce pieces and the rate for a three-ounce piece is more expensive than mailing three one-ounce pieces. This trend continues, with two exceptions, through 8 ounces. See attachment. Because costs are both piece-related and weight-related, even if weight-related costs double as weight doubles, the overall

cost of the piece should not. Consequently, shouldn't the cost of handling one two-ounce piece be less than the cost of handling two one-ounce pieces? Please discuss.

22. Item number 9 on page vi of the International Cost and Revenue Analysis (ICRA) Report – PRC Version Fiscal Year 2005, states that:

[t]he SDR rate used in developing outbound settlement cost and inbound settlement revenue for the last three quarters of FY 2005 is 1.4914, which is the average daily IMF SDR rate for that period. The SDR rate used for the first quarter of FY 2004 is 1.5122, which is the daily IMF SDR rate for that period.

Please confirm that the statement should read

The SDR rate used in developing outbound settlement cost and inbound settlement revenue for the *first* three quarters of FY 2005 is 1.4914, which is the average daily IMF SDR rate for that period. The SDR rate used for the *last* quarter of FY 2004 is 1.5122, which is the daily IMF SDR rate for that period.

23. The last sentence in the second paragraph of page v of the ICRA Report – PRC Version Fiscal Year 2005 states that inbound air conveyance revenue and transit revenue for FY 2004 have been incorporated within the report. Please elaborate how FY 2004 revenues were included in the report.
24. The unit total attributable cost for inbound Express Mail decreased substantially from FY 2004 to FY 2005. Most of the decrease can be traced to processing unit costs, although decreases in domestic transportation, delivery and other costs also contributed importantly to the unit total decrease.

- a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in domestic transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in delivery unit costs from 2004 to 2005.
 - d. Please analyze and discuss the changes in other unit costs from 2004 to 2005.

25. The unit total attributable cost for inbound Air Parcel Post and inbound Surface Parcel Post decreased substantially from FY 2004 to FY 2005 despite large increases in delivery costs. Most of the decrease can be traced to processing unit costs, although decreases in other costs also contributed importantly to the unit total decrease.
 - a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.
 - b. Please analyze and discuss the changes in delivery unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in other unit costs from 2004 to 2005.

26. The unit total attributable cost for inbound Surface LC/AO decreased substantially from FY 2004 to FY 2005 despite a large increase in domestic transportation. Most of the decrease can be traced to processing unit costs, although decreases in delivery and other costs also contributed importantly to the unit total decrease.
 - a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005.

- b. Please analyze and discuss the changes in domestic transportation unit costs from 2004 to 2005.
 - c. Please analyze and discuss the changes in delivery unit costs from 2004 to 2005.
 - d. Please analyze and discuss the changes in other unit costs from 2004 to 2005.
27. The unit total attributable cost for inbound Air LC/AO increased substantially from FY 2004 to FY 2005 despite large decreases in the other categories of inbound mail. Unit costs for processing, delivery, transportation and other all contributed importantly to the unit total increase.
- a. Please analyze and discuss the changes in mail processing unit costs from 2004 to 2005. Please also explain why these costs went up while the costs for other inbound categories went down.
 - b. Please analyze and discuss the changes in unit costs from 2004 to 2005.

It is ordered:

The Postal Service is directed to provide the items in the body of this order on or before April 10, 2006.

By the Commission
S E A L

Steven W. Williams
Secretary

**INTERNATIONAL AIR LETTER-POST
COMPARISON OF POSTAGE FOR MULTIPLE PIECES AT ONE-OUNCE RATE
VERSUS A SINGLE PIECE AT HIGHER WEIGHT INCREMENTS**

		RATE GROUP				
		1	2	3	4	5
1	Postage for 2 pieces at 1-ounce rate	\$1.26	\$1.26	\$1.68	\$1.68	\$1.68
2	Postage for 2-ounce piece	\$0.90	\$0.90	\$1.70	\$1.80	\$1.65
3	Difference (L.2 - L.1)	(\$0.36)	(\$0.36)	\$0.02	\$0.12	(\$0.03)
4	Postage for 3 pieces at 1-ounce rate	\$1.89	\$1.89	\$2.52	\$2.52	\$2.52
5	Postage for 3-ounce piece	\$1.15	\$1.30	\$2.55	\$2.75	\$2.40
6	Difference (L.5 - L.4)	(\$0.74)	(\$0.59)	\$0.03	\$0.23	(\$0.12)
7	Postage for 4 pieces at 1-ounce rate	\$2.52	\$2.52	\$3.36	\$3.36	\$3.36
8	Postage for 4-ounce piece	\$1.40	\$1.75	\$3.35	\$3.70	\$3.20
9	Difference (L.8 - L.7)	(\$1.12)	(\$0.77)	(\$0.01)	\$0.34	(\$0.16)
10	Postage for 5 pieces at 1-ounce rate	\$3.15	\$3.15	\$4.20	\$4.20	\$4.20
11	Postage for 5-ounce piece	\$1.70	\$2.15	\$4.20	\$4.65	\$4.00
12	Difference (L.11 - L.12)	(\$1.45)	(\$1.00)	\$0.00	\$0.45	(\$0.20)
13	Postage for 6 pieces at 1-ounce rate	\$3.78	\$3.78	\$5.04	\$5.04	\$5.04
14	Postage for 6-ounce piece	\$1.95	\$2.60	\$5.05	\$5.60	\$4.80
15	Difference (L.14 - L.13)	(\$1.83)	(\$1.18)	\$0.01	\$0.56	(\$0.24)
16	Postage for 7 pieces at 1-ounce rate	\$4.41	\$4.41	\$5.88	\$5.88	\$5.88
17	Postage for 7-ounce piece	\$2.20	\$3.00	\$5.90	\$6.55	\$5.60
18	Difference (L.16 - L.17)	(\$2.21)	(\$1.41)	\$0.02	\$0.67	(\$0.28)
19	Postage for 8 pieces at 1-ounce rate	\$5.04	\$5.04	\$6.72	\$6.72	\$6.72
20	Postage for 8-ounce piece	\$2.50	\$3.45	\$6.75	\$7.50	\$6.40
21	Difference (L.20 - L.19)	(\$2.54)	(\$1.59)	\$0.03	\$0.78	(\$0.32)
22	Postage for 12 pieces at 1-ounce rate	\$7.56	\$7.56	\$10.08	\$10.08	\$10.08
23	Postage for 12-ounce piece	\$3.25	\$4.20	\$7.95	\$8.85	\$8.05
24	Difference (L.20 - L.19)	(\$4.31)	(\$3.36)	(\$2.13)	(\$1.23)	(\$2.03)