Postal Regulatory Commission
Submitted 12/2/2009 11:09:51 AM
Filing ID: 65846
Accepted 12/2/2009

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. 2, AND NOTICE OF FILING INFORMATION UNDER SEAL
(December 2, 2009)

The United States Postal Service hereby provides its responses to Chairman's Information Request (CHIR) No. 2, which was issued on November 25, 2009. The Postal Service's response was due by December 1, 2009. Each question is reprinted verbatim and is followed by the Postal Service's response. Because financial documentation responsive to question 1 is commercially sensitive, the Postal Service has filed it under seal. The Postal Service incorporates by reference its application for non-public treatment filed with Supplemental Information Provided by the United States Postal Service in Response to Order No. 333, and Notice of Filing Information Under Seal, Docket No. CP2010-8, November 19, 2009, which concerned information of a similar nature and to which the same bases for confidentiality apply.

Respectfully submitted,

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December 2, 2009

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2

The Postal Service's response filed November 19, 2009, includes an entry for "All Other Competitive International (including Services)," which includes Inbound International Expedited Services, Inbound Air Parcel Post, International Priority Airlift (IPA), International Surface Airlift (ISAL), International Direct Sacks M-Bags, Inbound Surface Parcel Post (at non-UPU rates), International Money Transfer Service, International Ancillary Services, and competitive negotiated service agreements. 2 With respect to the foregoing:

1. Please provide attributable cost, revenue, and volume data for each product grouped in "All Other Competitive International (including Services)" at the same level of detail provided for all other competitive products in this docket.

RESPONSE:

Please see financial documentation filed simultaneously with these Responses.

The response provides disaggregated cost coverage information for the nine services listed in this Chairman's Information Request (*i.e.*, "'All Other Competitive International (including Services),' which includes Inbound International Expedited Services, Inbound Air Parcel Post, International Priority Airlift (IPA), International Surface Airlift (ISAL), International Direct Sacks M-Bags, Inbound Surface Parcel Post (at non-UPU rates), International Money Transfer Service, International Ancillary Services, and competitive negotiated service agreements"). The remaining competitive services not expressly mentioned in the Chairman's Information Request – which also are not otherwise subject to the notice of price change in this docket – are aggregated into an "all other" category, because calculation of these remaining small services would not be expected to produce reliable results.

2. For each product, please explain how the expected revenues and costs comply with 39 U.S.C. § 3633(a).

RESPONSE:

Subsection 3633(a) of Title 39, U.S. Code, provides that the Commission's regulations must (1) prohibit subsidization of competitive products by market-dominant products, (2) ensure that each competitive product covers its attributable costs, and (3) ensure that all competitive products collectively cover an appropriate share of the Postal Service's institutional costs, which the Commission has determined to be 5.5 percent. For purposes of this proceeding, conclusions as to the first criterion flow from those for the second two.

As for the second criterion, the scope of this proceeding is to determine the consistency of price increases for certain competitive products with the relevant regulatory and statutory procedures. The contribution levels of specific products not designated for change in this docket are not germane to the review of the rate changes, with the exception of satisfaction of the requirement in 39 U.S.C. § 3633(a)(3) that competitive products, as a whole, cover an appropriate share of total institutional costs. In this case, that showing has been satisfied; regardless of the tabulation issues discussed below, the "All Other Competitive International" data subject to this Information Request represent a *de minimus* amount of volume and will not have a significant impact on the overall contribution of competitive products. Hence, review of the rates for competitive products not affected by this price change does not offer anything meaningful to inform the Commission's review of the price changes for the products at issue in this proceeding. By contrast, in the context of a market dominant price change, the prices of all products within a class subject to change is relevant,

whether a change is made in a particular product price or rate category within a class, due to the operation of the price cap. No price cap applies in the context of competitive product published rates, however, and thus review of the prices of products not affected by the change is instead reserved for other proceedings. The Postal Service submits that the forum for consideration of the prices of the products not currently before the Commission is the Annual Compliance Determination docket, which will commence with the Postal Service's filing of the Annual Compliance Report at the end of this month. At that time, and throughout the course of that three-month proceeding, the Commission may evaluate more precise data concerning the international competitive products and draw informed conclusions regarding the compliance of competitive products with the relevant criteria.

To the extent that the roll-forward data submitted in this proceeding raise tangential questions about the compliance of extraneous competitive products with 39 U.S.C. § 3633(a)(2), the Postal Service would caution against undue reliance on such data. These data were designed to permit evaluation of the contribution level for the relatively large-volume products subject to this proceeding, for which more general, top-down projections can be meaningful; at the low-volume level represented by the products subject to this Chairman's Information Request, the roll-forward methodology used becomes less representative. Hence, the data responsive to the Chairman's Information Request are not intended to replace or supplant the more detailed filings that the Postal Service has already made in connection with many of the relevant products. As explained in its Response to Public Representatives' Comments, Docket No. CP2010-8, November 25, 2009, at 4-5, the Postal Service has already furnished the

Commission with detailed estimates of costs, revenues, and volumes of many of the product categories in question for the upcoming calendar year (or portions thereof, depending on the rate cycles for various types of products), including the following:

- Inbound International Expedited Services 1 and 2 (Docket Nos. CP2009-57 and CP2010-12);
- Inbound Air Parcel Post (at UPU Rates) (Docket No. CP2010-11);
- Royal Mail Inbound Air Parcel Post Agreement (Docket No. CP2009-28);
- International Priority Airmail, International Surface Air Lift, international ancillary services, and M-Bags (Docket No. CP2009-23);
- Inbound Surface Parcel Post (at Non-UPU Rates), which is contained within competitive bilateral agreements with Canada Post Corporation (Docket Nos. CP2009-9 and CP2010-13);
- and approximately 28 international competitive negotiated service agreements (NSAs) in FY2009 additional to those already listed, each with specific financial documentation and the certification as to compliance required by 39 C.F.R. § 3015.5(c)(2).

As explained at page 6 of its November 25, 2009, Response to the Public Representatives' Comments, with respect to International Money Transfer Services (IMTS), the Postal Service has continually apprised the Commission of its progress in analyzing costs, and a methodological proposal is currently pending before the Commission. For these reasons, the Postal Service respectfully submits that existing cost data for IMTS provide an insufficient basis for forming conclusions as to IMTS' compliance with statutory requirements.

Any apparent discrepancies between the "All Other Competitive International" data and the data filed in each of those dockets result from methods more specific and detailed than those reflected in the data for corresponding products in this docket. This is because the roll-forward performed in this docket consists of a rough approximation

of the revenues, volumes, and costs in the test year based on a forecast that is not narrowly tailored to many types of non-traditional international services (such as inbound services). Further, the roll-forward does not necessarily consider all factors that may result in rate increases for products, such as above-inflation increases in inbound rates or flow-through of published rate changes in NSAs. Simply put, the level of detail in the roll-forward does not necessarily yield data that would inform the correct pricing of small volume products, or inbound international services, nor is it intended to do so. Hence, the rolled-forward, disaggregated information that the Commission has requested is, in the Postal Service's view, of marginal value in determining compliance with the statutory pricing criteria, particularly when compared with either the evaluations in annual compliance proceedings or the specific forecasts presented in connection with each product's price change.