

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. 3

(Issued February 23, 2009)

To clarify the basis of its estimates in its Notice of Price Adjustment, filed February 10, 2009, the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than March 2, 2009.

1. Please refer to Workpaper, USPS-R2009-2/1, First-Class Mail, at 4. It states "A volume adjustment factor of 1.1167 was applied to all rate groups to match with the total FCMI [First-Class Mail International] volume in the FY 2008 RPW Report (Revenue, Pieces, and Weight Report). The volume adjustment factor was derived by dividing total RPW volume by total billing determinant volume." Also, please refer to the Excel file, CAPCALC-FCMI-FY2009.xls, worksheet FY 2008 FCMI.
 - a. Please explain the reason(s) underlying the difference between the RPW and the billing determinants that prompted development of an adjustment factor.
 - b. Please provide the "total RPW volume" figure and the "total billing determinant volume" figure used to derive the volume adjustment factor.
 - c. Please provide an electronic spreadsheet using the volume adjustment factor to calculate the FCMI letters, flats, and parcels volumes presented

in worksheet FY 2008 FCMI. The electronic spreadsheet provided should show all formulas and calculations.

2. Please refer to Workpaper, USPS-R2009-2/1, First-Class Mail, at 6. It references a “volume adjustment factor of 1.07944” for FCMI cards, and the derivation of this factor by “dividing total RPW volume by total billing determinant volume.” Also, please refer to the Excel file, CAPCALC-FCMI-FY2009.xls, worksheet FY 2008 FCMI CARDS.
 - a. Please explain the reason(s) underlying the difference between the RPW and the billing determinants that prompted development of an adjustment factor.
 - b. Please provide the “total RPW volume” figure and the “total billing determinant volume” figure used to derive the volume adjustment factor.
 - c. Please provide an electronic spreadsheet using the volume adjustment factor to calculate the FCMI card volumes presented in worksheet FY 2008 FCMI CARDS. The electronic spreadsheet provided should show all formulas and calculations.

3. Please refer to Table 1 below concerning Outside County Periodicals.

Table 1			
Type of Worksharing	Discount	Cost Differential	Passthrough
Docket No. R2008-1*			
Pre-Sorting			
3-Digit Automation Letter	\$0.015	\$0.003	437.3%
Docket No. R2009-2**			
Presorting			
3-Digit Automation Letter	\$0.020	\$0.002	1000.0%
* USPS Notice of Market-Dominant Price Adjustment, February 11, 2008, App._B_ Passthrough Tables.xls, Sheet: Periodicals Outside County			
** USPS Notice of Market-Dominant Price Adjustment, February 11, 2009, App._B_ Passthrough Tables.xls Sheet: Periodicals – OC Pcs.			

- a. Please confirm the accuracy of Table 1. If not confirmed, please modify the table accordingly.
- b. Please clarify and expand the justification for increasing the discount for presorted 3-Digit Automation Letters.
4. Please refer to USPS-FY08-04, Excel file, "08 Special Services BD.xls," and Library Reference R2009-2/5, Excel file, "Capcal-SpecServ-FY09.xls." The table below, which shows reported Standard Bulk Mail Permits, is based on the foregoing files.

Table 2			
USPS-FY08-04		R2009-2/5	
Revenue (1)	\$58,775,909 (2)	Revenue (3)	\$58,892,295 (4)
Estimated permits:		Estimated Permits:	
Regular	246,492	Regular	246,980
Nonprofit	85,688	Nonprofit	126,939
Total Permits	332,180	Total Permits	373,919

- a. Please confirm the accuracy of Table 2. If not confirmed, please modify the table accordingly.
 - b. Please reconcile the Billing Determinants in column (2) with the Billing Determinants in column (4).

5. Please refer to the United States Postal Service Notice of Market-Dominant Price Adjustment, February 10, 2009, at 24. It states, “[t]he creation of new Mailing Agent prices within the Gold and Platinum tiers is intended to better align the revenue source with the source of the costs of providing the service.” Also, please refer to Library Reference, R2009-2/5, Excel File, “Capcal-SpecServ-FY09.xls,” worksheet “Confirm”.
 - a. For a mailer acting as a mailing agent, what are the current and planned fees for the Gold and Platinum subscription levels?
 - b. Please provide the percentage increases represented by the planned increase in fees.
 - c. Please explain how the new mailing agent fees better align revenues and costs within the Gold and Platinum tiers.

6. Please refer to Library Reference R2009-2/5, Excel File, “Capcal-SpecServ-FY09.xls,” worksheet “Hardcoded Data.” The table, “Necessary Weighted Fees for Certain Fees, where volume has to be derived” uses fees from Docket Nos. R2005-1 and R2006-1 to calculate the weighted fees for certain Special Services (Business Reply Mail and Address Change for Election Boards). For FY 2008, the partial year fees that were in effect were from Docket Nos. R2006-1 and R2008-1. Please explain the use of partial year fees from Docket Nos. R2005-1 and R2006-1 to calculate the FY 2008 weighted average fee rather than the most recent partial year fees from Docket Nos. R2006-1 and R2008-1.

7. Please refer to Library Reference R2009-2/5, Excel file, "Capcal-SpecServ-FY09.xls" and Word file, "Preface.doc", which provides certain information regarding Library Reference R2009-2/5. Also, please see Tables 3 and 4 below.

Table 3	
USPS Proposed Adoption Rates for Full Service Address Correction Service	
First-Class Mail	
Electronic	20%
Automated	42%
Periodicals	
Electronic	48%
Standard Mail	
Electronic	35%
Automated	51%
Bound Printed Matter	39%

Table 4	
USPS Proposed Weighted Confirm Transactions	
Tier	Transactions
Bronze	7
Additional Scans	0
Silver	20
Additional Scans	0
Gold	
Mail Owner	80
Other	50
Additional Scans	20
Platinum	
Mail Owner	30
Other	15
Total Subscribers	202
Additional IDs	
Quarter	74
Annual	309

- a. Section B of "Preface.doc" explains any adjustments to the Special Services Billing Determinants. Section B states that for Address Correction Service (ACS) the "cap compliance calculations have been adjusted to reflect a reasonable expectation of how many existing ACS pieces will qualify for Full Service ACS." Table 3 above lists the "reasonable expectation" adoption percentages estimated by the Postal Service.
 - i. Please confirm the accuracy of Table 3. If not confirmed, please modify the tables accordingly.
 - ii. Please explain the bases for the specific adoption rates and provide all worksheets related thereto.
 - b. Section B states that for Confirm Service, the "weight adjustments for the Gold and Platinum splits were based on current subscription levels" and that the "adjustment for the Bronze tier was based on estimated scan usage."
 - i. Please confirm the accuracy of Table 4. If not confirmed, please modify the tables accordingly.
 - ii. Please explain the bases for the adjustments to the Bronze, Gold, and Platinum tiers and provide all worksheets related thereto.
8. Please refer to Library Reference R2009-2/5, Excel file, "Capcal-SpecServ-FY09.xls", Worksheets 'Cap Cal Details', 'Cap Cal Page', and 'Address Correction'.
- a. The 'Cap Cal Details' worksheet, cell B14, shows Total Before Rates revenue for Address Correction Services of \$53,688,323, which excludes the total before rates revenue for Full Service. The 'Cap Cal Page' worksheet, cell B3, shows Total Before Rates revenue for Address Correction Services of \$71,029,871. Please reconcile the two, and

explain the exclusion of the Full Service revenue in the 'Cap Cal Details' worksheet.

- b. For the 'Address Correction' worksheet, please confirm that the Before Rate revenue for Bound Printed Matter – Full Service is \$76,016 (304,065 * \$0.25). If you do not confirm, please explain.
9. While the Postal Service indicates its intention to implement the majority of rates on May 11, 2009, the discounts for full-service IMb and Personalized Stamped Envelopes will be implemented on later dates. This complicates the calculation of percentage change in rates under Commission rule 3010.23, which is generally designed to evaluate sets of rate changes that are to be simultaneously implemented. The Postal Service's calculations appear to treat the IMb discounts in a manner consistent with that contemplated for seasonal or temporary rates. However, unlike seasonal or temporary rates, the IMb rates are intended to be permanent once implemented.

When rate changes are implemented simultaneously, the application of the Commission's rules serves to function as a cap on rates. In contrast, if rate changes are implemented at different times, with adjustments made to the volume weights, the cap may be seen as more akin to a cap on revenues (or average revenues). The accuracy of the cap calculations is also dependent on the assumption that the next adjustment cycle will not be less than or more than one year.¹

¹ Based on the planned implementation date, the billing determinant weights for the IMb discounts are developed by multiplying the post-implementation adoption percentages by the quotient of 23 divided by 52. The 23/52 factor represents the assumption that the set of rates in the notice will be in effect for 52 weeks, but the IMb rates will only be in effect for 23 of those weeks.

- a. Please discuss the strengths and weaknesses of the approach taken in the filing.
- b. Please discuss the strengths and weaknesses of potential alternate approaches, including filing a separate notice of rate adjustment or mail classification proceeding closer to the implementation date.

By the Chairman.

Dan G. Blair
Chairman