

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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2009-5

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 3, QUESTION 2  
(September 9, 2009)

Chairman's Information Request (CHIR) No. 3 was issued on September 4, 2009. The request sought answers no later than September 9, 2009.

Attached is the Postal Service's response to CHIR No. 3, Question 2. The Postal Service's response to Question 1 is forthcoming, and will be filed as soon as possible on September 10.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 3, QUESTION 2

2. Refer to the response to CHIR No. 2, question 1.b. The table below presents a comparison of the unit revenue figures provided in the supplemental "FCM Incentive" spreadsheet and those calculated from the revised sources identified in the response to CHIR No. 2 (USPS-R2009-2/1 and USPS-R2009-2/2 CAPCALC spreadsheets). The calculation of the latter figures is presented in the accompanying spreadsheets, as the figures do not directly appear in the referenced sources. The equivalent unit revenue figures are also calculated from data in the R2009-2 final PRC cap calculation spreadsheets and presented for reference. Please reconcile the unit revenue figures, and show all calculations.

	FCM Incentive	CAPCALC FY2009	Difference	PRC CAPCALC FY2009
<b>First-Class Presort Mail</b>				
Letters	\$ 0.3541	\$ 0.3542	\$ (0.0001)	\$ 0.3542
Flats	\$ 0.8355	\$ 0.8355	\$ -	\$ 0.8355
Cards	\$ 0.2157	\$ 0.2158	\$ (0.0001)	\$ 0.2157
<b>Standard Mail</b>				
Letters	\$ 0.1960	\$ 0.1958	\$ 0.0002	\$ 0.1958
Flats	\$ 0.3763	\$ 0.3759	\$ 0.0003	\$ 0.3759

**RESPONSE:**

The attached Excel file, "CHIR 3 Q2.xls," contains calculations associated with this response.

With respect to First-Class Mail letters, the difference between the FCM Incentive revenue per piece, and the value calculated above, results from the exclusion of the nonmachinable surcharge from the incentive calculation. This, as noted, results in a very slightly lower expected revenue per piece for incentive pieces.

For First-Class Mail cards, the difference between the two estimates apparently results from the use, in the FCM Incentive calculation, of the IMb adoption rate for cards contained in the Commission's final cap compliance

RESPONSE OF UNITED STATES POSTAL SERVICE  
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worksheets. This adoption rate is slightly higher than that originally proposed by the Postal Service, resulting in a lower average revenue per piece.

For Standard Mail, the discrepancy results from the Postal Service having used a draft version of the cap compliance calculations, and excluding the IMb effects from the calculated averages. The estimates presented in the CAPCALC FY2009 column above are the correct estimates. Because these estimates are slightly lower than those used in the original financial calculations, correcting the estimates increases the expected revenue and contribution from the program slightly.

## First-Class Mail Average Revenue Per Piece

USPS Rates

<u>Rate Categories</u>	<u>FY 2008 BD Volume Adjusted</u>	<u>Rates Planned</u>	<u>Average Revenue per Piece</u>
<b><u>Nonautomation Presort</u></b>			
First Ounces (Total)			
Letters	1,530,008	0.414	Presort Letters 0.354
Flats	109,055	0.757	Presort Flats 0.84
Additional Ounces (letters)	62,707	0.125	Presort Cards 0.216
Additional Ounces (flats)	197,216	0.170	
<b>Average Nonautomation Presort</b>			
<b><u>Automation Letters</u></b>			
Mixed AADC Automation	2,268,322	0.382	
Mixed AADC Automation (Full-serv. IMb)	711,788	0.379	
AADC Automation	1,818,210	0.360	
AADC Automation (Full-serv. IMb)	570,545	0.357	
3-Digit Automation	15,343,005	0.357	
3-Digit Automation (Full-serv. IMb)	4,814,556	0.354	
5-Digit Automation	16,230,418	0.335	
5-Digit Automation (Full-serv. IMb)	5,093,021	0.332	
Additional Ounces	1,502,211	0.125	
<b>Average Automation Letters</b>			
<b><u>Automation Flats</u></b>			
Mixed ADC Automation	43,509	0.725	
Mixed ADC Automation (Full-serv. IMb)	10,514	0.722	
ADC Automation	79,605	0.603	
ADC Automation (Full-serv. IMb)	19,236	0.600	
3-Digit Automation	226,645	0.542	
3-Digit Automation (Full-serv. IMb)	54,767	0.539	
5-Digit Automation	184,636	0.380	
5-Digit Automation (Full-serv. IMb)	44,616	0.377	
Additional Ounces	1,125,677	0.170	
<b>Average Automation Flats</b>			
<b><u>Presort Cards</u></b>			
Nonauto Presort	332,598	0.245	
Mixed AADC Automation	211,922	0.230	
Mixed AADC Automation (Full-serv. IMb)	66,500	0.227	
AADC Automation	152,056	0.220	
AADC Automation (Full-serv. IMb)	47,714	0.217	
3-Digit Automation	1,009,408	0.218	
3-Digit Automation (Full-serv. IMb)	316,747	0.215	
5-Digit Automation	1,080,116	0.205	
5-Digit Automation (Full-serv. IMb)	338,935	0.202	
<b>Average Presort Cards</b>			

Source for FY 2008 BD Volume and Current Rates: R2009-3, LR-PRC-1, workbook "FCM Cap Calculations 2009.xlsx", sheet "Cap Test Calculations"

	Attributable Cost	Unit Revenue
First-Class Mail		
Letters	\$ 0.116	\$ 0.354
Flats	\$ 0.601	\$ 0.835
Cards	\$ 0.082	\$ 0.216
Sale Discount		20%
Standard Mail		
Letters	\$ 0.099	\$ 0.196
Flats	\$ 0.400	\$ 0.376

#### Incremental Growth

	Volume	Attributable Cost	Unit Revenue	Contribution
Letters	88,700,000	\$ 0.116	\$ 0.283	\$ 0.168
Flats	7,800,000	\$ 0.601	\$ 0.668	\$ 0.068
Cards	6,700,000	\$ 0.082	\$ 0.173	\$ 0.091

#### Buy-up from Standard Mail

	Volume	Additional AC	Additional Revenue	Contribution Change
Letters	92,100,000	\$ 0.017	\$ 0.087	\$ 0.071
Flats	11,100,000	\$ 0.201	\$ 0.292	\$ 0.092

#### Net Incremental Impact

	Additional Volume	Attributable Cost	Additional Revenue	Contribution Change
Letters	88,700,000	\$ 11,778,174	\$ 33,187,212	\$ 21,409,038
Flats	7,800,000	\$ 6,912,875	\$ 8,459,229	\$ 1,546,353
Cards	6,700,000	\$ 547,078	\$ 1,156,366	\$ 609,288
<b>Total</b>	<b>103,200,000</b>	<b>\$ 19,238,127</b>	<b>\$ 42,802,807</b>	<b>\$ 23,564,680</b>