

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

COMPETITIVE PRODUCTS PRICE CHANGES  
RATES OF GENERAL APPLICABILITY

Docket No. CP2010-8

**RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1 (REDACTED)**  
(November 25, 2009)

The United States Postal Service hereby provides its responses to Chairman's Information Request (CHIR) No. 1, which was issued on November 19, 2009. Responses were due by November 25, 2009. The Postal Service's responses to Questions 1-7 are attached. Each question is reprinted verbatim and is followed by the Postal Service's response. Confidential material has been redacted. Unredacted versions are today being filed under seal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE  
By its attorneys:

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November 25, 2009

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1. Please confirm, and if not confirmed, please explain, that:
  - a. Retail Express Mail Prices will increase by 4.58 percent. See CP2010-8 CIR#2-EM.xls, tab: Retail;
  - b. Commercial Base prices will increase by 4.57 percent. See CP2010-8 CIR#2-EM.xls, tab: Commercial Base; and
  - c. Commercial Plus prices will increase by 2.16 percent. See CP2010-8 CIR#2-EM.xls, tab: Commercial Plus.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

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2. Please show the derivation of and provide a source for the "Volume Distribution" and "Commercial Split" percentages listed in file:CIR #2-PM.xls, tab: Total.

**RESPONSE:**

The Volume Distribution was based on a weighted average of Retail and Commercial volume in FY08 after the May 2008 price change, in addition to the FY09 volume data prior to the January 18, 2009, price change. This volume data comes from billing determinants for that period and can be found on the "RetailvsComm" tab in CIR#1-PM.xls.

The Commercial Plus price category was not introduced until January 2009. FY 2008 data therefore offer no basis for making a Commercial Base vs. Commercial Plus volume split. Likewise, year-to-date FY 2009 volume data would underestimate the Commercial Plus share on an ongoing basis. Therefore, the FY 2009 year-to-date relationship between Commercial Base and Commercial Plus, after the latter's introduction on January 18, 2009, was examined, and used as the basis for splitting FY 2008 Commercial volume data into its two new components. This volume relationship, from January 18, 2009, to June 30, 2009, was [REDACTED] percent Commercial Base, [REDACTED] percent Commercial Plus. This split factor was applied to the distribution of Commercial volume in FY 2008 by weight increment and zone to derive the Commercial Base – Recast and Commercial Plus – Recast volume tables on the "CommBasevsCommPlus" tab in CIR#1-PM.xls.

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1.
  - a. Please explain how the Priority Mail billing determinants were adjusted to account for the new 1/2 pound Commercial Plus rate cells in file CIR #2-PM.xls, tab: Commercial Plus. Please provide all supporting calculations.
  - b. Have the Priority Mail billing determinants been adjusted to incorporate the addition of the new Commercial Plus Cubic rate category? If so, please explain the adjustment and provide supporting calculations. If not, please adjust the billing determinants, and provide a narrative explaining the adjustment.
  - c. Have the Priority Mail billing determinants been adjusted to incorporate the addition of the flat rate padded envelope priced at \$4.95? If so, please explain the adjustment and provide supporting calculations. If not, please adjust the billing determinants, provide a narrative explaining the adjustment, and provide the supporting calculations.
  - d. For Priority Mail Small Flat Rate Boxes, please provide adjusted billing determinants, a narrative explaining the adjustments, and all supporting calculations.

**RESPONSE:**

- a. The Priority Mail billing determinants were not adjusted to account for the new ½-pound Commercial Plus price category because the weighted-average price-increase calculation relies only on “fixed-weight” baseline, or “Before Rates,” volume.
  
- b. No. Please see the response to subpart (a) above. Further, the Postal Service does not have the information necessary to make adjustments to the Priority Mail billing determinants — on an “After Rates” basis — for the new Commercial Plus Cubic Pricing category. Such an adjustment would be speculative. For example, even if the Postal Service were to have some idea of how many pieces will be attracted to the new category, it could not speculate: (a) how those pieces will be distributed by cubic-foot increment and zone, and (b) what the sources of that volume will be. There are two potential sources of the volume: Priority Mail volume that migrates from preexisting rate

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cells, and volume that comes from outside Priority Mail. This split, too, cannot be known without engaging in speculation. And it is a split that would have to be known in order to posit After Rates billing determinants, because not only would rate cells in the new Commercial Plus Cubic Pricing category have to be populated with volume, but rate cells in the preexisting price categories that suffer migrations to the new category would have to be relieved of some volume.

c. No. Please see the response to subpart (b) above.

d. The Postal Service does not have the information for making adjustments to the Priority Mail billing determinants for the Small Flat-Rate Box. The box was introduced in January 2009, and certainly some volume is now on record. While volume is still ramping up, probably some reasonable estimate of volume on a full-year basis could be made. However, as explained in the response to subpart (b), it is important to know the sources of the volume. To simply populate — on an adjusted basis — the FY 2008 billing determinants with some estimate of Small Flat-Rate-Box volume, but not account for volume relief in other, preexisting rate cells that suffer migrations to the new price category, would be to introduce a bias to the billing determinants. The Small Flat-Rate Box recorded [REDACTED] pieces in FY 2009, not much more than [REDACTED] percent of the Priority Mail total. It is the Postal Service's belief that any attempt at estimating the average price change is better off now — with only a few months of volume data — without an adjustment for the Small Flat-Rate Box than with one.

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4. Please show the derivation of and provide a source for the Express Mail Volume Distributions for Retail, Commercial Base, and Commercial Plus Express Mail in file: CP2010-8-CIR#2-EM, tab: Control.

**RESPONSE:**

The average percentage increase in the Express Mail prices for Retail, Commercial Base, and Commercial Plus is a weighted average of three price categories. This weighting reflects annual revenue of each component based on the final 2008 annual billing determinants since the final 2009 annual billing determinants are not available.

For Express Mail Retail, Express Mail Commercial Base, and Express Mail Commercial Plus, the volumes in CP2010-8-CIR#2-EM, tab: Control were approximated by the disaggregation of the volumes from the Quarter 3, 2009 billing determinants. Moreover, in 2008, Commercial Plus did not exist, so the annual volume data from 2008 was used as a proxy when calculating the price changes for 2010. Once the volumes were estimated for the three price categories, the 2009 prices (the baseline) and the 2010 prices (new prices) were applied to the volumes to generate revenues for Retail, Commercial Base, and Commercial Plus. The overall average price increase for all categories of Express Mail is 4.5 percent after applying this methodology.

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5. Please show the derivation of and provide sources for all data in file: CP2010-8-CIR#2-PRS.xls, tab: Inputs.

**RESPONSE:**

All of the FY 2008 data for Parcel Return Service located on the Inputs tab are derived from the FY 2008 Billing Determinants for Parcel Return Service, with two minor exceptions:

The Priority Mail volume was inadvertently included on this tab, as these pieces are returned via the Network Distribution Centers (NDCs). Please note that total volume on the PRS Billing Det. Tab, as well as on the BR Volume tab, does not include the Priority Mail data; therefore, they are irrelevant to the analysis.

Additionally, the RDU Non-Machinable Volume Share was inadvertently included in Input Tab, cell E32. There were no RSCF Volumes in FY 2008; therefore, there should be no Non-Machinable Volume Share. However, this is also irrelevant to the analysis because it is not used.

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6. Please show the derivation of and provide sources for all data in file: CP2010-8ParcelSelect.xls, tab: Inputs.

**RESPONSE:**

All data other than in cells D16, D22, and D28 come from the FY 2008 billing determinants. Cell D16 = D13 + D14 + D15. Cell D22 = D23 - D21. Cell D28 = D29 - D27 - D25.

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7. Were the Priority Mail International billing determinants adjusted to account for the proposed mail classification change to have a single maximum dimension for both rectangular and non-rectangular pieces? If so, please explain the adjustment. If not, why not?

**RESPONSE:**

No. This classification change has no bearing on the pricing of Priority Mail International (PMI) parcels.

Currently, PMI parcels that are neither circular nor rectangular are technically not mailable. By giving specific examples on how to measure PMI parcels, the proposed classification change clarifies and relaxes the PMI parcel dimensional restrictions to mirror the measurement system that is already used for Express Mail International.