

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Notice of Price Adjustment

Docket No. R2009-2

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued February 13, 2009)

To clarify the basis of the Postal Service's estimates in its Notice of Price Adjustment, filed February 10, 2009, the Commission requests the Postal Service to provide a written response to the following question. An answer should be provided to the question as soon as it is developed, but no later than February 20, 2009.

In the instant docket, the Postal Service does not evaluate First-Class Mail workshare discounts using established cost avoidance methodology. Instead, the Postal Service employs a new methodology that effectively de-links single-piece from workshare rates within First-Class Mail.

In Docket No. R2008-1, the Postal Service also attempted to introduce a similar new methodology. However, the Commission noted that this methodology "has not been reviewed by the Commission, and is significantly different in approach than each of the other cost avoidances in the classes." Docket No. R2008-1, Order No. 66 at 18 (footnote omitted). The Commission employed the established methodology based on Docket No. R2006-1 to calculate cost avoidances.¹

¹ The Postal Service also proposed a similar methodology in Docket No. R2006-1. The Commission explicitly did not adopt this methodology. Docket No. R2006-1, ¶¶ 5079-90.

In Docket No. R2008-1, MMA presented additional proposals to change the established cost avoidance methodologies. In response to MMA's proposals the Commission stated:

Updates and modifications to cost avoidance models of a general nature are beyond the scope of a rate adjustment review and will be addressed in a future proceeding. MMA has not made a persuasive argument that the methodology issues that it has identified rise to the level of requiring immediate resolution in this proceeding.¹³ [FN 13. In anticipation of the likelihood that time constraints would restrict the scope of issues that could be meaningfully reviewed in this type of proceeding, the Commission adopted rule 3010.13(j), which distinguishes the status of findings of compliance with rate cap provisions from findings of compliance with other provisions of the PAEA.]

Several other comments addressed methodological issues. The Commission noted that these issues "may be appropriately addressed in future proceedings, but are beyond the scope of this rate adjustment proceeding." *Id.* at 21.

In the 2007 ACR, the Postal Service also initially presented a First-Class worksharing cost avoidance analysis that did not use the established methodology. In its ACD Report, the Commission stated that "[a] decision to change the framework for measuring worksharing cost avoidance should await a more complete airing of the pros and cons of the alternatives." 2007 ACD at 63. It went on to explain why the assumption that worksharing analysis should be limited to intra-product comparisons was not necessarily valid. *Id.* at 63-64.

Commission rule 3010.14(b)(5) requires that the worksharing avoided cost figures provided in support of a notice of rate adjustment "must be developed from the most recent PRC Annual Compliance Report." The "de-linking" of single-piece and presort First-Class was not among the 13 modifications to cost attribution and

avoidance methodologies requested by the Postal Service in the interim since the 2007 ACD.

In the instant docket, the Postal Service does not provide a rationale for not using the established cost avoidance methodology. Please provide the Commission with a rationale explaining why the established cost avoidance methodology is not used and why the Postal Service chose to employ a new methodology at this time considering the limited time frame and scope of this rate adjustment review. The rationale should include an explanation of any changed circumstances over the last year requiring such change and a discussion of why it would not be more appropriate to consider these methodological issues in a separate rulemaking where public comment could be fully evaluated.

By the Chairman

Dan G. Blair