

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

Notice of Price Adjustment

Docket No. R2008-1

COMMISSION INFORMATION REQUEST NO. 1

(Issued February 26, 2008)

In its Notice of Market-Dominant Price Adjustment, filed February 11, 2008 (Notice), the Postal Service identifies in Appendix B the avoided costs, discounts, and passthroughs for worksharing discounts. Some of the passthroughs exceed 100 percent. Commission rule 3010.14(b)(6) requires the Postal Service to provide justification for worksharing discounts that exceed avoided costs, including a reference to applicable reasons identified in 39 U.S.C. 3622(e)(2) or (3). The Postal Service addresses this requirement beginning on page 26 of its Notice.

In order to achieve greater transparency and allow assessment of conformity of the discounted rates with the criteria in the Postal Accountability and Enhancement Act, the Commission requests that the Postal Service clarify and expand the justifications for passthroughs greater than 100 percent.

1. The Postal Service justifies the passthrough of more than 100 percent of avoided costs for First-Class 5-digit automation presort letters “on the basis that it is necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service through an incentive to create more efficiently-handled mailings.” Notice at 26-27. This mirrors the language of 39 U.S.C. 3622(e)(2)(A)(ii), which covers a discount that is “necessary to induce mailer

behavior that furthers the economically efficient operation of the Postal Service”

The discussions of Standard Mail Automation Mixed AADC letters (*id.* at 28), Automation Mixed ADC flats (*id.* at 29), pre-barcoding discount for parcels and not-flat machinables (NFMs) (*id.* at 33), and machinable parcels presort discounts and destination delivery units (DDU) dropship discounts for parcels and NFMs (*id.* at 32) each contain similar assertions about encouraging mailer behavior that will further the economically efficient operation of the Postal Service, as does the discussion of the discount for Bound Printed Matter (BPM) parcels dropshipped to DDU (*id.* at 35-36).

- a. Assuming that the above-referenced portions of the Notice are identifying 39 U.S.C. 3622(e)(2)(A) as the justification for the First-Class, Standard Mail, and BPM DDU parcels discounts with passthroughs exceeding 100 percent, please provide, for each such discount, an explanation of how it conforms to the other parts of 39 U.S.C. 3622(e)(2)(A), including subpart (i) identifying the discount as “associated with a new postal service, a change to an existing postal service, or with a new work share initiative related to an existing postal service[.]” and the second aspect of subpart (ii), which anticipates a phase out of the excess discount “over a limited period of time[.]”

If the quoted language of the Notice is not referring to 39 U.S.C. 3622(e)(2)(A), then for each of the worksharing discounts in First-Class and Standard Mail with a passthrough in excess of 100 percent, please identify the specific exception in 39 U.S.C. 3622(e)(2) or (3) that the Postal Service is invoking to justify, and explain why the planned discount fits the exception.

- b. The discussion of the BPM parcel DDU dropship discount also states that “the reduction of the discount would impede the efficient operation of the Postal Service.” *Id.* at 36. Assuming that this is identifying 39 U.S.C. 3622(e)(2)(D) as a justification for the BPM parcels DDU dropship passthrough exceeding 100 percent, please explain how 39 U.S.C. 3622(e)(2)(D), which refers to the effects of *reducing* or *eliminating* a discount, justifies *increasing* the BPM parcels DDU dropship discount.

If the quoted language of the Notice is not referring to 39 U.S.C. 3622(e)(2)(D), please identify the specific exception in 39 U.S.C. 3622(e)(2) or (3) that the Postal Service is invoking to justify a BPM parcels DDU dropship passthrough in excess of 100 percent, and explain why the planned discount fits the exception.
 - c. For each discount identified in the preamble, please explain the analytical process used to arrive at the conclusion that setting it in excess of the avoided cost “is necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service” *Id.* at 26-27. Include a discussion of how the Postal Service defines “economically efficient operation” and provide the calculations used to arrive at this conclusion, citing all sources and explaining all assumptions.
 - d. The discussion of machinable parcels presort discounts and DDU dropship discounts for parcels and NFMs (*id.* at 32-33) suggests that the estimated cost avoidances understate the true cost avoidances. Please explain the basis for this conclusion, and to the extent possible, quantify the understatement.
2. In its discussion of the worksharing passthroughs for Package Services, the Postal Service justifies passthroughs in excess of 100 percent for BPM

destination bulk mail center (DBMC) and destination sectional center facility (DSCF) flat and parcel dropship discounts and Media Mail and Library Mail 5-digit presort discounts by reducing the discounts from the current level, and stating that further reductions to achieve 100 percent passthroughs are intended for future adjustments because adjusting them all the way to 100 percent now would generate excessively high rate increases.

Assuming that the language in the Notice is identifying 39 U.S.C. 3622(e)(2)(B) as the justification for the BPM DBMC and DSCF flat and parcel dropship discounts and Media Mail and Library Mail 5-digit presort passthroughs exceeding 100 percent, please explain the process by which the Postal Service determined that moving all the way to 100 percent passthrough in a single adjustment would cause excessive rate shock, and how it selected the amount of reduction in the discount that would avoid excessive rate shock.

If the quoted language of the Notice is not referring to 39 U.S.C. 3622(e)(2)(B), then please identify the specific exception in 39 U.S.C. 3622(e)(2) or (3) that the Postal Service is invoking to justify BPM DBMC and DSCF flat and parcel dropship and Media Mail and Library Mail 5-digit presort passthroughs in excess of 100 percent, and explain why each planned discount fits the exception.

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Secretary