

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. 5

(Issued August 18, 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 August 25, 2010.

1. Witness Masse reports the following mail volumes: 169.3 billion in FY 2010 and 174.3 billion in FY 2011. For the same periods, Boston Consulting Group reports 166.0 billion and 167 billion, respectively. Please explain the reasons for the differences and which estimates the Postal Service believes are more accurate.
2. In his statement, Witness Masse states (at 5) that the Postal Service eliminated 115 million workhours in FY 2009.
 - a. How many of those workhours were associated with unionized employees, supervisors, postmasters, and management?
 - b. How many of those hours were overtime hours?

3. On July 28, 2010, the Postal Service announced a freeze on hiring for all administrative positions. Does this include all administrative positions both in the field and at Headquarters?
 - a. How much does the Postal Service expect to save from this hiring freeze?
 - b. Have these savings, if any, been incorporated into the costs estimated for FY 2010, FY 2011BR, or FY 2011AR?

4. Has the Postal Service over the past 2 years asked any of the 4 major unions, representing the majority of Postal Service employees, to re-open contract negotiations for the current labor contracts to:
 - a. renegotiate the no layoff provisions of the contracts;
 - b. renegotiate workhours that restrict the number of part-time employees;
 - c. renegotiate the compensation levels of employees; and
 - d. negotiate the process of furloughs for unionized employees.

5. Has Postal Service management discussed the possibility of furloughs for non-union employees? If so, please elaborate.

6. Have any of the unions offered to open contract negotiations to address cost savings issues?

7. Over the period FY 2009 and through the third quarter of FY 2010, has the Postal Service conducted a Reduction in Force (RIF) on any group of non-union employees? If so, how many employees were involved?

8. Please explain why the reported unit costs of delivery for Periodicals Flats and Standard Mail Flats increase by 24 percent and 36 percent, respectively, between FY 2007 and FY 2009. (Sources: Unit Delivery Costs by Shape – Docket No. ACR2007, USPS-FY07-19 and Docket No. ACR2009, USPS-FY09-19).
9. In the period of FY 1999 through FY 2009 the unit cost of mail processing and delivery for Standard Mail Flats almost doubled while the consumer price index for the same period increased 29 percent. Additionally, the deployment of the AFSM-100 was completed and the amount of worksharing of Standard Mail Flats also increased. Assuming that all the above assumptions are true, what are the primary reasons for the significant increase in the unit cost of Standard Mail Flats during the period FY 1999 through FY 2009?
10. How much of the increase in unit costs for Periodicals and Standard Mail Flats has been caused by excess capacity in:
 - a. the delivery network; and
 - b. the mail processing network.
11. To the extent that prices are designed to send proper signals to the market to promote the efficient use of resources such as the decision whether to mail a letter-shaped or flat-shaped catalog, please discuss how the prices proposed for Standard Mail Flats send accurate price signals.
12. The following questions concern the PAEA.
 - a. In setting rates, was it your understanding that PAEA (e.g., 39 U.S.C. section 101(d) which states “[p]ostal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis”) required prices for each product to cover not only its

costs, but also make a fair and equitable contribution to institutional costs?

- b. If not, do you believe the PAEA allows the Postal Service to offer products that fail to recover their direct costs?
 - c. How do the rates you have proposed for Standard Mail Flats measure up to your understanding of this statutory mandate?
13. The Postal Service proposes to increase Standard Mail Flats prices by 5.1 percent. In his Statement, witness Kiefer states (at 30): "The Postal Service may have to adjust Standard Mail Flats prices at above average rates at some point, but now is not the time." Please indicate the maximum amount of time the Postal Service will allow Standard Mail Flats to continue to fail to recover their direct costs before imposing a price increase that likely would produce revenues to recover all of the attributable costs for this product.
14. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service, Appendix A.
 - a. Please provide quantitative support that the "Saturation and High Density Incentive Program" will provide financial benefits to the Postal Service.
 - b. Please demonstrate that these programs are essential to the Postal Service's exigent request.
15. On pages 44-46 of the Postal Service's Response to the Affordable Mail Alliance, it states that both UPS and FedEx have annually increased their published prices by approximately the same amount as the Postal Service's 5.6 percent overall increase in the exigent request (although these increases were generally accompanied by reductions in the fuel surcharge). Does this statement incorporate the impact of rate adjustments in their negotiated rates for the same time period?

16. The response to Presiding Officer's Information Request No. 3, Question 12, identifies 5 cost components of mailing a catalog. On average, what percent of catalog mailers' total operating costs (including, for example, fulfillment, overhead, and other) is for postage?
17. Is the financial health of the catalog industry more important than financial health of the Postal Service?
18. Separately for each program discussed in USPS-LR-R2010-4/9 (Flats Operational and Pricing Strategies), please identify each shape that is likely to have its attributable costs reduced.
19. The following questions concern the program "Eliminate Periodical and Standard Mail Flown":
 - a. What proportion of the Periodicals and Standard Mail flown on network air receives air transportation due to a minimum commitment (as filler for pre-contracted capacity that otherwise would not be utilized) and what proportion for service reasons?
 - b. For the Periodicals and Standard Mail Flats that receive air transportation as "filler," are the relevant products attributed cost on the basis of what surface transportation would have cost, or is transportation attributed to those filler products on the basis of air network costs?
20. The following questions concern the program "Transportation Utilization":
 - a. In the program "redesign Mail Transportation Equipment" the stated goal is to "maximize the cube utilization of the trailer." Please discuss how this program will minimize systemwide costs, including related labor costs.

- b. Please provide the research the Postal Service has performed analyzing the tradeoff between the labor intensive process of bed loading and the potential savings captured by maximizing cube utilization.

- 21. For each of the following programs listed in LR USPS-R2010-4/9, please explain in detail how the program will lower the attributable costs of Periodicals and Standard Mail Flats, and provide the FY 2009 attributable cost directly related to the program.
 - a. Refine Work Methods to Improve Business Mail Entry Unit (BMEU)/Plant Load Handoff to Mail Processing
 - b. Business Plan Staffing and Scheduling Review
 - c. Customer Service Unit Optimization
 - d. Facility Optimization

- 22. Please explain in detail how the program "Use IMb Data to Determine Letters Sorted as Flats" will lower the attributable cost of Periodicals and Standard Mail Flats, and provide the attributable cost of:
 - a. letters sorted on the AFSM; and
 - b. flats sorted on the AFSM.

- 23. The discussion provided for the program "Shifting distribution from Post Office Operations (Function 4) to Mail Processing Operations (Function 1)" implies that the Postal Service may be able to reduce mail processing costs by centralizing sorting at automation plants. The discussion states that automation equipment utilization can be optimized by having Function 1 absorb letter-sorting in Function 4. Should it read "flat-sorting" instead of "letter-sorting"?

24. In response to POIR No. 3, Question 23 b., which concerns a strategy titled “reduce mixed-states processing consolidation locations (L009)”, the Postal Service indicates that the FY 2009 cost of this operation was \$8.4 million, yet the projected savings are estimated at \$28 million per year. Please identify which of these numbers is erroneous, and provide the corrected number.

25. The discussion provided for the program “Shifting distribution from Post Office Operations (Function 4) to Mail Processing Operations (Function 1)” implies that the Postal Service may be able to reduce mail processing costs by centralizing sorting at automation plants.
 - a. In response to POIR No. 3, Question 23 a. v and vi, the Postal Service states that 67.2 percent of AFSM operational time was used for run time. Was the remaining 32.8 percent of operational time unused?
 - b. Does the Postal Service intend to minimize unused operational time of the AFSM by expanding the number of ZIP Codes where the incoming secondary sort is performed by the AFSM?

26. In response to POIR No. 3, Question 23 a. iv., the Postal Service states that 30 percent of mail was processed manually.
 - a. Is this estimate for flat-shaped mail exclusively?
 - b. Please provide the source and supporting calculation(s) for that estimate.

27. In response to POIR No. 3, Question 23 d. i., the Postal Service states that approximately 25.5 percent of mail was processed in Function 4 (Post Office Operations).
- a. Is this estimate for flat-shaped mail exclusively?
 - b. Please provide the source and supporting calculation(s) for that estimate.
 - c. Does the 25.5 percent estimate mean that 25.5 percent of flat-shaped mail receives an Incoming Secondary Sort at a DDU? If not, please estimate the percentage of flats that receives an Incoming Secondary Sort at a DDU.
28. If 30 percent of mail receives a manual sort at an SCF, please explain why only 25.5 percent of mail receives a manual incoming secondary sort in the DDU.
29. In his Statement, Kiefer states (at 52) that “[a] primary cost driver for Confirm is data storage that has largely been driven by the scans provided to Platinum service tier customers.” Please provide that percentage of the data storage costs incurred by the Platinum tier. Please provide supporting calculations.
30. Please refer to POIR No. 1, Questions 9 and 10 and POIR No. 2, Question 2, which revised the billing determinants and price change worksheets for many Special Services mail categories. Also, refer to the revised Statement of James M. Kiefer, August 10, 2010, which shows a revised average price increase for the Special Services class of 2.253 percent.
- a. Please provide a revised library reference USPS-R2010-4/5 that includes the revisions from POIR No. 1, Questions 9 and 10 and POIR No. 2, Question 2 and yields a 2.253 percent increase.
 - b. Please also show the price change calculations for Address Management Services that yield a 5.6 percent increase as indicated in Kiefer’s statement, Table 7: Special Services Price Adjustments, page 51.

31. At the public hearing on August 12, 2010, witness Kiefer stated that the percentage increase for the Platinum tier is 28 percent. His revised statement, however, indicates that the percentage increase for the Platinum tier is 25.6 percent. Please reconcile these different percentages.

32. During the hearing on August 11, 2010, witness Masse indicated more than once that the exigent rate increase would be necessary even if the Postal Service received relief from all of the Retiree Health Benefit Payments required under the Postal Accountability and Enhancement Act.

In Docket No. N2010-1, the Postal Service responded to interrogatory NALC/USPS-T2-2 redirected from witness Corbett. In that response, the Postal Service provided a document (NALC.T2.Q.2.McKinsey.Redacted.PDF) that showed the revenues, operating expenses, interest expense, and net incomes for each of the next 10 years as developed by its consultants in the development of the Service's March 2, 2010 Action Plan. These assumptions, used to develop both the Base Case of the Action Plan (which shows an accumulated deficit of \$238 billion over 10 years) and the case concerning the actions within management control (which shows an accumulated deficit of \$115 billion over 10 years), were shown in an Adobe PDF document provided as an attachment to the answer.

Additionally, in response to a question from the Alliance of Nonprofit Mailers (ANM) and the Magazine Publishers Association (MPA), the Postal Service provided the 10-year plans from the PDF document in an Excel spreadsheet. The spreadsheet provided no specific calculations and was predominately hard-coded numbers that corresponded to the data shown in the PDF document.¹ Please provide an electronic spreadsheet version used to estimate both the \$238 billion net loss and the \$115 billion net loss including all calculations used to estimate the volumes, revenues, operating costs, and net interest expense for each year of the 10-year period. The estimated revenues and volumes should be provided by class as shown at page 9 of the PDF attachment. The operating expenses should be in the same detail as the assumptions shown at page 3 of the PDF attachment.

Ruth Y. Goldway
Presiding Officer

¹ See Responses of United States Postal Service to Follow-Up Questions Posed by PSA and ANM/MPA, August 13, 2010, Excel Filename ANM.MPA.McK.XLS.