

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

NOTICE OF PRICE ADJUSTMENT

Docket No. R2009-2

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 2  
(February 24, 2009)

Chairman's Information Request No. 2 was posted on February 17, 2009. The request sought answers no later than February 23, 2009. Attached are the Postal Service's responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 24, 2009

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
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1. Please refer to the Postal Service's Notice of Market-Dominant Price Adjustment (Notice) at 13. The Notice indicates that "the Postal Service will be making optional some requirements for presortation of automation First-Class Mail." Please identify the requirements being made optional and when the changes will become effective.

**RESPONSE:**

The changes will become effective on May 11, 2009. For automation letters, only the 5-digit tier is currently optional (but required, of course, if the price is claimed). The new standards make the 3-digit and AADC tiers optional (unless the lower prices are claimed).

The specific changes to the Domestic Mail Manual can be found on *pe.usps.com*, under "Federal Register Notices." Click on the "pdf" file at the bottom of the proposed rule titled "New Standards for Domestic Mailing Services, Revised Proposal" with a date of publication of February 6, 2009, and consult the section on page 8 regarding First-Class Mail automation letters.

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2. On page 14 of the Notice, the Postal Service briefly discusses its plan to offer a 0.3 cent per piece price reduction for full-service Intelligent Mail barcode (IMb) for First-Class. USPS-LR-R2009-2-1, CAPCALC-FCM-FY2009.xlsx, tab 'IM FS Incentive' indicates that the Postal Service expects that, at the time full-service IMb is implemented, 54% of automation letters, 44% of automation flats, and 40% of automation cards will qualify for the reduced price.
- a. Please identify and explain the preparation requirements for such mail to qualify for the reduced price.
  - b. Please explain how each of the estimated adoption percentages were developed, and provide all supporting studies, surveys, and other analysis including the "other information" mentioned in USPS-LR-R2009-2-1, First\_Class\_Mail\_R2009.doc at page 2.
  - c. Please explain why each of the specific estimated adoption percentages used in the cap calculations are appropriate. (See § 3010.23(d)).
  - d. The LR-1 analysis implies that the full-service IMb First-Class Mail pieces will migrate from mail that would otherwise be sent at non-IMb automation rates. Please provide an estimate of Postal Service costs that will be avoided by First-Class Mail pieces that meet the full-service IMb preparation requirements, with all possible quantitative support.
  - e. Assuming for purposes of this question that the reduced price for full-service IMb is characterized as a worksharing discount, please discuss how the worksharing discounts for First-Class full service IMb comply with the requirements of section 3622(e) of title 39.
  - f. In the development of the adoption percentages used in the cap calculations, the "Annual Adoption Rates" for cards is divided by two to calculate the "Implementation Fraction." Please confirm that the annual adoption rate should be multiplied by the quotient of 23 divided by 52 instead.

**RESPONSE:**

- a. The requirements for the full-service option are:

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- an Intelligent Mail barcode containing an 11-digit routing code and a unique serial number on each mailpiece;
- an Intelligent Mail tray barcode on each tray or sack in the mailing;
- an Intelligent Mail container barcode on each pallet in the mailing; and
- electronic mailing documentation must accompany each full-service mailing.

The specific changes to the Domestic Mail Manual can be found on *pe.usps.com*, under "Federal Register Notices" in two places. Click on the "pdf" file at the bottom of the proposed rule titled "Implementation of New Standards for Intelligent Mail® Barcodes" dated August 21, 2008. Also Click on the "pdf" file at the bottom of the proposed rule titled "New Pricing Eligibility, Intelligent Mail, and Move Update Standards for Domestic Mailing Services and Shipping Services" which was published in the Federal Register today at 74 *Fed Reg* 8009.

b. In keeping with section 3010.23d, the Postal Service has made "reasonable adjustments to the billing determinants to account for the effects of classification changes such as the introduction, deletion, or redefinition of rate cells." Since there are "no known mail characteristics" data on which to base the estimates, Postal Service personnel closest to the Intelligent Mail program were consulted to ascertain the best estimates of

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adoption rates. These estimates were based on the knowledge of mailers and their readiness to adapt to the requirements for the full-service option, such as electronic payment, and the length of time available (until November 29) for mailer and software vendors to develop the readiness for full-service. The expected percentage of volume that will claim the 0.3 cent differential is 54 percent for automation letters. Postal managers familiar with the program anticipate that for flats, a 10 percentage-point reduction from the expectation for letters is prudent, so the estimate for flats is 44 percent. It is the expectation that cards will have a similar adoption rate as letters -- at 54 percent. The spreadsheet identified in this question erroneously uses 40 percent as the adoption figure. The impact of this correction and the correction to the error identified in subpart (f) of this question is discussed in the response to subpart (f) below.

c. The estimated adoption percentages are appropriate because there is keen interest in Intelligent Mail, and the postal program managers who supplied the estimates have had extensive contacts and consultations with interested mailers, making those managers the most knowledgeable source of relevant information. As noted in response to subpart (b) above, there are no specific mail characteristics data to reference, so the expert judgment of knowledgeable postal program managers provides the best basis for making projections at this time.

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d. There are no avoided costs to be quantified for these pieces. The full-service Intelligent Mail® option will serve as a principal tool for the expansion of service performance measurement. Expanded service measurement capability permit more granular diagnosis of postal operations, network performance and service issues. It will increase the capability of postal management to strike a proper balance between achievement of operational targets and the pursuit of greater operational efficiency. Intelligent Mail is the technology platform for the next generation of postal services, features and products. Mailers and the Postal Service will gain visibility into the mailstream through the use of Intelligent Mail barcodes and by submitting electronic documentation, which will create actionable information about mail for marketing, financial and operational environments. The price differential is not the recognition of a per-piece cost reduction due to the adoption of the full-service option, but rather a policy-based differential to promote adoption of full-service so that the promise of Intelligent Mail can be more fully and expeditiously realized.

e. The worksharing aspect of these barcodes is reflected in the automation discounts implied in the base prices (to which the differential is applied). Currently, the Postal Service allows the use of either the POSTNET or the Intelligent Mail barcode on mail pieces to qualify for the First-Class Mail automation rates. The automation rates are workshare discounts. This is consistent with section 3622(e)(1), which defines the term "workshare

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discount” as referring to discounts provided to mailers for the following four activities: presorting, prebarcoding, handling and transportation. Since the full-service option will not result in the Postal Service avoiding any worksharing-related costs in addition to those avoided through the use of the POSTNET or basic Intelligent Mail barcode, the further differential for the full-service option is not worksharing.

However, given the hypothetical presented here, were it to be so defined, the Postal Service would justify it by reference to section 3622(e)(2)(A) as necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service. Intelligent Mail is a critical component of the future Postal Service. The full-service program is the most economically efficient mechanism to bring about Intelligent Mail. The general benefits to customers of full-service, coupled with the price differential, will lead to its adoption. To the extent that the full-service option becomes the norm, then a price differential would no longer be relevant or meaningful (since virtually no one would be paying the non-differential price), and therefore subsection 3622(e)(2)(A)(ii) would apply.

f. Confirmed. Correcting this error and the error discussed in part (b) of this question changes the overall percent increase for First-Class Mail from 3.771 percent to 3.770 percent. The ‘Unused Pricing Authority Available After this Price Change’ changes from 0.043 percent to 0.044 percent.

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3. On page 20 of the Notice, the Postal Service briefly discusses its plan to implement a 0.1 cent per piece differential for full-service Intelligent Mail for Periodical Mail. USPS-LR-R2009-2/3, CAPCALC-PER-FY2009.xls, tab 'IM FS Incentive' indicates that the Postal Service expects that, at the time full service IMb is implemented, the following percent of Periodical mail categories to qualify:

Outside County	Annual Adoption	Within County	Annual Adoption
Auto Letters	63%	Basic Automation Letters	40%
Auto Flats	69%	Automation Flats	40%
CR Basic	63%	3-Digit Automation Letters	40%
High Density	63%	3-Digit Automation Flats	40%
Saturation	80%	5-Digit Automation Letters	40%
		5-Digit Automation Flats	40%
		Carrier Route	40%
		Carrier Route - High Density	40%
		Carrier Route-Saturation	40%

- a. Please identify and explain the preparation requirements for such mail to qualify for the reduced price.
- b. Please explain how each of the estimated adoption percentages were developed, and provide all supporting studies, surveys, and other analysis including the "other information" mentioned in USPS-LR-R2009-2-3, Preface.doc at third unnumbered page.
- c. Please explain why each of the specific estimated adoption percentages used in the cap calculations are appropriate. (See § 3010.23(d)).
- d. The 'IM FS Incentive' tab implies that the full-service IMb Periodical Mail pieces will migrate from mail that would otherwise be sent at non-IMb automation rates. Please provide an estimate of Postal Service costs that will be avoided by Periodical Mail pieces that meet the full-service IMb preparation requirements, with all possible quantitative support.
- e. Assuming for purposes of this question that the reduced price for full-service IMb is characterized as a worksharing discount, please

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**QUESTION 3 (continued)**

discuss how the worksharing discounts for Periodicals full service IMb comply with the requirements of section 3622(e) of title 39.

- f. Please explain the substantially higher adoption percentage expected for Outside County Saturation Periodicals than for other Outside County Periodicals.
- g. Regarding the estimated adoption percentages for Within County Periodicals, please explain:
  - i. Why the adoption percentage is substantially lower than for Outside County Periodicals?
  - ii. Why the adoption percentage of Within County Periodical Flats is the same as Letters, when the adoption percentage of Outside County Flats is higher than Letters?
  - iii. Why the adoption percentage of Within County Saturation Periodicals is the same as all other Within County mail categories, when the adoption percentage for Outside County Saturation Periodicals is substantially higher than other Outside County Periodical Mail categories?

**RESPONSE:**

- a. The requirements for the full-service option are:
  - an Intelligent Mail barcode containing an 11-digit routing code and a unique serial number on each mailpiece;
  - an Intelligent Mail tray barcode on each tray or sack in the mailing;
  - an Intelligent Mail container barcode on each pallet in the mailing; and
  - electronic mailing documentation must accompany each Full Service mailing.

The specific changes to the Domestic Mail Manual can be found on [pe.usps.com](http://pe.usps.com), under "Federal Register Notices." Click on the "pdf" file at

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the bottom of the proposed rule titled "Implementation of New Standards for Intelligent Mail® Barcodes" dated August 21, 2008.

b. In keeping with Section 3010.23d, the Postal Service has made "reasonable adjustments to the billing determinants to account for the effects of classification changes such as the introduction, deletion, or redefinition of rate cells." Since there are "no known mail characteristics" data on which to base the estimates, the Postal Service personnel closest to the Intelligent Mail program were consulted to ascertain the best estimates of adoption rates. These estimates were based on their knowledge of interested mailers and the readiness of those mailers to adapt to the requirements for full service, such as electronic payment, and the length of time available (until November 29) for mailer and software vendors to develop the readiness for full-service option. The expected percentage of Outside County volume that will claim the 0.1-cent differential is 63 percent for automation letters, 69 percent for automation flats, 63 percent for Carrier Route and High Density, and 80 percent for Saturation. In general, Periodical volumes produced by major mailers follow the same processes as Standard Mail production, so it is reasonable to expect the same adoption rates. However, for automation flats, the percentage is increased by five percentage points because of the value of no-fee ACS for Periodicals, and the resulting greater incentive to move to the full-service option. For simplicity, the Standard Mail assumptions regarding

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Carrier Route and High-Density letters are used for the combined-shape categories in Periodicals for those same tiers. Also, for Saturation, which is an extremely small portion of Periodicals, the adoption rate projected for Standard Mail is applied.

For Within County, a lower adoption figure is used, consistent with the expectation that mail produced by small-to-medium size mail preparers is less likely to be ready to meet the requirements for the full-service option.

c. The estimated adoption percentages are appropriate because there is keen interest in Intelligent Mail, and the program managers that supplied the estimates are the most knowledgeable source of information. As noted in response to part b above, there are no specific mail characteristic data to reference, so these estimates are the best available.

d. There are no avoided costs to be quantified for these pieces. The full-service Intelligent Mail® option will serve as a principal tool for the expansion of service performance measurement. Expanded service measurement capability permit more granular diagnosis of postal operations, network performance and service issues. It will increase the capability of postal management to strike a proper balance between achievement of operational targets and the pursuit of greater operational efficiency. Intelligent Mail is the technology platform for the next generation of postal services, features and products. Mailers and the Postal Service will gain

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visibility into the mailstream through the use of Intelligent Mail barcodes and by submitting electronic documentation, which will create actionable information about mail for marketing, financial and operational environments. The price differential is not the recognition of a per-piece cost reduction due to the adoption of the full-service option, but rather a policy-based differential to promote adoption of full-service so that the promise of Intelligent Mail can be more fully and expeditiously realized.

e. Section 3622(e)(1) defines worksharing, and the differential for full-service is not worksharing by this definition; however, given the hypothetical presented here, were it to be so defined, the Postal Service would justify it by reference to section 3622(e)(2)(A) as necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service. Intelligent Mail is a critical component of the future Postal Service. The full-service program is the most economically efficient mechanism to bring about Intelligent Mail. The general benefits to customers of full-service, coupled with the price differential, will lead to its adoption. To the extent the full-service option becomes the norm, then a price differential would no longer be relevant or meaningful (since virtually no one would be paying the non-differential price), and therefore subsection 3622(e)(2)(A)(ii) would apply. The exception in subsection (e)(2)(C) for discounts provided "in connection with subclasses of mail consisting exclusively of . . . [ECSI] value" also could be a factor in determining Periodicals prices.

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f. It is reasonable to assume that adoption rate for Saturation will be significantly higher because this is a limited subset of Periodicals mail which is produced primarily by a few select large-volume mailers. It is the understanding of postal IMb program managers, based upon observation and extensive contact and consultation, that these mailers are more likely to be ready for full-service.

g. i. As stated above in response to part subpart (b), a lower adoption figure is used for Within County. This reflects that the mail is produced by small-to-medium size mail preparers that are less likely to be ready to meet the requirements for the full-service option.

ii. Within County is a very small subset of Periodicals, so having adoption percentages the same by shape is of very little consequence. In any event, it is the judgment of postal IMb program managers that there is no basis for necessarily differentiating by shape for the Within County categories.

iii. Within County is a very small subset of Periodicals, so having adoption percentages the same for all the tiers is of very little consequence. In any event, it is the above-referenced program managers' judgment that there is no basis for necessarily differentiating the Within County categories.

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4. On page 17 of the Notice, the Postal Service briefly discusses its plan to offer a 0.1 cent per piece price reduction for full-service Intelligent Mail barcode (IMb) for Standard Mail. USPS-LR-R2009-2-2, CAPCALC-STD-FY2009.xlsx, tab 'IM Adjustment' indicates that the Postal Service expects that, at the time full-service IMb is implemented, 63% of Commercial and Nonprofit automation letters and 64% of Commercial and Nonprofit automation flats will qualify. Additionally, USPS-LR-R2009-2-2, CAPCALC-STD-FY2009.xlsx, tab 'HD-Sat-CR IM Adjustment' indicates that the Postal Service expects that, at the time full service IMb is implemented, 63% of Commercial and Nonprofit High Density and Carrier Route letters, 64% of Commercial and Nonprofit High Density and Carrier Route flats, and 80% of Commercial and Nonprofit Saturation letters will qualify for the reduced price.
- a. Please identify and explain the preparation requirements for such mail to qualify for the reduced price.
  - b. Please explain the development of each of the estimated adoption percentages, and provide all supporting studies, surveys, and other analysis including the "other information" mentioned in USPS-LR-R2009-2-2, Standard Mail Attachment Preface FINAL.doc at fifth unnumbered page.
  - c. Please explain why each of the specific percentages used in the cap calculations are appropriate. (See § 3010.23(d)).
  - d. The LR-2 analysis implies that the full-service IMb Standard Mail pieces will migrate from mail that would otherwise be sent at non-IMb automation rates. Please provide an estimate of Postal Service costs that will be avoided by Standard Mail pieces that meet the full-service IMb preparation requirements, with all possible quantitative support.
  - e. Assuming for purposes of this question that the reduced price for full-service IMb is characterized as a worksharing discount, please discuss how the worksharing discounts for Standard Mail full service IMb comply with the requirements of section 3622(e) of title 39.

**RESPONSE:**

- a. The requirements for the full-service option are:
  - an Intelligent Mail barcode containing an 11-digit routing code and a unique serial number on each mailpiece;

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- an Intelligent Mail tray barcode on each tray or sack in the mailing;
- an Intelligent Mail container barcode on each pallet in the mailing; and
- electronic mailing documentation must accompany each full-service mailing.

The specific changes to the Domestic Mail Manual can be found on *pe.usps.com*, under "Federal Register Notices." Click on the "pdf" file at the bottom of the proposed rule titled "Implementation of New Standards for Intelligent Mail® Barcodes" dated August 21, 2008.

b. In keeping with Section 3010.23d, the Postal Service has made "reasonable adjustments to the billing determinants to account for the effects of classification changes such as the introduction, deletion, or redefinition of rate cells." Since there are "no known mail characteristics" data on which to base the estimates, the Postal Service personnel closest to the Intelligent Mail program were consulted to ascertain the best estimates of adoption rates. These estimates were based on the knowledge of mailers and their readiness to adapt to the requirements for the full-service option, such as electronic payment and the length of time available (until November 29) for mailer and software vendors to develop the readiness for full service. The expected percentage of volume that will claim the 0.1 cent differential is 63 percent for automation letters. A similar assessment of readiness for automation flats is only slightly higher at 64 percent. The assumptions for Carrier Route and High Density are based on the respective assumptions for

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the automation-rated shapes. Carrier route flats are similar to automation flats in that they are often catalogs produced in the same process. A large portion of Saturation letters is expected to come from relatively few mailers, and, based upon observations and extensive contacts and consultations with mailers, the program managers believe that these mailers are more likely to be prepared to take advantage of full-service, hence the higher adoption rate.

c. The estimated adoption percentages are appropriate because there is obvious interest in Intelligent Mail, and the program managers that supplied the estimates are the most knowledgeable source of information. As noted in part b above, there is no specific mail characteristic data to reference, so these estimates are the best available.

d. There are no avoided costs to be quantified for these pieces. The full-service Intelligent Mail® option will serve as a principal tool for the expansion of service performance measurement. Expanded service measurement capability permit more granular diagnosis of postal operations, network performance and service issues. Intelligent Mail is the technology platform for the next generation of postal services, features and products. Mailers and the Postal Service will gain visibility into the mailstream through the use of Intelligent Mail barcodes and by submitting electronic documentation, which will create actionable information about mail for marketing, financial and operational environments. The price

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differential is not the recognition of a per-piece cost reduction due to the adoption of full-service, but rather a policy-based differential to promote adoption of Full Service so that the promise of Intelligent Mail can be more fully and expeditiously realized.

e. Section 3622(e)(1) defines worksharing, and the differential for Full Service is not worksharing by this definition; however, given the hypothetical presented here, were it to be so defined, the Postal Service would justify it by reference to section 3622(e)(2)(A) as necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service. Intelligent Mail is a critical component of the future Postal Service. The Full Service program is the most economically efficient mechanism to bring about intelligent mail. The general benefits to customers of full-service, coupled with the price differential, will lead to the adoption of full-service. To the extent Full Service becomes the norm, then a price differential would no longer be relevant or meaningful (since virtually no one would be paying the non-differential price), and therefore subsection 3622(e)(2)(A)(ii) would apply.

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5. On pages 49 and 51 of Appendix A to the Notice, the Postal Service provides for a 0.1 cent per piece price reduction for full-service IMb for Bound Printed Matter (BPM) presorted or Carrier Route Flats. USPS-LR-R2009-2-4, CAPCALC-PSVC-FY2009 final.xls, tab 'FY2008 BDs BPM Presort Flats indicates that the Postal Service expects that, at the time full-service Intelligent Mail is implemented, 64% of eligible presorted BPM Flats will participate.
- a. Please identify and explain the preparation requirements for such mail to qualify for the reduced price.
  - b. Please explain how the estimated adoption percentage was developed, and provide all supporting studies, surveys, and other analysis including the "other information" mentioned in USPS-R2009-2/4.doc at page 3.
  - c. Please explain why the specific estimated adoption percentage used in the cap calculation is appropriate. (See § 3010.23(d)).
  - d. The USPS-R2009-2/4 analysis implies that the full-service IMb BPM pieces will migrate from mail that would otherwise be sent at non-IMb automation rates. Please provide an estimate of Postal Service costs that will be avoided by BPM pieces that meet the full-service IMb preparation requirements, with all possible quantitative support.
  - e. Assuming for purposes of this question that the reduced price for full-service IMb is characterized as a worksharing discount, please discuss how the worksharing discount for Bound Printed Matter Flats full service IMb complies with the requirements of section 3622(e) of title 39.

**RESPONSE:**

- a. The requirements the full-service option are:
  - an Intelligent Mail barcode containing an 11-digit routing code and a unique serial number on each mailpiece;
  - an Intelligent Mail tray barcode on each tray or sack in the mailing;
  - an Intelligent Mail container barcode on each pallet in the mailing; and

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- electronic mailing documentation must accompany each Full service mailing.

The specific changes to the Domestic Mail Manual can be found on [pe.usps.com](http://pe.usps.com), under "Federal Register Notices." Click on the "pdf" file at the bottom of the proposed rule titled "Implementation of New Standards for Intelligent Mail® Barcodes" dated August 21, 2008.

b. BPM flats are expected to have a similar adoption rate as Standard flats, since the production process is similar, as are the mailers.

c. The estimated adoption percentages are appropriate because there is obvious interest in Intelligent Mail, and the program managers that supplied the estimates, based upon the observations and extensive contacts and consultations with mailers, are the most knowledgeable source of information. As noted in response to part b above, there are no specific mail characteristic data to reference, so these estimates are the best available.

d. There are no avoided costs to be quantified for these pieces. The full-service Intelligent Mail® option will serve as a principal tool for the expansion of service performance measurement. Expanded service measurement capability permit more granular diagnosis of postal operations, network performance and service issues. Intelligent Mail is the technology platform for the next generation of postal services, features and products. Mailers and the Postal Service will gain visibility into the mailstream through the use of Intelligent Mail barcodes and by submitting electronic documentation, which will create actionable information about mail for

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marketing, financial and operational environments. The price differential is not the recognition of a per-piece cost reduction due to the adoption of the full-service option but rather a policy-based differential to promote adoption of full-service so that the promise of Intelligent Mail can be more fully and expeditiously realized.

e. Section 3622(e)(1) defines worksharing, and the differential for Full Service is not worksharing by this definition; however, given the hypothetical presented here, were it to be so defined, the Postal Service would justify it by reference to section 3622(e)(2)(A) as necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service. Intelligent Mail is a critical component of the future Postal Service. The full-service program is the most economically efficient mechanism to bring about Intelligent Mail. The general benefits to customers of full-service, coupled with the price differential, will lead to its adoption. To the extent the full-service option becomes the norm, then a price differential would no longer be relevant or meaningful (since virtually no one would be paying the non-differential price), and therefore subsection 3622(e)(2)(A)(ii) would apply.

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6. Please refer to the Postal Service's Notice at 29-31 and Appendix B.
  - a. Please provide a revised copy of Appendix B which shows the avoided costs, discounts, and passthroughs for First-Class Automation Mixed AADC Letters, Automation Mixed AADC Cards, and Nonautomation Presort Letters using the accepted methodology (including the use of the BMM benchmark) as presented in Tables VII-B-2 and VII-B-3 of the 2007 ACD.
  - b. Based on the response to subpart (a), please discuss how the proposed discounts for First-Class Automation Mixed AADC Letters, Automation Mixed AADC Cards, and Nonautomation Presort Letters comply with the worksharing requirements in section 3622(e) of title 39.
  - c. Based on the response to subpart (a), for each discount in excess of the avoided cost, please identify the specific statutory exemption claimed and provide a complete explanation of how the discount satisfies that exemption.

**RESPONSE:**

- a. Attached is a revised copy of the relevant pages of Appendix B, 'Appendix B\_Revised\_CIR2'. Two rows (Rows 8 and 29 - red font) are added to tab: FCM Letters, Flats, Parcels, and one row (Row 7 – red font) is added to tab: FCM Cards. Row 8 in that first tab shows the discount, cost avoidance, and pass through for First-Class Mail Mixed AADC Automation Letters using the benchmark of Bulk Metered Mail (BMM) Letters using cost estimates from USPS-FY08-10 Letters Costs Final. Row 29 provides the discount, cost avoidance, and passthrough for Nonautomation Presort Letters using the BMM benchmark. The sheet in the second tab has an additional row (Row 7) providing the discount, cost avoidance and passthrough for First-Class Mail Mixed AADC Automation Cards using Nonautomation Presort Cards benchmark.

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RESPONSE TO QUESTION 6 (continued)**

b. The announced price differential between Mixed AADC Automation Letters and Single Piece implies (using the BMM letters cost as benchmark) a 128.9 percent passthrough. The Postal Service's response to Chairman's Information Request No. 1 discusses this passthrough at length both in terms of compliance with the worksharing requirements in Section 3622(e) of title 39 and the relevant statutory exemption.

The announced price differential between Nonautomation Presort Letters and Single Piece (using the BMM benchmark) implies a passthrough of 43.3 percent. A 100 percent passthrough would lead to a 3.6 percent reduction in the price of Nonautomation Presort Letters and a price lower than the price for Mixed AADC Automation Letters. The use of a lower passthrough leads to an increase in the gap between Nonautomation Presort Letters and Mixed AADC Automation Letters from 2.5 cents to 3.2 cents, thereby supporting Postal Service's goal to promote automation over simple presorting. In order to maintain price relationships, and promote the more efficient operation enabled by preparation for automation, the Postal Service is using a passthrough of less than 100 percent of the cost differential between BMM letters and Nonautomation Presort Letters.

The effective passthrough of cost avoidance between First-Class Mail Nonautomation Presort Cards and Mixed AADC Automation Cards is 53.6 percent. A 100 percent passthrough would lead to a reduction in the price of Mixed AADC Automation Cards. The overall increase for Presort Cards at the

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announced prices is less than the cap of 3.8 percent. Given the fact that most of the volume for Presort Cards pays the Automation prices, a 100 percent passthrough would actually lead to a negative increase for Presort Cards as a whole.

- c. See the response to part (b) above.

## CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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