

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. 4

(Issued August 5, 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. To facilitate reference to this information at the hearings scheduled to begin on August 10, 2010, responses should be provided no later than 12:00 noon, August 10, 2010.

1. Please refer to the Statement of James M. Kiefer at 53, which states the "offering of Stamped Envelopes bearing a Standard Mail stamp will be eliminated." Please provide the FY 2009 volume of Stamped Envelopes bearing a Standard Mail stamp.
2. In USPS LR-R2010-4/6, the file RFIInputTable.xls lists the values for the cost effects used in the PCCEM model. In that file there are five different cost reductions for component 165, Segment 15 Rents, which are distributed to products using two different distribution keys. Component 1467 is used for one cost reduction and component 1452 for the four other cost reductions. The effect of using these distribution keys is to allocate cost reductions to zero balances in component 165, resulting in negative balances in the component before

distribution of rental costs in the FY 2010BR "B" report. Component 165 generally has zero variable costs in the short run and the distribution of rental costs in this component is handled within the development of the "B" report, the distribution of PESSA costs. The result of the "B" report distribution is reflected in the FY 2010 "C" report, but the results of the cost reductions distribution to products are not reflected in the distribution of costs in the "C" report. Should the distribution key components 1467 and 1452 be used to distribute the cost reductions for component 165, Segment 15 Rents, or should the cost reductions affect only the other costs and total costs of component 165? If the use of components 1467 and 1452 is correct, please explain how the cost reduction distribution to products is reflected in the FY 2010BR "C" report.

3. Please refer to the FY 2009 Cost and Revenue Analysis reports (posted at [www.usps.com/financials](http://www.usps.com/financials)), Attachments 9-12 of the Masse Statement, and PRC Order No. 191, at 43.
  - a. Please confirm that the Postal Service increased Standard Mail Not Flat-Machinables (NFM)/Parcels rates by an average of 16.4 percent in May 2009. If not confirmed, please explain.
  - b. Please confirm that the FY 2010 Standard Mail NFM/Parcel revenue per piece (94.5 cents) presented in Attachment 9 of the Masse Statement is 1.5 percent higher than FY 2009 Standard Mail NFM/Parcel revenue per piece (93.1 cents). If not confirmed, please provide correct figures.
  - c. Please explain why the Standard Mail NFM/Parcel average revenue per piece is forecasted to grow by 1.5 percent in FY 2010 despite the significant May 2009 price increase. In particular, please address whether the mail mix (e.g., percentage destination entered) implicit in the FY 2010 revenue forecast is a lower-revenue, lower-cost mail mix than the FY 2009 Standard Mail NFM/Parcel mail mix.

- d. Please confirm that neither the forecasted FY 2010 nor the forecasted FY 2011 Standard Mail NFM/Parcel costs presented in Attachments 9 through 12 include any adjustments to reflect differences in mail mix between the forecasted years and FY 2009. If not confirmed, please identify and explain all adjustments.
4. Please refer to the FY 2008 and FY 2009 Cost and Revenue Analysis reports, Cost Segments and Component reports, and Revenue, Pieces, and Weight reports (posted on [www.usps.com/financials](http://www.usps.com/financials)).
  - a. Please confirm that the unit cost of Standard Mail NFM/Parcels increased by 11.6 percent from FY 2008 to FY 2009. If confirmed, please explain why Standard Mail NFM/Parcel unit costs increased by such a large amount between FY 2008 and FY 2009. If not confirmed, please provide the correct figure.
  - b. Please confirm the following FY 2009 (vs. FY 2008) cost segment-specific percentage changes in Standard Mail NFM/Parcel unit costs and explain why Standard Mail NFM/Parcel unit costs in each listed cost segment increased so rapidly from FY 2008 to FY 2009. If not confirmed, please provide the correct figure.
    - i. C/S 3 Clerks and Mailhandlers (CAG A-J) – 11.6%
    - ii. C/S 6 City Carriers Office Activity – 36.5%
    - iii. C/S 7 City Carriers Street Activity – 24.5%
    - iv. C/S 8 Vehicle Service Drivers – 72.2%
5. Please refer to the Flats Strategies described in USPS-LR-9. Please confirm that in addition to reducing costs for flat-shaped mail, the USPS-LR-9 strategies in the areas listed below will, if implemented, reduce the costs of parcels in general and the costs of Standard Mail NFM/Parcels in particular. If not confirmed, please identify which of the listed strategies will, if implemented, reduce parcel costs.

- a. Transportation
    - i. Improve Handling Unit/Container Density
    - ii. Eliminate Periodical and Standard Mail Flown
    - iii. Transportation Utilization
    - iv. Network Optimization
  
  - b. Mail Processing
    - i. Facility Optimization
    - ii. Equipment Optimization – APPS Utilization
    - iii. Automated Package and Bundle Sorter
    - iv. Material Handling
    - v. Electronic Condition-Based Maintenance
    - vi. Distribution Compression
    - vii. Realign Operating and Transportation Plan to Improve Utilization
    - viii. Refine Work Methods to Improve Business Mail Entry Unit (BMEU)/Plant Load Handoff to Mail Processing
    - ix. Continuous Improvement
  
  - c. Post Office and Delivery Operations
    - i. Business Plan Staffing and Scheduling Reviews;
    - ii. Shifting distribution from Post Office Operations (Function 4) to Mail Processing Operations (Function 1);
    - iii. Customer Service Unit Optimization
    - iv. Route Adjustments Joint Alternate Route Assessment Process (JARAP) / Carrier Optimal Routing (COR)
    - v. Route Optimization 100 Percent Street Routes
    - vi. Facility Optimization
6. Please refer to page 7 of USPS-LR-2, Standard Mail Preface R2010-4.doc where it states, “[b]ased on its experience and judgment, Postal Service management

has estimated that 61 percent of NFM volume will migrate to Fulfillment Parcels.” Please explain in detail the rationale underlying the judgment of Postal Service management that 61 percent of NFMs will migrate to Fulfillment Parcels and the remaining 39 percent will be Marketing Parcels.

7. Please confirm that the Postal Service proposal in this proceeding will result in rate increases as large as 79 percent for Standard Mail NFMs—the proposed rate increase for 3.3-ounce SCF presorted, DSCF-entered irregular NFMs that will fall into the fulfillment parcel category under the proposed classification—and as large as 35 percent for Standard Mail Parcels (the proposed rate increase for 3.3-ounce SCF presorted, DNDC-entered irregular parcels). If not confirmed, please provide the correct figures.
8. In the file “SPParcelPost Worksheets R2010-4.xls,” The Alaska Bypass Volume for the Hybrid year FY2009 Q3 – FY2010 Q2 is calculated to be 1,391,219 in the tab “Inputs” at cell c22. The Revenue for the hybrid year is calculated to be \$30,203,196 in the tab “New SPP Prices” at cell AA87. These values are used in the file “Package\_Services\_Worksheets\_R2010-4.xls,” which contains the calculation of the R2010-4 proposed price increase for Package Services. On July 28, 2010, the Postal Service filed Quarterly Billing Determinants for the Hybrid year. The following questions concern Alaska Bypass Volume and Revenue in the file “Parcel Post Hybrid BD Q309-Q210 R2010-4.xls.”
  - a. Please confirm that the Alaska Bypass Volume in file “Parcel Post Hybrid BD Q309-Q210 R2010-4.xls” tab “BD Total Q3FY09-Q2FY10” cell L87 is 1,482,963.
  - b. Please confirm the following Alaska Bypass Volumes match the volume listed in a text note at the bottom of each quarterly Billing Determinant page in the file “Parcel Post Hybrid BD Q309-Q210 R2010-4.xls.”

<b>Tab</b>	<b>Volume</b>
BD Q309	433,440
BD Q409	335,432
BD Q110	307,571
BD Q210	314,776
<b>Total</b>	<b>1,391,219</b>

- c. Please reconcile the discrepancy between the volume figures in "Parcel Post Hybrid BD Q309-Q210 R2010-4.xls" and the file "SPParcelPost Worksheets R2010-4.xls."
- d. Please Confirm that the Alaska Bypass Revenue in tab "BD Total Q3FY09-Q2FY10" cell L87 is \$27,931,604.
- e. Please confirm the following Alaska Bypass Revenues match the revenue listed in a text note at the bottom of each quarterly Billing Determinant page in the file "Parcel Post Hybrid BD Q309-Q210 R2010-4.xls."

<b>Tab</b>	<b>Revenue</b>
BD Q309	\$ 6,901,597
BD Q409	\$ 7,863,038
BD Q110	\$ 7,439,562
BD Q210	\$ 7,297,697
<b>Total</b>	<b>\$ 29,501,894</b>

- f. Please reconcile the discrepancy between the revenue figures in "Parcel Post Hybrid BD Q309-Q210 R2010-4.xls" and the file "SPParcelPost Worksheets R2010-4.xls."
9. Please provide the number of post offices (excluding stations and branches) that were supervised by an employee other than a permanently assigned postmaster as of the beginning of FY 2008, FY 2009 and FY 2010.
  10. Please: (a) explain how you have modeled the negative volume impact of the Internet and other electronic alternatives in the demand equation for First-Class

workshared letters; and (b) describe any differences in modeling the Internet impact on First-Class workshared letters between the July 1, 2010 periodic reports filings (Narrative Explanation of Econometric Demand Equations for Market Dominant Products as of November, 2009) and the Docket No. R2010-4 filing.

Ruth Y. Goldway  
Presiding Officer