

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

Notice of Price Adjustment
for Certain Presorted First-Class Mail

Docket No. R2009-5

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued August 14, 2009)

To clarify the basis of the Postal Service's proposed First-Class Mail Incentive Program (Program), filed August 11, 2009,¹ the Commission requests the Postal Service to provide a written response to the following questions. Answers to the questions should be provided as soon as they are developed, but no later than August 21, 2009.

1. The Postal Service estimates that the Program will result in about \$43 million in incremental revenue and \$24 million in incremental contribution. *Id.* at 7.
 - a. Please identify the calculations underlying these estimates. Please show all calculations, provide source references for all inputs, and explain all assumptions.
 - b. If the estimates do not utilize the Postal Service's estimated price elasticities (See USPS FY 2008 Demand Analysis Materials, January 16, 2009), please explain why not, and provide an alternate estimate based on the known elasticities. Specifically, the analysis should utilize the current own-price worksharing discount, and Standard Mail discount elasticities for First-Class Presort Letters. Please show all calculations, provide source references for all inputs, and explain all assumptions.

¹ United States Postal Service Notice of Market-Dominant Price Adjustment, August 11, 2009 (Notice).

2. In the discussion of potential risks from the proposal, two risks are identified:
 - (1) overestimating the additional volume generated by the Program, and
 - (2) underestimating the administrative costs. Notice at 7-8. Did the Postal Service consider the risk (identified in NSA dockets as a risk inherent in many performance-based optional tariffs) that the thresholds might underestimate the volume that participating mailers would have sent in the absence of the Program, leading to revenue leakage? See, e.g., FY 2007 Annual Compliance Determination at 126-27. If so, please provide the results of that risk analysis.

3. The proposed formula for setting volume thresholds to determine eligibility for the Program implicitly assumes that the volume trend for First-Class Presort mail between Fall 2007 and Fall 2008 will (in the absence of the proposed discounts) be repeated between Fall 2008 and Fall 2009. Please describe and provide the results of all analyses performed to evaluate the impact of the recent credit market crisis and subsequent government intervention (e.g., TARP) on the volume trends of large users of First-Class Presort mail, such as banks, over the relevant periods. Please explain how the results of the analyses influenced the design of the formula for setting thresholds.

4. In discussing the impact on worksharing discounts, the Postal Service states that “the program’s effect on the difference between single-piece and presort First-Class Mail prices is well within the scope of the law, to the extent that consideration is relevant.” Notice at 13.
 - a. Please provide a comparison of the difference between single-piece and presort prices (*i.e.*, the automation Mixed AADC letter discount) with and without the proposed discounts, showing all calculations, providing source references for all inputs, and explaining all assumptions. If the resulting discount under the proposal exceeds the cost avoidance, then please

identify the statutory exemption that applies and explain how it applies to this proposal.

- b. Please explain what is meant by the phrase “to the extent that consideration is relevant” in the above quote.

By the Chairman.

Ruth Y. Goldway