

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

EXIGENT REQUEST, 2010

Docket No. R2010-4

NATIONAL POSTAL POLICY COUNCIL
PROPOSED QUESTIONS FOR PUBLIC HEARING
(August 3, 2010)

The National Postal Policy Council respectfully proposes that the Commission ask the following questions of the Postal Service during the public hearing in this proceeding. The questions are set forth below, and are followed by a brief explanation as to why the question is appropriate and would help the Commission's deliberations in this proceeding.

Questions (relevant to the Kiefer Statement):

1. Please explain the process by which the Postal Service decided to propose rate increases for First-Class Presort letters in excess of the system-average, including a 6.3 percent increase in the heavily-used 5-digit Automation rate, despite stating: "Our customers are increasingly looking to nonmail alternatives to transact business with their customers, with the result that many presort First-Class Mail customers may respond to large price increases, not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether." Kiefer Statement at 17.
2. When setting First-Class letter rates, did the Postal Service start with a revenue target and then set rates to satisfy that target, or did it start with a plan to raise First-Class rates by a general percentage, apply that percentage to set the basic First-Class stamp, and thereafter set Presort rates?

Explanation:

This question goes to the process by which the Postal Service decided what rates to propose for the First-Class Presort product.

In this proceeding, the Postal Service proposes for First-Class Mail an average increase of 5.417 percent. Kiefer Statement, Table 2. Within First-Class Mail, however, the increases vary materially. The two cent increase in the common stamp results in an increase for the Single-Piece letters and cards product of 4.652 percent, in keeping with the Postal Service’s longstanding deference to Aunt Minnie mail.

The increases for the Presort product are quite larger. For them, the Postal Service proposes an average increase of 5.927 percent , above the average for all market-dominant products. The overall increases for Presort letters are led by a 6.3 percent increase for 5-digit Automation letters and a 5.9 percent increase for 3-digit letters, the two largest volume categories.

CHANGE				
	Automation			
Weight Not Over (ounces)	5-Digit	3-Digit	AADC	Mixed AADC
1	6.30%	5.90%	5.80%	6.00%

NPPC is concerned that the starting point for setting rates for the Presort product was not a carefully considered analysis of the statutory factors and whether the rates would be “reasonable and equitable” within the meaning of Section 3622(d)(1)(E). Instead, NPPC is concerned that the rate design for First-Class Presort letters was driven by a perception that the Presort rates must be

treated not as an independent product, but as a workshared derivative of the Single-Piece rate with discounts set according to a rigid regulatory formula that ignores the fundamental differences between Single Piece and Presort Mail.

Thus, it would be helpful to a better understanding of the First-Class letter mail rate design to know if, in setting rates for the Presort product, the Postal Service:

- a. decided first to raise the Single-Piece First-Class stamp to 46 cents, and then, to set Presort rates, applied the Commission's preferred discount methodology, which would have resulted in a rate increases for Presort mail ranging from 8.4 to 9.5 percent (Kiefer Statement at 25) unless the Postal Service adjusted the proposed rates to the levels in the Exigent Request; or
- b. set the Presort product rates on the basis of a considered evaluation of the statutory factors without regard to any "linking" to the First-Class Single-Piece rate.

Question (relevant to the Masse Statement):

1. Please explain how the new process to forecast Internet multipliers incorporates the further increases in Internet diversions that have occurred during the most recent recession, which the USPS noted at page 34 of its July 2010 "Narrative Explanation . . ." document.

Explanation:

In this proceeding, the Postal Service relies upon a volume forecasting methodology filed with the Commission in January 2010. In that methodology, the Postal Service made certain changes to the Internet variables described generally in its Narrative Explanation of Econometric Demand Equations for Market Dominant Products Filed With The Commission On January 20, 2010 (filed July 1, 2010).

The question asks for an explanation of how its revised Presort volume forecast methodology incorporates or reflects the increases in Internet diversions that have occurred in recent years, as described on page 34 of the Narrative Statement. This question is relevant to this case, which highlights that the risk of electronic diversion of Presort First-Class Mail has grown significantly in recent years.

In particular, the question seeks a better understanding of how the new formula, which uses a linear trend over the last six years that is projected forward, and also employs a two-year lag from the internet variables to their impact on volumes, accounts for recent trends in electronic diversion.

Respectfully submitted,

National Postal Policy Council

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Certificate of Service

I hereby certify that I have this 3rd day of August, 2010, caused to be served the foregoing document upon the United States Postal Service and the Consumer Advocate in accordance with sections 12 and 20(c) of the rules of practice.