

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. 4

(Issued February 25, 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 4, 2009.

1. The following question refers to the avoided cost, discount, and passthrough associated with Automation Mixed AADC Letters.
 - a. The Commission's approved methodology for estimating avoided costs is identified in Order 169, question 5. Also, in its Response to Commission Information Request (CIR) No. 3, Questions 2 and 3, in Docket No. ACR2008, the Postal Service made two corrections. Please confirm that using the approved methodology with the corrections stated above, results in an avoided cost differential of \$.016 between Automation Mixed AADC Letters and Automation AADC Letters. If not confirmed, please explain, provide the correct cost differential, and show all calculations.
 - b. Please confirm that the resulting passthrough for Automation Mixed AADC Letters is 106 percent ($0.017 / 0.016$). If not confirmed, please explain.
 - c. If subparts a. and b. above are confirmed, please provide a justification for why the discount for Automation Mixed AADC Letters exceeds 100

percent of avoided cost by reference to one or more of the exceptions specified in Section 3622(e).

2. The following question refers to Standard Mail Parcels and NFMs, Carrier Route Parcels, and High Density and Saturation Parcels. In its response to CIR No. 1 in Docket No. R2008-1, the Postal Service stated that a passthrough exceeding 100 percent for the DDU dropship discount is “intended to induce mailers to move parcels and NFMs out of the BMCs and into the DDUs.” In R2009-2, the Postal Service increases the passthrough for DSCF parcels from 92.8 percent to 179.8 percent. This would seem to diminish somewhat the incentive to mailers to dropship parcels at DDUs. Please discuss the Postal Service’s apparent shift in its incentive strategy for parcels.
3. This question concerns the discount for 5-digit presorted parcels. The current discount of 39.9 cents is based on a passthrough of 116 percent. See R2008-1, Postal Service Notice, Appendix B. According to the Postal Service, the proposed discount of 43.9 cents, an increase of 3.9 cents, reflects primarily the 3.1 cent increase in avoided unit cost between FY 2007 and FY 2008. See R2009-1, Postal Service Notice, page 39. The planned 43.9 cent discount reflects a passthrough of 117 percent which is an increase compared with the R2008-1 passthrough percentage.
 - a. What were the other factors the Postal Service considered in deciding to increase the discount by more than the increase in unit avoidable cost?
 - b. Please show how the, albeit marginal, increase in the percentage passthrough is consistent with 3622(e).
 - c. What evidence does the Postal Service have that “Standard Mail parcels mailers might not undertake the investments necessary to prepare parcels to avoid BMC parcel sorting and move them quicker to delivery units.” *Id.*

4. Please refer to United States Postal Service Notice of Market-Dominant Price Adjustment, pages 38-39. With regard to the discount between machinable Mixed BMC presorted and BMC presorted parcels, the Postal Service states, “The Postal Service is concerned that reducing the discount below what it proposes in this price adjustment will slow the movement toward finer presort levels and impede the efficient operation of the Postal Service.”
- a. Please explain what evidence the Postal Service has for believing that a smaller discount would slow the movement toward finer presort levels.
 - b. Please explain in what way a slow movement toward finer presort levels would impede the efficient operation of the Postal Service.
 - c. Please confirm that the cost savings from “bypassing the primary parcel sorters” is reflected in the avoided cost. If not confirmed, please explain.
 - d. Please explain how increasing the passthrough for BMC Machinable parcels will improve the cost coverage of the product.
5. Please reference the tables below.

Table A			
Current Drop Ship Discounts for Standard Mail (Commercial and Nonprofit) and Standard Mail Carrier Route Letters, Flats, Parcels (Commercial and Nonprofit)			
	Letters	Flats	Machinable Parcels/IPPs/NFMs
DBMC	.159	.159	.159
DSCF	.203	.203	.209
DDU	-	-	.331

Table B							
Planned Drop Ship Discounts (Docket No. R2009-2)							
	Standard Mail (Commercial and Nonprofit)				Standard Mail Carrier Route Letters, Flats, Parcels (Commercial and Nonprofit)		
	Letters	Flats	IPPs/NFMs	Machinable Parcels	Letters	Flats	Parcels
DBMC	.163	.163	.215	.215	.163	.163	.221
DSCF	.208	.208	.466	.424	.208	.208	.480
DDU	-	-	.701	.620	-	.253	.625

In Docket No. R2009-2, the Postal Service plans, for the first time, differential drop ship discounts by product. Please provide a rationale for the differential discounts, given that the unit avoided costs do not vary by product.

6. Please refer to Library Reference USPS-R2009-2/2, Standard Mail Cap Compliance, and the Word file, "Standard Mail Attachment Preface FINAL.doc," where the Postal Service states, "The migration patterns adopted in worksheet 'Parcels Migration Distributions' reflect the experience and judgment of Postal Service parcels managers." The Postal Service also states that, "management believes that it is reasonable for machinable parcels now paying 5-digit Origin prices to migrate to the BMC Origin, 5-digit DBMC, 5-digit DSCF and 5-digit DDU pricing categories roughly in the same proportions as total Standard pieces and pounds were distributed to those same categories in the FY 2008 billing determinants." Please explain in detail the reasoning behind management's conclusion that it is reasonable for machinable parcels now paying 5-digit Origin prices to migrate as described above.
7. Please refer to the Postal Service's Notice at 31-40 and Appendix B.
 - a. Please provide a revised version of Appendix B which shows the discounts, avoided costs, and percentage passthroughs by shape (letters,

- flats, parcels) between (1) Basic and High Density, and (2) High Density and Saturation.
- b. Based on the response to subpart (a), please discuss how the proposed presort discounts for Standard Mail Carrier Route Letters, Flats, Parcels 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.
8. Please refer to the Postal Service's Notice at 16. Please provide the specific standards, including identifying the time period in which volume growth is to be measured, that apply to the new incentive targeted at increasing saturation mail volumes.
 9. In Docket No. MC2008-3 the Commission approved a classification change for Bound Printed Matter Flats and Bound Printed Matter Parcels (BPM), which required mailers to pay postage by permit imprint only. This classification change may have caused mailers that became ineligible to mail BPM pieces to shift former BPM volumes to other mail products because of the new requirement. This shift in volume may have caused adverse affects on the price cap compliance calculations. See Order No. 89 at 14. In order to comply with rule 3010.23(d) please provide adjusted FY 2008 billing determinants for Bound Printed Matter Flats and Bound Printed Matter Parcels to reflect this classification change. Please include all information relied upon to develop the adjustment and an explanation of why the adjustment is reasonable and appropriate.
 10. Please refer to USPS-R2009-2/3 Periodicals Cap Compliance, File: CAPCALC-PER-FY2009.xls, Sheet: Nonprofit BD08.

- a. Please explain why the following cells were left blank: H79:I80, H85:I86, H92:I93, G101:I102, and H107:I108.
 - b. If they were left blank in error, please file a revised version of the excel file.
11. Please refer to USPS-R2009-2/3 Periodicals Cap Compliance, File: CAPCALC-PER-FY2009.xls, Sheet: Classroom BD08, and United States Postal Service Notice of Market-Dominant Price Adjustment, Appendix B.xls, Table 1310.
 - a. Please explain the reason why the following cells CAPCALC-PER-FY2009.xls, Sheet: Classroom BD08 do not match the corresponding rates in Appendix B.xls, Table 1310: H79:H80, H85:H86, H92:H93, and H101:H102.
 - b. If the cells identified are in error, please file a revised version of the excel file.
12. Please refer to USPS-R2009-2/3 Periodicals Cap Compliance, File: CAPCALC-PER-FY2009.xls, Sheet: Price % of Cst-Bundle-Contrn., and ACR2008-LR-FY208-11, File: Per OC Flts.xls, Sheet: Summary.
 - a. Please reconcile the differences between the non-weight related unit bundle costs of sacks on ADC, SCF/3-D, and 5-Digit containers in the above-mentioned sheet in file Per OC Flts.xls, and cells D13:D17, D20:D22, and D25:D26 in the above-mentioned sheet in file CACPCALC-PER-FY2009.xls.

- b. If the cells identified in either file are in error, please file a revised version(s) of the excel file(s).

By the Chairman.

Dan G. Blair
Chairman