

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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2010-3

RESPONSE OF THE UNITED STATES POSTAL SERVICE IN OPPOSITION
TO MOTION OF THE PUBLIC REPRESENTATIVE TO DEFER DEADLINES
(March 10, 2010)

On March 3, 2010, the Public Representative filed a pleading entitled, "Motion of the Public Representative to Defer Deadlines," pursuant to Commission Rule 21. In the Motion, the Public Representative requested that the Commission order the Postal Service to answer the questions contained in Appendix A of their Motion, and extend the deadline for commenters to 20 days after the Postal Service files its last response to information requests. The Postal Service hereby opposes the Motion because its Summer Sale 2010 Notice did provide adequate supporting information, contrary to the Public Representative's assertion. The Postal Service specifically added information that addressed issues raised in Order No. 219. Moreover, the Public Representative's proposed questions in Appendix A primarily focus on Summer Sale 2009 and not the instant docket.¹ Accordingly, the Motion should be denied.

The Postal Service has provided sufficient information for commenters to perform analysis and offer meaningful comments on Summer Sale 2010. The Notice fully addressed and documented the relevant financial data such as cost, revenue and volume. During the previous Summer Sale, the Commission's inquiries sought

¹ Nevertheless, the Postal Service has included responses to these questions and issues raised in the Motion, which are attached to this pleading.

information such as the metrics and measurements utilized to measure success of the program, steps taken to ensure incremental volume, evidence of excess capacity, cost coverage of the incremental volume, eligibility requirements, explanation for inclusion of Standard Mail flats, documentation of incremental revenue and administrative costs, and methodology for evaluating impact of discount at the program's completion. Each of these areas was addressed in the Notice and the Appendix the Postal Service filed in this docket. The Postal Service also has been providing an influx of data and analysis on the Summer Sale 2009 in response to that initial filing and the 2009 Annual Compliance Report (Docket No. ACR2009). The information contained in these filings offer valuable insight into the structure, impact and likelihood of success in this comparable program.

In an effort to be transparent and maintain the current deadlines, the Postal Service has offered a response, attached herewith, to Appendix A of the Public Representative's Motion and a more detailed discussion the projected range of incremental volume, incremental revenue and net contribution change which could result from Summer Sale 2010.² Further, the Postal Service has received feedback from previous Summer Sale participants that they would prefer earlier notice of Summer Sale 2010 to allow them to take greater advantage of the incentive by planning in advance expanded mailings during the sale period. Delaying the current deadlines until the Postal Service responds to its last inquiry will hinder the Postal Service's ability to adhere to this objective. In fact, most of questions proposed by the Public Representative are not even about Summer Sale 2010, but Summer Sale 2009. Fundamentally, the standard 20 day deadline for Summer Sale 2009, a program of first

² See Appendix A and B.

impression, was adequate for the Commission to issue two set of inquiries and the Public Representative and interested parties to submit comments. The Public Representative's Motion does not offer a compelling reason for extending deadlines in the instant docket.

While the Commission is free to pose questions to the Postal Service in the form of Chairman's Information Requests, Commission procedures do not create discovery for interested parties in price adjustment proceedings of this type. Regardless, there is ample time for the Commission to submit questions to the Postal Service, and for the Postal Service to respond, without delaying the instant docket. The Postal Service has provided essential details regarding the scope of the program and its underlying basis, considerably expanding on its initial Summer Sale 2009 filing. Summer Sale 2010 has not changed significantly enough from Summer Sale 2009 to merit an increased comment period. Thus, the Postal Service respectfully requests that the Commission deny the Public Representative's Motion.

UNITED STATES POSTAL SERVICE

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APPENDIX A – RESP. OF USPS IN OPP. TO MTN OF PR DEADLINES

The following is the response of the United States Postal Service to Appendix A of the Motion of the Public Representative to Defer Deadlines:

1. Using the data compiled from the R2009-3 Summer Sale:

a. Please fill in the following chart for the period covered by the last summer sale

Jul 09 - Sep 09 volume compared to SPLY (Jul 08 - Sep 08) volume

< -15%	504	34.85%
0 to -15%	142	23.77%
0 to 5%	64	13.62%
5 to 15%	52	8.70%
over 15%	198	19.06%

b. Please fill in the following chart for the past two fiscal years

Jul 08 - Sep 09 volume compared to Jul 07 - Sep 08 volume

< -15%	519	34.98%
0 to -15%	222	40.23%
0 to 5%	65	7.12%
5 to 15%	55	7.11%
over 15%	99	10.56%

2. How much would the administrative cost increase by lowering the threshold for eligibility for the following volumes:

- a.) 300k**
- b.) 200k**
- c.) 100k**

Hypothetical Threshold	Cost/ Participant ¹	Additional Qualifying Customers	Estimated Additional Participants ²	Estimated Incremental Cost	Cost Increase % for Adding this Group	Estimated Volume Increase % ³
300,000	\$1,018	457	142	\$144,249	14.8%	0.3%
200,000	\$1,018	1,534	476	\$484,198	49.5%	0.4%
100,000	\$1,018	3,853	1,194	\$1,216,177	124.4%	0.5%

Notes:

1 - Estimate = program costs / number participating; although it is unlikely average program cost is a linear function, adding even a small number of participants could require significant additional fixed and variable costs such as additional staffing as well as improvements to technology given the already constrained resources administering this program, which also does not take into account the time necessary to implement such changes.

2 - Based on historic conversion rate of 31%

3 - Estimate of increase in participating mail volume for each group

Note: The estimate of additional monetary cost is not the limiting factor to admitting more participants via a lower threshold. During the FY 2009 Sale, the Summer Sale program office (PMO) and field personnel administered the program alongside its other ongoing responsibilities, which strained available

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resources. The Postal Service believes that the experience gained from that program will allow greater efficiency in administration of the program, allowing the threshold to be lowered from 1,000,000 to 350,000 pieces to include more participants. However, further increasing the number of participants would require dedicating or hiring additional technological or human resources to ensure successful administration.

3. How will this agreement affect mailers not party to the agreement?

This program does not include any “agreement” in the sense of a NSA-type contract. However, based on its analysis of participant and non-participant volume from the FY 2009 Summer Sale, the Postal Service does not believe that the program will cause any systematic harm to those who cannot, or chose not to, participate.

4. Will there be a registration adjustment to the threshold volumes, similar to R2009-3 adjustment? If so, please explain how this will be calculated.

Note: It is assumed in answering this question that the “registration adjustment” described above refers to the trend calculation applied to SPLY volume in the FY 2009 sale.

No. Threshold volumes for the Summer Sale period (July 1, 2010 – September 30, 2010) will be calculated by taking same period last year (SPLY) volumes of 2009 Standard Mail letters and flats plus five percent. The 2009 Summer Sale calculated thresholds based on a trend formula which took into account deteriorating economic conditions (in the same way that the current threshold calculation takes account of economic recovery).

In addition, June 2010 and October 2010 will serve as “control” months. The rationale for the “control” months is to prevent customers from shifting Standard Mail letters and flats volume to the summer sale months for the sole purpose of inflating volume and maximizing their rebates. The “control” month thresholds will be calculated by taking SPLY volumes of Standard Mail letters and flats, plus five percent. If a customer’s Standard Mail letters and flats volume does not meet the “control” month thresholds, the difference will be deducted from the volume qualifying for the rebate.

5. Are volume increases which could occur due to large mailers attracting mail volumes from smaller, non-eligible mailers, treated as ‘incremental volumes’, thus eligible for the incentive rates?

Because the program is limited to mail owners, as opposed to mail service providers, the Postal Service believes it is highly unlikely that larger participants could “attract” volume from non-participants in any meaningful way.

APPENDIX B – RESP. OF USPS IN OPP. TO MTN OF PR DEADLINES

On page 1 of the Motion of the Public Representative to Defer Deadlines, the Public Representative asserts that the Postal Service did not fully support the following statement:

The Postal Service expects the sale to generate between 311 million and 1.1 billion incremental Standard Mail pieces” which will generate “an incremental revenue increase of about \$34 to \$157 million from this new volume” and an “expected net effect of the program is a net contribution change of -\$3.5 million to +\$25.4 million.

Detailed below is a more in depth explanation of how the Postal Service arrived at the above numeric values.

The projected total volume for qualified applicants to the Summer Sale 2010 program was calculated to determine the program’s incremental revenue. This number was generated by multiplying the qualified volume from July 2009 to September 2009 (approximately 13.3 Billion) by the assumed percentage of qualified customers who will participate in the program based on historical examples. Next, the anticipated volume growth which could be attributed to Loyalty customers was established (customers growing regardless of the sale), assuming the percentage of loyalty growth was identical to that determined using Spring period data. After accounting for the volume of growth that was mitigated by the two control months (June and October), a net growth of loyalty volume was determined. Then the anticipated incremental volume for 2010, according to forecasts, was subtracted to determine the new volume that could be attributed to this

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program. To ascertain the program's increase in incremental revenue, the volume attributed to the program was multiplied by a weighted effective revenue per piece.

The cost of rebates was determined by multiplying the anticipated growth volume by both the rebate rate and effective revenue per piece. Subtracting the rebate cost from the program's incremental revenue produced the net incremental revenue.

The expected net effect of the program was established by subtracting the cost of the program from its anticipated net incremental revenue. To determine the incremental cost of the program, a weighted cost per piece was applied to the anticipated new volume attributed to the program. Subtracting costs from revenues produced the expected net effect of the program.

This calculation methodology was applied to three scenarios of assumed growth rates: a low-end mean growth rate of 20%, a baseline moderate growth rate of 30% (which is consistent with actual results from Summer Sale 2009), and a high growth rate of 40%, based on SPLY data. By applying these scenario assumptions to the aforementioned calculation logic, it was determined that the Summer Sale Program would generate an incremental revenue increase of about \$34 to \$157 million, and an expected net contribution change of -\$3.5 million to \$25.4 million.