

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 TO PUBLIC
REPRESENTATIVE'S INFORMATION REQUEST
(March 22, 2010)

The Public Representative's Motion for Issuance of Information Request was filed on March 10, 2010. The Postal Service agreed with the Public Representative to submit responses to the information requests no later than Monday, March 22, 2010. Attached are the Postal Service's responses to Questions 1 -5.

UNITED STATES POSTAL SERVICE

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March 22, 2010

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

1. In response to CHIR 8 Q 3 in Docket No. ACR2009, the USPS states "The source data for both of these submissions are consistent," referring to the file "Summer Sale – PRC Report v 1.xls" tab "Rebate data" and the mailer data in file "Summer Sale PRC – Workbook 1.xls". The following mailer I.D.s have no volumes for the Summer Sale in "Summer Sale PRC – Workbook 1.xls", but have positive values in "Rebate Data." Please reconcile these figures.

| Mailer ID | Difference |
|-----------|--------------|
| 800235 | (24,100,827) |
| 800060 | (20,768,515) |
| 014455 | (16,028,506) |
| 006378 | (8,218,855) |
| 024129 | (4,173,927) |
| 006664 | (3,954,160) |
| 001233 | (2,852,619) |
| 021098 | (1,554,963) |
| 005592 | (1,262,278) |
| 004536 | (1,259,084) |
| 004789 | (873,974) |
| 003286 | (639,398) |
| 138421 | (585,970) |
| 005150 | (425,575) |
| 011003 | (385,045) |
| 023492 | (123,650) |
| 135495 | (5,420) |

RESPONSE:

1) As of the date that the data for the response to CHIR 8 in Docket No. ACR2009 was captured, the Postal Service was still tabulating Summer Sale 2009 mailing volumes for the mailers listed above. The file "Summer Sale – PRC Report v1.xls" contained the best estimates of the Summer Sale 2009 mailing volumes for the listed mailers at the time. However, any rebate amount calculated from this data could potentially produce inaccurate results because the Postal Service had not completed tabulating these volumes. To avoid

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

misrepresenting the actual rebate amounts paid to mailers, the Summer Sale 2009 mailing volumes for the listed mailers were set to zero in the file "Summer Sale PRC – Workbook 1.xls". This way, the calculated rebate amounts for these mailers would also be \$0, which is consistent with the rebate amount actually paid out to these mailers at the time the Postal Service responded to CHIR 8.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

2. In response to CHIR 8 Q 2 in Docket No. ACR2009, the Postal Service provided the file “(2010_03_04) Volume Attributable to SummerSale.xls,” which uses a “Spring Threshold” to compare volume growth before the sale to volume growth during the sale. This growth rate, 7.07%, is calculated using “923” mailers. There are 912 mailers in the file “Summer Sale PRC – Workbook 1.xls,” and it is not clear what additional mailers are used to calculate this value. Using data from mailers in the file “Summer Sale PRC – Workbook 1.xls” and “Summer Sale – PRC Report v 1.xls” tab “Rebate data,” the Public Representative has developed the following growth rates, which appear in file “SS V1 Report-PR” on tab ‘Anyhow Volume’ starting at cell H 922.

| | Spring Threshold Volume | Anyhow Volume | |
|-----------------------------|-------------------------|---------------|-------|
| USPS Formula | 7,307,376,790 | 513,147,842 | 7.02% |
| Rebate Eligible Volume Only | 3,546,099,239 | 342,018,423 | 9.64% |

Mailers who received a discount during the summer sale had a higher anyhow growth rate of 9.64% on average.

- a. Please provide a rationale for why the growth rate was not applied individually.
- b. Please identify the 923 mailers used in this calculation.
- c. Are there plans to evaluate growth rates beyond the SPLY +5% before the 2010 Summer Sale?
- d. Please provide any analysis concerning the reduction of anyhow discounts by developing more precise thresholds.
- e. In response to R2009-3 CHIR 2, the Postal Service stated “The Postal Service will compute incremental volumes and revenues based on the trend calculations used to establish mailer thresholds for the program. Since those trends take into account recent economic conditions and mailer behavior at current prices, they can be used as a baseline against which incremental growth can be measured.” Please discuss why the Postal Service has developed a different measurement for incremental volume.

RESPONSE:

2a) The estimate of existing volume that would be eligible for a rebate was developed from a historical analysis of growth rates across Standard Mail products, and as such, is an appropriate guide to the likely impact of such volume on the finances of the Sale as a whole. However, because of the

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

variation of individual growth rates—the very fact that led to the development of the estimate—there is no reason to believe that the application of the aggregate estimate to any one mailer will lead to reliable or useful estimates of individual results.

2b)

| | | | | | |
|--------|-----------|--------|--------|-----------|-----------|
| 800038 | 016120 | 010810 | 004789 | 027200 | 022920 |
| 028476 | 005635 | 025736 | 001744 | 800045 | 016998 |
| 004205 | 025687 | 024551 | 016982 | 028567 | 005708 |
| 021241 | 005252 | 002613 | 017111 | 020210 | 006534 |
| 013219 | 024138 | 028622 | 005795 | 009279 | 010364 |
| 800157 | 017576 | 026209 | 503207 | 009164 | 015324 |
| 028625 | 005797 | 000746 | 014221 | 800209 | 017665 |
| 113313 | 013102773 | 003433 | 017661 | 028665 | 005928 |
| 001980 | 010451 | 800072 | 017837 | 021050 | 511686 |
| 524923 | 010474 | 028714 | 005939 | 027146 | 023793 |
| 006456 | 017922 | 026170 | 028927 | 516792 | 003909 |
| 028759 | 005966 | 010423 | 010796 | 800070 | 018086 |
| 003873 | 017209 | 008775 | 005623 | 028948 | 005985 |
| 511183 | 000825 | 002602 | 018097 | 009991 | 010094 |
| 028849 | 800232 | 029038 | 006268 | 000510 | 006201 |
| 800120 | 018120 | 010062 | 014631 | 015885 | 017664 |
| 029223 | 006429 | 000802 | 001244 | 800088 | 018240 |
| 004855 | 004775 | 008855 | 500781 | 029266 | 006650 |
| 001282 | 016754 | 800149 | 018370 | 009801 | 023516 |
| 504672 | 018129 | 029268 | 006682 | 023072 | 020454 |
| 800071 | 018503 | 025756 | 510931 | 013497 | 800211 |
| 029328 | 006743 | 004536 | 025514 | 021282 | 018844 |
| 015456 | 011747 | 019205 | 024311 | 029375 | 006777 |
| 001379 | 522742 | 514764 | 019029 | 010427 | 018347836 |
| 003407 | 009736 | 029428 | 007108 | 519616 | 016517 |
| 800111 | 019222 | 130512 | 141806 | 517636 | 003280 |
| 029435 | 007131 | 004278 | 002017 | 800113 | 019447 |
| 000251 | 023866 | 127761 | 015333 | 034082443 | 007238 |
| 014143 | 004533 | 012475 | 019807 | 000399 | 003940 |
| 006282 | 006949 | 100908 | 007690 | 514628 | 800150 |

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

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|--------|--------|--------|--------|--------|--------|
| 800181 | 020259 | 000507 | 007691 | 005624 | 017858 |
| 101067 | 008000 | 006499 | 005580 | 002848 | 020409 |
| 000607 | 022493 | 001164 | 009278 | 103821 | 008465 |
| 021863 | 006276 | 800194 | 020592 | 000642 | 001535 |
| 518847 | 003329 | 104091 | 008496 | 009994 | 026613 |
| 800086 | 020794 | 000649 | 021219 | 017238 | 007179 |
| 104158 | 008567 | 007616 | 021275 | 029415 | 021016 |
| 000921 | 000772 | 027575 | 009027 | 108061 | 008588 |
| 012480 | 123961 | 800218 | 021021 | 001067 | 013401 |
| 027954 | 507908 | 110046 | 008640 | 002268 | 106654 |
| 020183 | 021023 | 001201 | 520389 | 010562 | 000961 |
| 110515 | 008732 | 520574 | 008073 | 028902 | 021098 |
| 001233 | 513167 | 514955 | 000795 | 110773 | 008913 |
| 027465 | 017376 | 002331 | 021123 | 001235 | 103679 |
| 023114 | 012731 | 112243 | 008953 | 028910 | 523894 |
| 026059 | 021124 | 001250 | 005420 | 000956 | 109416 |
| 119505 | 008983 | 013480 | 000538 | 020678 | 021295 |
| 001381 | 013546 | 518831 | 021401 | 123048 | 009287 |
| 028065 | 125597 | 016874 | 021585 | 001413 | 018803 |
| 104539 | 024617 | 123866 | 009395 | 001375 | 107267 |
| 004012 | 021593 | 001628 | 525962 | 100407 | 025334 |
| 125297 | 009545 | 003686 | 011566 | 010195 | 021866 |
| 001789 | 100944 | 002134 | 006556 | 132777 | 009585 |
| 010115 | 100448 | 024217 | 021884 | 001795 | 110529 |
| 027891 | 019193 | 134021 | 009632 | 021285 | 106264 |
| 010462 | 021890 | 001918 | 518577 | 014920 | 005680 |
| 134189 | 009799 | 519210 | 519207 | 023939 | 021995 |
| 002158 | 005068 | 003491 | 004914 | 135495 | 009862 |
| 007012 | 005172 | 026503 | 022312 | 002388 | 000010 |
| 015485 | 011839 | 138421 | 010006 | 000846 | 000558 |
| 001652 | 022324 | 002450 | 002421 | 003830 | 027080 |
| 505673 | 010100 | 006664 | 001108 | 800092 | 022500 |
| 002567 | 800165 | 026758 | 024937 | 507799 | 010164 |
| 028778 | 029286 | 800226 | 022501 | 002608 | 012591 |
| 000249 | 002707 | 508784 | 010243 | 028933 | 015522 |
| 003771 | 022603 | 002651 | 800010 | 023761 | 006428 |
| 511100 | 010246 | 512684 | 108754 | 023656 | 022646 |
| 002671 | 800183 | 522981 | 000873 | 511212 | 010255 |
| 012128 | 518197 | 112438 | 022694 | 002755 | 800102 |

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

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|--------|--------|------------|-----------|--------|-----------|
| 510910 | 004584 | 511850 | 010324 | 521029 | 029082 |
| 800112 | 022698 | 002810 | 800275 | 005505 | 003047 |
| 513163 | 010638 | 003420 | 027149 | 006378 | 022786 |
| 002820 | 800043 | 019901 | 006186 | 514451 | 010815 |
| 007010 | 107118 | 028912 | 023135 | 002841 | 800163 |
| 512139 | 139973 | 514688 | 010852 | 016913 | 029454 |
| 002595 | 023166 | 002858 | 800213 | 525288 | 800027 |
| 514892 | 010883 | 006769 | 526040 | 800067 | 023184 |
| 002894 | 518247 | 011147 | 023018 | 517355 | 011003 |
| 519115 | 018069 | 004975 | 023284 | 002910 | 800184 |
| 000204 | 001136 | 517774 | 011039 | 027428 | 014201 |
| 007404 | 023492 | 002920 | 028168 | 012019 | 014888 |
| 518570 | 011403 | 006372 | 018514 | 103008 | 023560 |
| 002968 | 002524 | 104076 | 001134 | 519507 | 011543 |
| 525864 | 004125 | 005115 | 023651 | 002999 | 011509 |
| 001504 | 017890 | 519835 | 011816 | 004987 | 008841 |
| 017149 | 023721 | 003016 | 800170 | 002417 | 524063 |
| 520091 | 011965 | 005513 | 015735 | 026136 | 023927 |
| 003029 | 023155 | 009947 | 003826 | 520179 | 011971389 |
| 006185 | 000665 | 005785 | 023948 | 003078 | 001712 |
| 001022 | 002258 | 520366 | 012067 | 104573 | 012714 |
| 800129 | 024081 | 003169 | 022446 | 001294 | 022503 |
| 520556 | 012242 | 800134 | 027411 | 800195 | 024086 |
| 003286 | 006765 | 023786 | 026683 | 520791 | 012298 |
| 005225 | 005130 | 005651 | 024090 | 003293 | 800152 |
| 520794 | 800151 | 520966 | 012368 | 026426 | 002097 |
| 003263 | 024129 | 003310 | 010157 | 001642 | 022282 |
| 521613 | 012428 | 101285 | 003195 | 010687 | 024293 |
| 003315 | 016860 | 110740 | 026948 | 522403 | 012545 |
| 011978 | 025074 | 027763 | 024297 | 003353 | 005550 |
| 021797 | 010404 | 525371 | 012547203 | 006905 | 008890 |
| 002036 | 024367 | 003402 | 016549 | 012844 | 024905 |
| 525562 | 012580 | 018284 | 100990 | 002080 | 024634 |
| 003434 | 011803 | 005312 | 004112 | 525947 | 012605 |
| 024371 | 007838 | 500976 | 024751 | 003449 | 002932 |
| 015307 | 011999 | 7198463020 | 012777 | 024915 | 025318 |
| 005713 | 024842 | 003462 | 017468 | 000529 | 015869 |
| 800009 | 013056 | 000944985 | 010907 | 128830 | 025017 |
| 003600 | 521092 | 026732 | 003814 | 800024 | 013060 |

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

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|--------|--------|-----------|--------|-----------|--------|
| 004232 | 001040 | 520664 | 025084 | 003651 | 005570 |
| 009518 | 026730 | 800028 | 013072 | 006593 | 022689 |
| 014904 | 025157 | 003932 | 004714 | 506874 | 518954 |
| 800040 | 013196 | 003604 | 008927 | 518426 | 025279 |
| 004073 | 518005 | 008482 | 002240 | 800041 | 013221 |
| 021243 | 001297 | 510904 | 025322 | 004132 | 008494 |
| 517097 | 522409 | 800051 | 013356 | 510624 | 026411 |
| 022823 | 025558 | 004373 | 002008 | 007357 | 006737 |
| 800053 | 013512 | 520383 | 021258 | 508827 | 025681 |
| 004443 | 023863 | 001063 | 003387 | 800056 | 013541 |
| 000630 | 104006 | 004748 | 025690 | 004519 | 011726 |
| 002481 | 013988 | 800060 | 013779 | 002589323 | 524125 |
| 002452 | 025827 | 004586 | 003907 | 025809 | 026383 |
| 800061 | 013966 | 001530 | 009001 | 000694 | 025895 |
| 004656 | 111137 | 018383 | 023285 | 800064 | 014024 |
| 008493 | 027186 | 024844 | 025920 | 004663 | 027680 |
| 005688 | 001329 | 800069 | 014127 | 025596 | 013494 |
| 003001 | 026455 | 004799 | 519798 | 015338 | 010923 |
| 800073 | 014130 | 000944 | 021560 | 800062 | 026518 |
| 004903 | 024365 | 028171 | 006524 | 800076 | 014133 |
| 000735 | 002682 | 104564 | 026654 | 004916 | 029081 |
| 023378 | 013052 | 800106 | 014225 | 009523 | 011181 |
| 016942 | 026680 | 004944 | 519896 | 800190 | 017274 |
| 800121 | 014256 | 019161 | 026837 | 007173 | 026785 |
| 004972 | 001475 | 012837 | 012189 | 800123 | 014276 |
| 011351 | 010360 | 018279 | 026917 | 005051 | 001936 |
| 019302 | 013530 | 800127 | 014331 | 022696 | 002577 |
| 023049 | 026921 | 005055 | 022347 | 021167 | 011923 |
| 800132 | 014455 | 001803 | 013710 | 018608 | 026938 |
| 005109 | 001273 | 008071115 | 012012 | 800156 | 014717 |
| 001952 | 005705 | 800096 | 027431 | 005142 | 012141 |
| 026076 | 125018 | 800178 | 014932 | 010805 | 026580 |
| 800204 | 027482 | 005150 | 103657 | 027872 | 025242 |
| 800180 | 015103 | 002866 | 002828 | 800082 | 027486 |
| 005244 | 010875 | 013622 | 019571 | 800192 | 015158 |
| 029007 | 004556 | 029429 | 027578 | 005467 | 022332 |
| 010691 | 025788 | 800201 | 015271 | 010361 | 009276 |
| 000963 | 027701 | 005523 | 009718 | 011258 | 000374 |
| 800205 | 015457 | 023984 | 022495 | 026291 | 028052 |

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

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|--------|--------|--------|--------|------------|--------|
| 005560 | 023071 | 000335 | 515019 | 800208 | 015861 |
| 010476 | 014212 | 000734 | 028199 | 005563 | 018589 |
| 104305 | 005338 | 800235 | 015920 | 018433 | 023380 |
| 800171 | 028267 | 005588 | 012235 | 020531 | 009806 |
| 800238 | 016030 | 012090 | 000863 | 025932 | 028280 |
| 005592 | 000668 | 001893 | 009340 | 8121947505 | 016086 |
| 003815 | 026783 | 514054 | 028368 | 005613 | |

2c) There are no further plans to evaluate thresholds before the program begins.

2d) No such analysis exists.

2e) Given the information available before the program began, the Postal Service believed the trend calculation used in the Summer Sale had the best chance of providing reasonable thresholds while minimizing the potential for rewarding existing mail. Further research and discussions with customers led to the development of the current estimate.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

3. In response to CHIR 8 Q 1 in Docket No. ACR2009, the Postal Service provided the file "(2010-03-05) Summer Sale Financials_as of Round 4.xls." This file uses a set of assumptions, including the anyhow growth rate in the previous question and an unsourced volume distribution, to develop the contribution from the summer sale. When the anyhow growth rate and summer sale FY09 short run cost are applied to the mailer data for each mailer in the file "Summer Sale PRC – Workbook 1.xls," the following contribution results.

| | Workbook 1 Data | USPS |
|---------------------|-----------------|--------------|
| Incremental Revenue | \$ 104,146,231 | \$98,141,641 |
| Anyhow Discounts | \$ 22,580,226 | \$25,833,944 |
| SR Total Cost | \$ 62,396,614 | \$48,206,665 |
| Contribution | \$ 19,169,392 | \$24,101,033 |

- a. Please provide a rationale for applying the product level costs on aggregate.
b. Does the Postal Service plan to develop Total Costs using aggregate volumes in the 2010 Summer Sale?

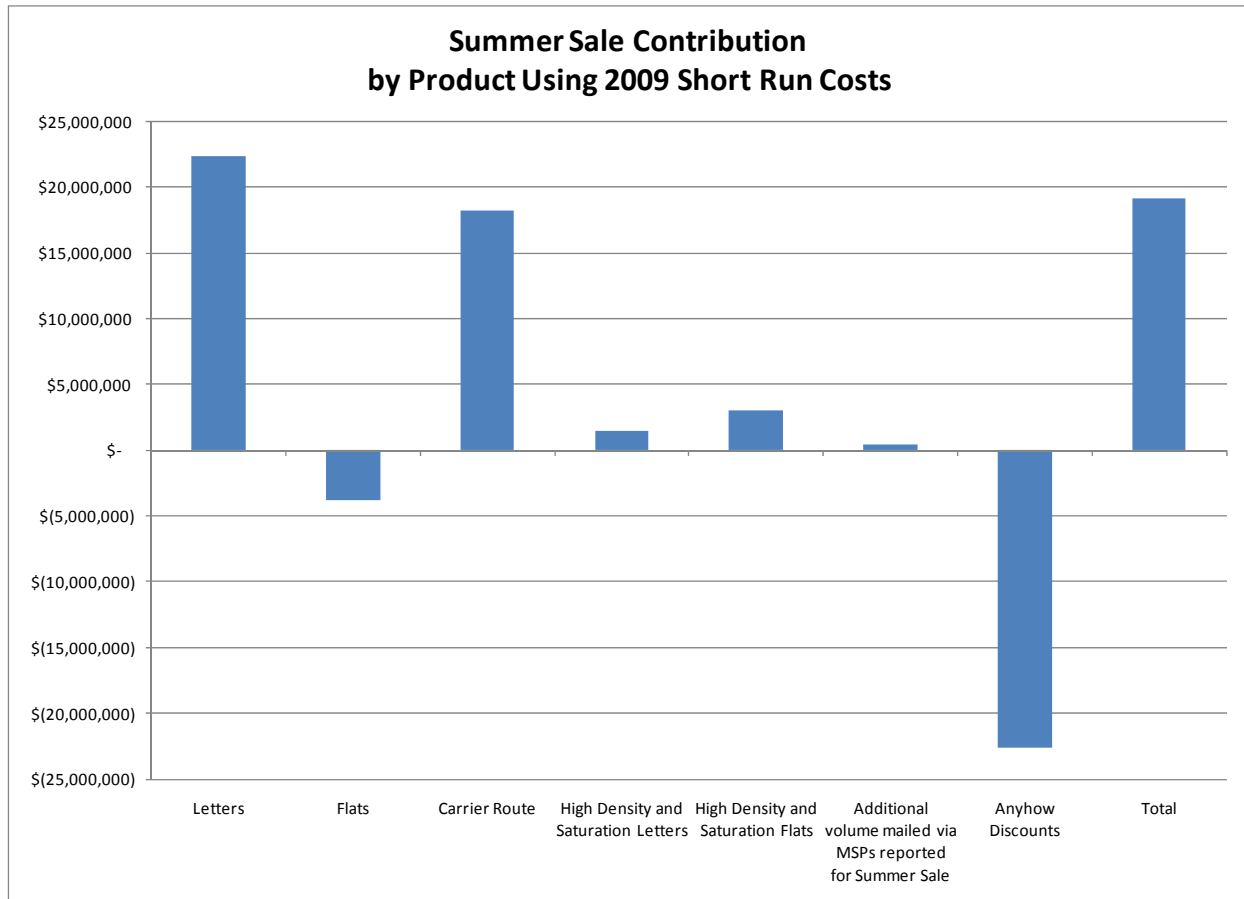
RESPONSE:

3a) The difference in valuation between the Postal Service's estimate of the results of the sale and the results presented by the Public Representative appear to result from the application of the "anyhow" estimate at a mailer-specific level, rather than the application of the cost data at a mailer-specific level. The Postal Service's rationale for applying the "anyhow" estimate only at the aggregate level is explained in its response to Q2a.

3b) Yes.

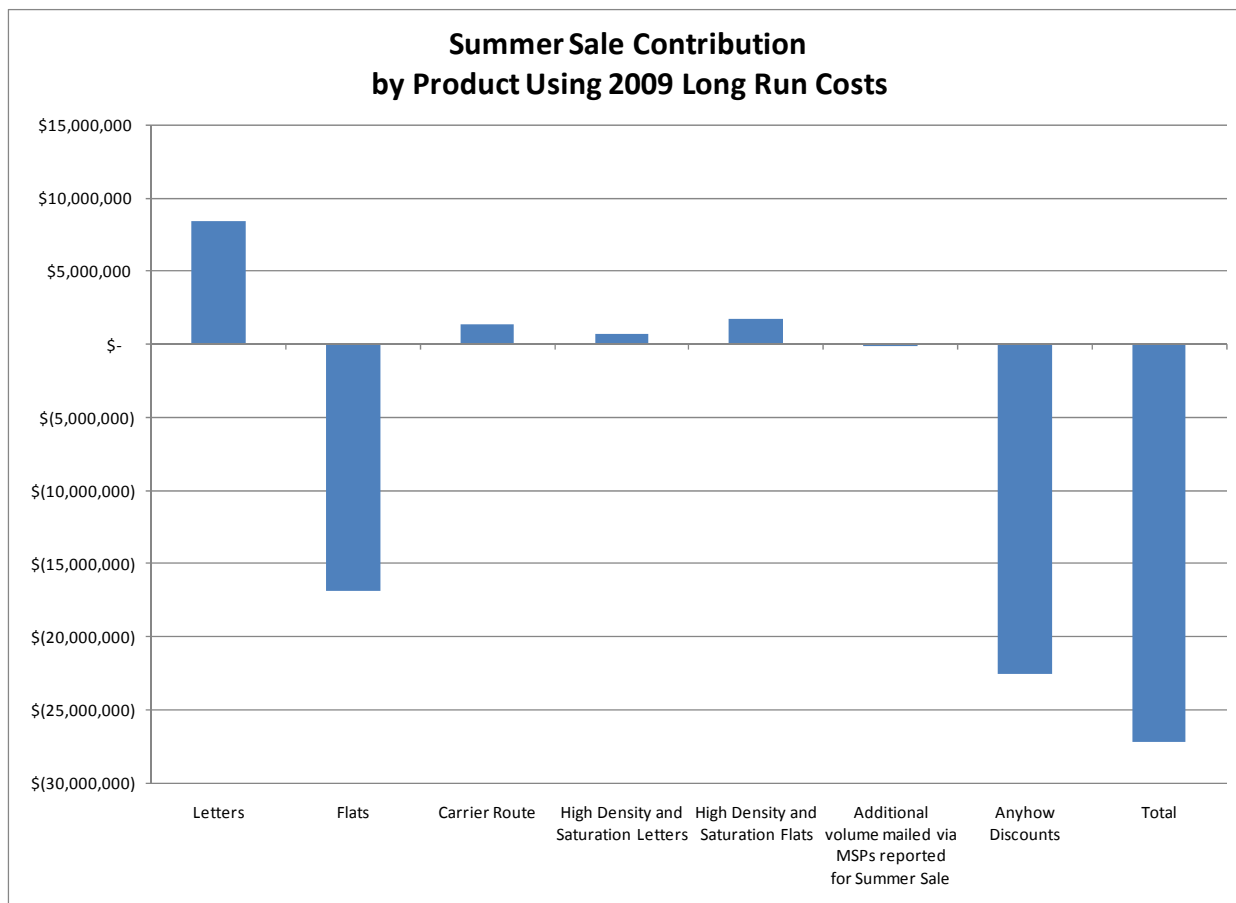
RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

4. Using the "Summer Sale PRC – Workbook 1.xls" data, the contribution by product can be calculated. The following charts are located in the file "SS V1 Report- PR.XLS." The following chart displays this information using the 2009 Short Run Costs. It shows that for all products, except for Flats, incremental volume increased contribution.



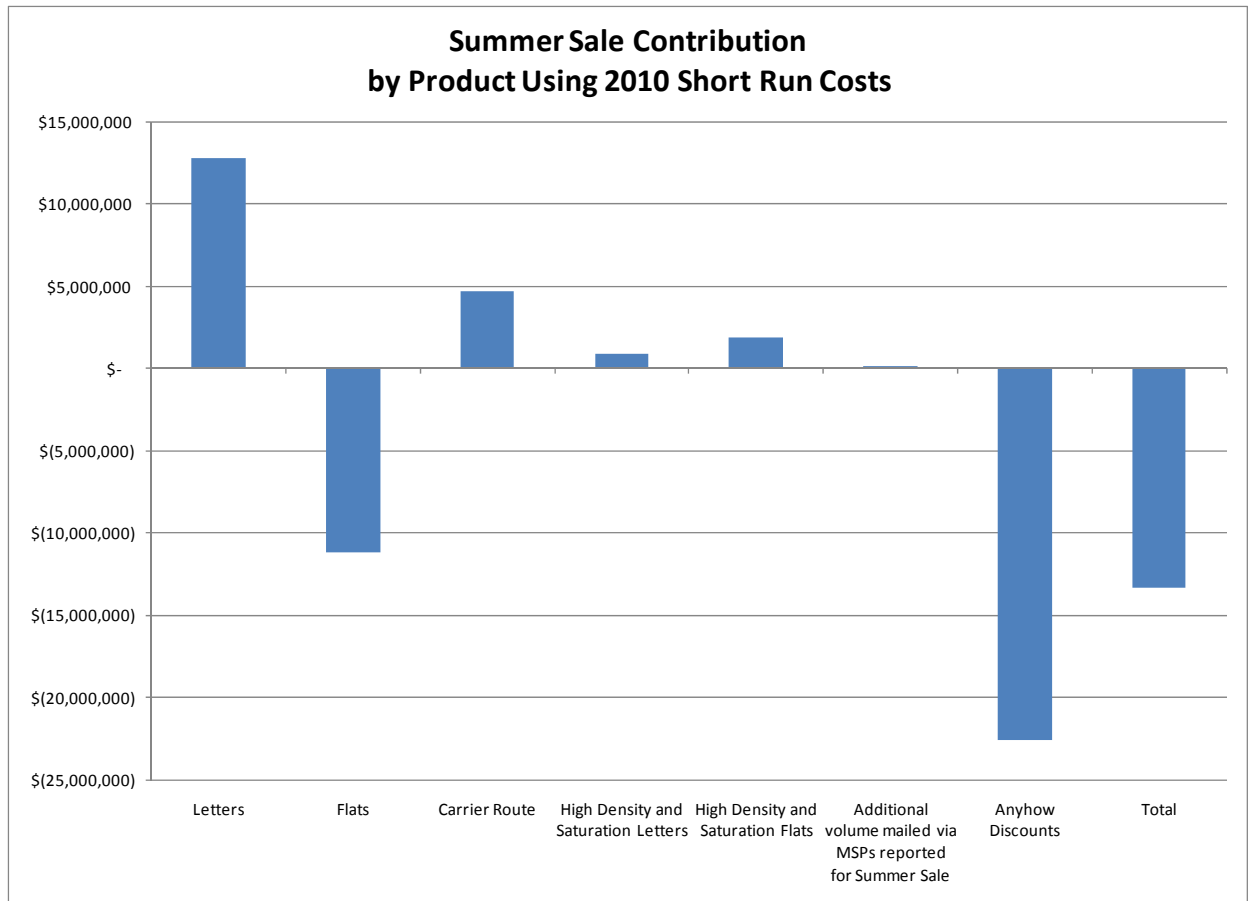
RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

If the 2009 Long Run Costs are used, the following distribution occurs:



And using the R2010-2 proposed Short Run Costs:

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2



Using both 2009 Long Run and 2010 Short Run Cost, the combination of anyhow discounts and the loss from Standard Flats would have caused the 2009 Summer Sale to lose contribution. Please explain how the 2010 proposal will eliminate this concern.

RESPONSE:

4) Results from the 2009 Summer Sale program depended on the set of thresholds and checks developed for that program, as well as the economic conditions prevalent at the time. The Postal Service believes the structure of the 2010 Summer Sale program, specifically the SPLY +5% threshold and the June and October collars, will maximize the likelihood of financial benefit to the Postal

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

Service while also providing reasonable incentives to mailers, given current economic conditions and the state of the market for Standard Mail.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

5. The following table uses data from “Summer Sale PRC – Workbook 1.xls” to develop average revenue per piece and average cost per piece for the mailers that received discounts during the Summer Sale to estimate the Contribution using the Commission approved methodology ¹

| | Total Volume | Original Revenue/ Discounted Revenue | Elasticity | Before Rates Volume |
|--|------------------------------|---|------------------------|----------------------------|
| Summer Sale Volume from Mailers with Rebates | 4,169,973,043 | 1.428571429 | -0.149032691 | 3,954,101,301 |
| | | | | |
| | Incremental Volume | Discounted Volume | Anyhow Volume | |
| Summer Sale Volume from Mailers with Rebates | 215,871,742 | 987,977,741 | 772,105,999 | |
| | | | | |
| | Average Revenue per piece | Average Discounted Revenue Per Piece | Average Cost Per Piece | Average Anyhow Discount |
| Summer Sale Volume from Mailers with Rebates | \$ 0.230 | \$ 0.161 | \$ 0.097 | \$ 0.069 |
| | | | | |
| | Incremental Revenue | Incremental Cost | Anyhow Discounts | Contribution |
| Summer Sale Volume from Mailers with Rebates | 34,804,402.94 | 20,852,188.81 | 53,350,504.95 | (39,398,290.82) |

Calculating the Postal Service Anyhow Volume using the method from the file “(2010_03_04) Volume Attributable to SummerSale.xls” in Docket No. ACR2009 the implied elasticity is -.611

| Total Volume | Original Revenue/ Discounted Revenue | Elasticity | Before Rates Volume | Discounted Volume | Anyhow Volume |
|---------------|---|------------|------------------------|----------------------|---------------|
| 4,169,973,043 | 1.428571429 | -0.611 | 3,524,013,725 | 987,977,741 | 342,018,423 |

- a. Please explain why the methodology used by the Postal Service in the file “(2010-03-05) Summer Sale Financials_as of Round 4.xls” is more accurate.
- b. Please explain which method the Postal Service will use to evaluate the 2010 Summer Sale.

RESPONSE:

5a) The Postal Service estimates are based on experience with the 2009 Summer Sale program, evaluation of historical data, and discussions with customers, all of which indicate that reliance solely on long-run historical estimates of total market

¹ The Standard Regular elasticity for the current period is -.129, the Standard ECR elasticity for the current period is -.178. (Letter From Andrew German, January 20 2010)

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PUBLIC REPRESENTATIVE'S
INFORMATION REQUEST NO. 2

price elasticity for a program, which includes price changes of this magnitude and short duration, may not yield a reliable estimate of volume change.

5b) The Postal Service plans to evaluate the 2010 Summer Sale program in a manner similar to the one used to evaluate the 2009 Summer Sale program; using historical data, experience, long-run trends, and customer information.