Postal Regulatory Commission
Submitted 9/3/2010 3:39:48 PM
Filing ID: 70110
Accepted 9/3/2010

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

Transferring Commercial Standard Mail Parcels to the Competitive Product List

Docket No. MC2010-36

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued September 3, 2010)

On August 27, 2010, the Parcel Shippers Association and Direct Marketing Association jointly filed a motion for issuance of an information request directed to the Postal Service.[1] In general, the questions appear reasonably calculated to obtain information that may assist the Commission in evaluating the Postal Service's Request in this docket. To clarify the basis of the Postal Service's Request filed August 16, 2010, the Commission requests the Postal Service to provide a written response to the following questions. Answers should be provided no later than September 13, 2010.

1. Page 2 of the Statement of Supporting Justification in Docket No. MC2010-36 (Statement) states, "[i]n fiscal year 2009, commercial Standard Mail Fulfillment Parcels and the other Standard Mail parcel categories had a collective cost coverage of 75.23 percent."

   a. Please provide the FY 2009, FY 2010, FY 2011 (At Current Rates), and FY 2011 (At R2010-4 Proposed Rates) cost coverage for commercial Standard Mail Fulfillment Parcels and provide all underlying calculations.

   b. Please reconcile, if different, the FY 2009 cost coverage provided in response to subpart a. of this question with the 109 percent cost coverage

[1] Parcel Shippers Association & Direct Marketing Association Motion for Issuance of Information Request, August 27, 2010.

for Standard Mail Parcels calculated in the attachment to witness Kiefer's response to POIR No. 3, question 7, in Docket No. R2010-4.

2. Page 5 of the Statement shows that the Postal Service's CY 2008 Share of Revenue for Parcels Under One Pound was 79.2 percent.

   a. Please provide the Postal Service's CY 2008 Share of Volume for Parcels Under One Pound.

   b. Please confirm that the 79.2 percent share of revenue is for ground parcels. If not, please provide the volume share and revenue share for Under One Pound ground parcels.

3. Please provide the Postal Service's CY 2008, FY 2009, and CY 2009 Shares of Revenue and Volume for the following categories of ground parcels and all underlying calculations.

   a. Under One Pound, Business-To-Consumer (B-to-C) Parcels;

   b. Under One Pound, B-to-C Parcels Delivered to Residential Addresses;

   c. Under One Pound, B-to-C Parcels Delivered to Rural Addresses;

   d. 1-to-2 Pound Parcels;

   e. 1-to-2 Pound, B-to-C Parcels;

   f. 1-to-2 Pound, B-to-C Parcels Delivered to Residential Addresses;

   g. 1-to-2 Pound, B-to-C Parcels Delivered to Rural Addresses;

   h. 2-to-5 Pounds;

l 2-to-5 Pound, B-to-C Parcels;

j. 2-to-5 Pound, B-to-C Parcels Delivered to Residential Addresses; and

k. 2-to-5 Pound, B-to-C Parcels Delivered to Rural Addresses.

4. Please provide the percentage of Standard Mail commercial Fulfillment Parcels that fall into each of the following categories and all underlying calculations.

a. B-to-C Parcels;

b. B-to-C Parcels Delivered to Residential Addresses; and

c. B-to-C Parcels Delivered to Rural Addresses.

5. Please confirm that, all else being equal, delivery costs for (a) the Postal Service and (b) the Postal Service's competitors comprise a higher percentage of total cost for lightweight parcels than for heavier parcels. If not confirmed, please explain fully.

6. Please confirm that due to its universal delivery network and mailbox monopoly, the Postal Service's marginal delivery cost, particularly for residential and rural addresses, is substantially less than that of its competitors. If not confirmed, please explain fully.

7. Page 6 of the Statement provides the Postal Service's FY 2009 Share of Revenue For All Air and Ground Parcels Up to 70 Pounds and states, "[t]his [information] provides a more realistic view of a parcel shipping marketplace where the Postal Service's products cover their costs."

a. Please provide the Postal Service's FY 2009 Share of Revenue and Volume For Ground Parcels Up to 70 Pounds.

b. Please provide all studies and analyses, whether formal or informal, performed by the Postal Service or on its behalf in support of the statement that "[t]his [information] provides a more realistic view of a [ground] parcel shipping marketplace where the Postal Service's products cover their costs."

c. Does the Postal Service believe that "[t]his [information] provides a more realistic view of a[n] [under one pound ground] parcel shipping marketplace where the Postal Service's products cover their costs[?]" If so, please provide all studies and analyses, whether formal or informal, performed by the Postal Service or on its behalf in support of this belief.

8. Page 11 of the Statement says, "[a]t least one large customer has informally expressed support for a transfer of commercial Standard Mail Fulfillment Parcels to the competitive product list because such a transfer would open up the possibility of the Postal Service entering into contract pricing for the product.… Currently, because of the segmented structure of the Postal Service's parcel offerings, customers cannot enter into contracts for complete shipping solutions."

a. Is it the Postal Service's belief that it currently cannot offer contract prices for under one-pound parcels?

b. If so, please explain fully all reasons for this belief and provide relevant citations to the Postal Accountability and Enhancement Act of 2006 and Commission rules.

c. Page 11 of the Statement says that customers' main concern with the transfer is that it will lead to price increases. This is tempered by the

assertion that nevertheless there was one customer who "has informally expressed support.…" Does this mean that only one customer supports the transfer, so far as you know?

9. Page 6 of the Statement says, "it is unlikely that the Postal Service can set the price of commercial Standard Mail Fulfillment Parcels substantially above costs or raise prices significantly without losing a significant level of business to other firms." Please provide all studies and analyses, whether formal or informal, performed by the Postal Service or on its behalf that support this statement.

10. Page 7 of the Statement says, "it is unlikely that the Postal Service can decrease the quality or output of commercial Standard Mail Fulfillment Parcels without risk of losing a significant level of business to other firms."

    a. Please provide all studies and analyses, whether formal or informal, performed by the Postal Service or on its behalf that support this statement.

    b. Given the substantial price advantage enjoyed by the Postal Service, even if the increases proposed in Docket No. R2010-4 are approved, how much debasement of service would be required to cause the Postal Service a loss of business? Please explain what evidence supports your answer.

11. The Postal Service's proposal does not include non-profit Standard Mail Fulfillment Parcels.

    a. Why are they excluded from the transfer to the competitive class?

    b. If the answer is that they are market dominant, please explain why they meet that definition and For Profit Fulfillment Parcels do not?

c. If the transfer is approved, please explain how prices for non-profit Standard Mail Fulfillment Parcels would be determined.

12. On page 4, the Statement claims that the Postal Service parcel products' structure complicates its ability to negotiate with certain customers. Can the Postal Service enter into a negotiated service agreement (NSA) that combines both market dominant parcels and competitive parcels? If not, why not?

13. On page 5, the Statement refers to the Postal Service's "dominance in the under one-pound category."

a. Is that not a concession that, at least at present, these parcels are market dominant?

b. Is it not the case that the Postal Service could convert any non-monopoly market dominant product into a competitive product through the simple device of very large rate increases?

14. Page 6 of the Statement avers that UPS and FedEx "need to have their under-one-pound parcels cover their costs." The cited footnote admits this statement presumes that they do not consider such parcels as "loss leaders." What evidence do you have to support this presumption?

15. On page 10, the Statement speaks of the "distortionary effect" of low Standard Parcel rates as causing failure "to structure profitable contracts with large shippers for lightweight parcels." Please provide concrete examples that demonstrate this failure.

16. Please refer to the tables entitled “UPS Standard Ground Rates for Customers Shipping 100+ Parcels/Week” and “FedEx Standard Ground Rates for Customers Shipping 100+ Parcels/Week” on page 5 of the Statement.

    a. Please identify the source of the rates in these tables. If the source is not publicly available, please provide all documents from which the Postal Service extracted these rates.

    b. Please list and identify the size of all surcharges that are included in the rates shown in these tables.

    c. Please list and identify the size of all potential surcharges to which under-one-pound ground parcels could be subject that are not included in the rates shown in these tables.

17. Please refer to the table entitled “Postal Service Commercial Standard Mail Fulfillment Parcel Rate” on page 5 of the Statement.

    a. In FY 2009, what percentage of Standard Mail machinable parcels were entered at the Origin-Entered, Mixed NDC Presort Rate? Please provide all underlying calculations in a Microsoft Excel spreadsheet.

    b. In FY 2009, what percentage of Standard Mail NFMs/Parcels were entered at the Origin-Entered, Mixed NDC Presort Rate? Please provide all underlying calculations in a Microsoft Excel spreadsheet.

c. Under the rates proposed in Docket No. R2010-4, what is the average postage for a Standard Mail commercial Fulfillment Parcel expected to be? Please provide all underlying calculations in a Microsoft Excel spreadsheet.

By the Chairman.

Ruth Y. Goldway