

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

COMPLAINT OF GAMEFLY, INC.                    )  
  )  
  )                   Docket No. C2009-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO DISCOVERY REQUEST OF GAMEFLY, INC.  
(GFL/USPS-185)  
(October 15, 2009)

Pursuant to Rules 26 and 27 of the Commission's Rules of Practice and Procedure, the Postal Service hereby provides its response to the following discovery request of GameFly, Inc.: GFL/USPS-185.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**GFL/USPS-185.** Please refer to the portion of DVDDraftComments.doc (a Word file attached to an 8/31/2006 email from Virginia Mayes) that states, "It is not appropriate to apply the Presort Letters CRA Adjustment factor to flats processing streams." Please explain fully why it is appropriate to apply CRA adjustment factors for First-Class Mail Bulk Metered Mail (BMM) Letters, which generally are processed on automation, to the cost of Netflix return mailpieces, which generally are not processed on automation.

**RESPONSE:**

Since Docket No. MC95-1, a "hybrid" cost methodology, which relies on a combination of both CRA-derived mail processing unit cost by shape estimates and engineering cost models, has typically been used to develop cost estimates by price category. CRA adjustment factors are a necessary component of the hybrid cost methodology. The purpose of the CRA adjustment factor is to "true up" the modeled costs to the costs that are in the data systems for mail of this type, thus accounting for inefficiencies and activities not adequately captured by a model which represents a necessarily simplified picture of the possible mailflows for that type of mail. Because the CRA does not explicitly report a cost for processing returning DVD mailpieces, a proxy must be used.

The Postal Service does not maintain a comprehensive mail processing cost model that corresponds to each mail processing cost by shape estimate. For example, there is no comprehensive mail processing cost model for the First-Class single-piece letters mail stream, even though there is a CRA-derived mail processing cost by shape estimate for single-piece letters. The Postal Service does, however, maintain a Bulk Metered Mail (BMM) letters cost model and a metered letters cost by shape estimate that can be used to derive BMM letters CRA adjustment factors. Given that BMM letters and Netflix return mail pieces

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are both components of the single-piece letters mail stream, for which there is no comprehensive mail processing cost model and therefore no CRA adjustment factors, the BMM letters CRA adjustment factors were used as proxies. It should also be noted that the BMM CRA adjustment factors are derived from a mail processing unit cost estimate that actually represents the aggregate costs for both metered bundles and BMM letters because it is not possible to isolate the costs for BMM letters only. Although the expectation is that BMM would be handled on automation, in fact, the CRA adjustment factor ties back to a set of costs that encompass a wide range of mail processing methods.

There are no automation-specific and/or manual-specific CRA adjustment factors; all CRA adjustment factors are developed using the mail processing unit cost by shape estimates which are comprised of cost pools that represent both automation, manual, and allied labor tasks.