

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Rate Adjustment Due to Extraordinary or
Exceptional Circumstances

Docket No. R2010-4

PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(Issued July 14, 2010)

The Postal Service is requested to respond to the following questions to clarify the record on its proposed rate adjustments under 39 U.S.C. 3622(d)(1)(E) and 39 CFR 3010.60 of the Commission's rules for rate adjustments in exigent circumstances, filed July 6, 2010. To facilitate inclusion of the required material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain, to the extent necessary, the basis for the answers at hearings. Responses should be provided no later than July 23, 2010.

1. Please refer to Library Reference USPS-LR-9, Operations Plans for Flats. The Postal Service discusses 29 strategies for improving transportation, mail processing, and Post Office operations and delivery. Also, please refer to the attached Excel worksheet "Flats strategy.xlsx" as an example of the level of detail being sought in the following questions.
 - a. For each of these strategies, please provide a quantitative estimate of each program's overall impact on cost. Please utilize the most recent existing information (such as Decision Analysis Reports or Return on Investment calculations) in responding and identifying the sources relied on.

- b. Please provide the unit cost savings from each strategy for Periodicals and Standard Mail Flats for FY 2010 through FY 2013.
 - c. For each unit cost savings in subpart a., please provide detailed information for each affected cost segment or cost pool to support the estimate of unit cost savings. Details should be as specific as possible (e.g., percent increase in productivity and/or changes in machine throughput.)
 - d. Please calculate an estimated unit cost based on the savings from subpart b. for Standard Mail Flats and Periodicals for FY 2010 through FY 2013.
 - e. Please provide the estimated cost coverage for Standard Mail Flats and Periodicals for FY 2010 through FY 2013 using the projected unit cost calculated in subpart d.
 - f. If the cost coverage does not exceed 100 percent for Standard Mail Flats or Periodicals by FY 2013, please explain when the product in question is estimated to cover its cost and describe additional steps to be taken to achieve profitability.
2. Please refer to the Exigent Request of the United States Postal Service, Tables 1 and 2, at page 13.
 - a. In Table 1, Available Unused Price Adjustment Authority, By Mail Class, please confirm that for First-Class Mail, the "Unused Authority (%)" of 0.030 should be 0.044 (0.030 [R2009-2] + 0.014 [R2008-1]). If not confirmed, please explain.
 - b. In Table 2, Price Adjustment Authority By Mail Class, please confirm that for First-Class Mail, the "Price Adjustment Authority (%)" of 0.608 should be 0.622 (0.578 + 0.044). If not confirmed, please explain.

3. Please refer to Library Reference USPS-R2010-4/1, Excel file Inbound FCMI Worksheets R2010-4.xls, and worksheet tab Inbound FCMI Rates, which references the following terminal dues rates:

Base Terminal Dues in SDRs - UPU			
(Inbound First-Class Mail International/Surface and Air Letters)			
	CY	CY	Percent
	<u>2010</u>	<u>2011</u>	<u>Change</u>
Per Item	0.171	0.169	-1.17%
Per Kilogram	1.731	1.709	-1.27%

The Postal Service cites UPU Circular 155 (July 6, 2009) and UPU Circular 142 (July 5, 2010) for these CY 2010 and CY 2011 inbound terminal dues “base” rates for target system countries, respectively.

- a. For CY 2010 and CY 2011, please explain why the Postal Service only used the UPU inbound terminal dues “base” rates for target system countries, rather than the CY 2010 and CY 2011 “provisional” terminal dues rates referenced in the circulars of 0.174 SDR per item and 1.760 SDR per kilogram, and 0.173 SDR per item and 1.747 SDR per kilogram, respectively, that include the quality of service link.
- b. For CY 2010 and CY 2011, please explain why the Postal Service only used the UPU inbound terminal dues rates paid by target system countries rather than calculating a weighted average rate reflecting the terminal dues rates paid by countries in the target system that include the quality of service link *and* the CY 2010 and CY 2011 terminal dues rates paid by countries in the transition system of 0.155 SDR per item and 1.562 SDR per kilogram and 0.159 SDR per item and 1.610 SDR per kilogram, respectively.

- c. For FY 2011, please provide the estimated volumes and revenues for inbound letter post from Canada. Please show all calculations used to derive the estimated volumes and revenues in electronic form.
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4. Please refer to the Statement of Stephen J. Masse on Behalf of the United States Postal Service, Attachments 9-12, which provide the contribution by class of mail for FY 2010, FY 2011 Before Rates, FY 2011 After Rates (January 2, 2011 Implementation), and FY 2011 After Rates-Full Year (October 1, 2010 Implementation). Also, refer to Library Reference USPS-R2010-4/NP1, Product Cost and Contribution Estimation Model (Non-Public Version). Attachments 9-12 summarize contribution for all international mail and services on one line. These attachments are also shown in Library Reference USPS-R2010-4/NP1.
 - a. For FY 2010, FY 2011 Before Rates, FY 2011 After Rates (January 2, 2011 Implementation), and FY 2011 After Rates-Full Year (October 1, 2010 Implementation), please provide the Postal Service's estimates of Revenue, Volume, Attributable Cost, Volume Variable Cost, Product Specific Cost, Revenue per piece, Attributable Cost per piece, Contribution per piece, and Cost Coverage in the same format as shown in Attachments 9-12 for each international mail product and service for which the Postal Service developed revenue and volume estimates in Library Reference USPS-R2010-4/NP3, Revenue and Volume Forecast Materials (Non-Public Version). Please provide in electronic form the requested attachments and all source files used to develop the figures contained therein.
 - b. For Inbound International Ancillary Services, please separately provide the Postal Service's estimates of Revenue, Volume, Attributable Cost, Volume Variable Cost, Product Specific Cost, Revenue per piece, Attributable

Cost per piece, Contribution per piece, and Cost Coverage in the same format as shown in Attachments 9-12 for the Inbound Registered Mail service.

5. Please refer to the Statement of Stephen J. Masse on Behalf of the United States Postal Service, Attachments 9-12, which provide the contribution by class of mail for FY 2010, FY 2011 Before Rates, FY 2011 After Rates (January 2, 2011 Implementation), and FY 2011 After Rates-Full Year (October 1, 2010 Implementation). Also, refer to Library References USPS-R2010-4/NP1, Product Cost and Contribution Estimation Model (Non-Public Version), and R2010-4/NP3, Revenue and Volume Forecast Materials (Non-Public Version). Attachments 9-12 are shown in Library Reference USPS-R2010-4/NP1, Excel files RFLiteReport2009-2011BR.R2010-4 Exigent.xls, RFLiteReport2009-2011AR.R2010-4 Exigent (January 2, 2011 Implementation).xls, and RFLiteReport2009-2011AR.R2010-4 Exigent (October 1, 2010 Implementation).xls. The Revenue and Volume figures in Attachments 9-12, and the above referenced Excel files are often different from, and are not linked to, the Excel files Before-Rates V&R Forecast Nonpublic.xls, After-Rates Jan11 V&R Forecast Nonpublic.xls, and After-Rates Oct 10 V&R Forecast Nonpublic.xls, in Library Reference R2010-4/NP3, Revenue and Volume Forecast Materials (Non-Public Version). Please reconcile the revenue and volume figures in Attachment 9-12, and Library References R2010-4/NP1 and R2010-4/NP3, and provide electronic links between the files wherever possible.
6. Please refer to "Standard_Mail_Worksheets_R2010-4.xls" which contains the price increase calculations for Standard Mail. Cells I8 and I9 in Tab "HDSatCR IM & Move Update Adj" calculate Full Year IM Full Service Volume for Commercial Former ECR Flats and Nonprofit Former ECR Flats.

- a. Please confirm that Saturation Flats were excluded from these calculations. If confirmed, please provide an explanation and a revised version, if necessary.
 - b. Do the IM Penetration rates in cells G8 and G9 apply to Saturation flats? If not, please provide the appropriate penetration rates.
7. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service at page 34 line 13, which states “the discount for 5-digit parcels produces a passthrough of 104.4 percent.” Please confirm that the passthrough referred to in the above statement should be 88.1 percent (36.4/41.3).
8. Please confirm that the discount in the request for 5-digit irregular parcels exceeds avoided cost. If confirmed, please discuss how the proposed discount complies with the workshare discount requirements in section 3622(e) of title 39.
9. Please refer to Excel file, http://pe.usps.gov/prices/Prices_Jan2011.xls, worksheet AMS where the Postal Service lists proposed prices for the Address Management Services and Customized Postage products. For three mail categories, Address Sequencing Service (line 5), 99 Percent Accuracy Method (lines 124-126), and Customized Postage (lines 153-157), the Postal Service identifies proposed prices, but does not include the mail categories in its Special Services price adjustment worksheets. See Library Reference USPS-R2010-4/5, Excel file “Special Services Worksheets R2010-4.” Please file a revised Excel file “Special Services Worksheets R2010-4” that includes the above three mail categories.
10. Please refer to Library Reference USPS-R2010-4/5, Excel file “Special Services Worksheets R2010-4,” worksheet “Stamped Envelopes,” which provides the price percentage increase calculations for Stamped Envelopes. In Docket No. MC2010-23, the Commission approved the Postal Service’s request to add

shipping charges for Personalized Stamped Envelopes to the Mail Classification Schedule as a part of the Stamped Envelope service. However, the Postal Service's price adjustment Special Services worksheets do not include shipping charges for Personalized Stamped Envelopes. Please file a revised Excel file that includes shipping charges for Personalized Stamped Envelopes.

11. Please refer to Attachments 9-12 to the Statement of Stephen J. Masse on Behalf of the United States Postal Service, which estimate the contribution for each mail class for FY 2010, FY 2011 Before Rates, FY 2011 After Rates (January 2, 2011 Implementation), and FY 2011 After Rates (October 1, 2010 Implementation). Attachments 9-12 do not estimate contribution for the following two special service products: (1) Address Management Services, and (2) Confirm Service. Please separately provide the estimates of contribution (revenue and attributable cost) for Address Management Services (formerly Address List Services) and Confirm Service in the same manner as Attachments 9-12.
12. Please refer to Attachments 10-11 to the Statement of Stephen J. Masse on Behalf of the United States Postal Service, which estimate the contribution for each mail class for FY 2011 Before Rates and FY 2011 After Rates (January 2, 2011 Implementation). For the Stamped Cards service, the attachments project cost coverages of 21.58 percent and 21.87 percent, respectively. Please also refer to the FY 2009 ACD at 104, which discusses the cost coverage for Stamped Cards. Please explain why the Postal Service did not propose to increase prices for Stamped Cards.
13. In Library Reference USPS-LR-R2010-4/6, the file RFInput.XLS for the October 1 and the January 2 After Rates roll forward, the ServiceWide Costs' effect for component 211 does not use a separate roll forward distribution key to allocate an FY 2010 \$295 million increase in costs for component 211. However, for the

FY 2010 Before Rates roll forward, the file RFIInput.XLS indicates that the ServiceWide cost change uses component 1439, the fixed cost key, as a distribution key for the \$295 million ServiceWide cost change. Please explain this discrepancy in the allocation of the ServiceWide cost change for component 211 between the Before Rates scenario and the October 1 and January 2 implementation scenarios.

14. In Library Reference USPS-LR-R2010-4/6, file FY 2010.Irpt.XLS there are several discrepancies in regard to the square footage, rental value, and capital factors used to develop distribution keys for several PESSA related costs. The following questions relate to these discrepancies.
 - a. In the "I" report for FY 2010 at worksheet 98.5, a factor appears for component 1002. However, component 1002 is labeled as "not used." In the same table, there is no factor for "OCR and BCS on OCRs." Please explain and correct, if necessary, worksheet 98.5 to reflect the correct factors.
 - b. As described in subpart a., above, worksheet 98.6 appears to have the same problem in component 1102. Please explain and correct, if necessary, worksheet 98.6 to reflect the correct factors.
 - c. In worksheet 98.7, there is no capital factor reflected for component 1225, labeled as POS One. Please provide the factor that should be reflected for this component and correct, if necessary, worksheet 98.7 to reflect the correct factors.
15. Please provide the source worksheets, in electronic format, that develop the FY 2010 and FY 2011 square foot, rental value, and capital factors found in file "FacilSpace_Equip.XLS."

16. If there are any changes as a result of answers to questions 1-15 that impact any other files or worksheets within the roll forward, please correct all files or workpapers that rely on the factors that have been corrected.

Ruth Goldway
Presiding Officer