

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2010-4

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO FOLLOW-UP QUESTIONS POSED BY PSA AND ANM/MPA
(August 13, 2010)

The United States Postal Service hereby provides its response to the follow-up question posed by the Parcel Shippers Association (PSA), and the follow-up question posed by the Alliance of Nonprofit Mailers and Magazine Publishers Association (ANM/MPA) in pleadings filed on August 11, 2010. During hearings on August 12, the Presiding Officer directed the Postal Service to provide available responses by August 13, 2010.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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August 13, 2010

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
FOLLOW-UP QUESTION OF PARCEL SHIPPERS ASSOCIATION**

Q. Please refer to your response to POIR No. 4, Question 3a, where it states that “[u]sing FY09 billing determinants instead of FY08 billing determinants, however, would suggest that the May 2009 price increase for NFM/Parcels was only about 3 percent, rather than 16 percent.”

(a) Please provide (in electronic format) all calculations underlying your estimate that the May 2009 price increase for NFM/Parcels was only about 3 percent when calculated using FY09 billing determinants

RESPONSE:

Please see the attached Excel file (PSA.FY09.BDs.xls), which was prepared by starting with the Prices-Public.xls file in USPS-R2010-4/8, removing all of the tabs except for Standard Mail, and then applying the FY09 billing determinants as the fixed weight price index used to calculate the percentage rate increase implemented in May 2009 for NFM/Parcels. The calculations for computing the May 2009 combined percent change in Parcels and NFM appear in the range BP789:BR874. The calculated percentage increase of 3.26 percent, based on FY09 billing determinants, is shown in cell BR874.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
FOLLOW-UP QUESTION OF ANM/MPA**

Q. [P]roduce (1) an electronic version of the spreadsheet used to estimate the \$115 billion gap (to allow testing of the sensitivity of the projected gap to input values, the spreadsheet should be fully linked from input values to outputs); and (2) a list of all assumptions used in developing the projection.

RESPONSE:

(1) Please see the Excel spreadsheet (ANM.MPA.McK.xls) attached to this response electronically. This spreadsheet, while not linked, incorporates the components of the \$238B gap assuming the status quo, and the \$115B gap remaining after postal management undertakes the initiatives within its discretion (but without assuming any legislative changes, regulatory changes, or changes resulting from labor negotiations). Both of these scenarios build from the independent work done by the Boston Consulting Group to develop longer range volume forecasts, based on consultations with industry experts and, more importantly, a wide range of mailers themselves.

(2) The analysis of independent consultants Boston Consulting Group (BCG) and McKinsey & Company projected that, without fundamental change, cumulative losses for the Postal Service could reach more than \$238 billion by 2020. That figure reflects the base case scenario, assuming no changes were made. To avoid this base case scenario from occurring, the Postal Service has developed an ambitious but achievable plan, taking steps allowed under current law to reduce the projected gap by \$123 billion. These savings would be unprecedented, even by the standards set over the last several years. But even if its plan was to succeed in every action that present legislation allows, the Postal Service would still face unsustainable losses of at least \$115 billion by 2020. This remaining gap can be closed, and the Postal Service can continue to fulfill its mission at no cost to American taxpayers, but only with additional flexibility that would have to come through legislative changes. Thus, the \$115 billion cumulative loss figure

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is the calculation of the gap that is still left after actions within management control are taken.

The assumptions used to develop the \$238 billion projected gap, the \$123 billion in cumulative savings of actions within management control, and the calculated remaining \$115 billion projected gap, are publicly available on the Postal Service's website at the following location: <http://www.usps.com/strategicplanning/futurepostalservice.htm>

Please see the following files at this location for assumptions. The assumptions include such items as forecasts of volume declines reducing economies of scale, growing fixed costs due to an increasing number of delivery points, and rising workers' compensation and health benefits costs.

Consultants' Analyses

- BCG March 2nd Presentation (pdf)
- BCG Presentation - Projecting US Mail volumes to 2020 (pdf)
- BCG Narrative – Projecting US Mail Volumes to 2020 (pdf)
- McKinsey March 2nd Presentation (pdf)
- McKinsey Presentation – USPS Future Business Model (pdf)

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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