

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

RATE ADJUSTMENT DUE TO EXTRAORDINARY
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2010-4

FURTHER REVISED RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO FOLLOW-UP QUESTION POSED BY PSA -- ERRATA
(September 8, 2010)

On August 13, 2010, the Postal Service provided its response to a follow-up question posed by the Parcel Shippers Association (PSA) in a pleading filed on August 11, 2010. In footnote 12 of its initial comments filed on August 17, PSA identified apparent discrepancies in the analysis underlying the Postal Service's response. Upon review of PSA's comments, the Postal Service filed a revised response on August 27. On September 2, 2010, PSA filed reply comments in which it identified further potential shortcomings in the August 27 revisions. Specifically, in this instance, certain rate cells in both the existing and proposed rates were entered incorrectly into the spreadsheets. A revised response is attached, which completely replaces that filed on August 27.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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September 8, 2010

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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:

Subsequent review, based on concerns raised in footnote 12 of the initial comments of PSA filed on August 17, 2010, revealed that the 3 percent figure stated in the response to POIR No. 4, Question 3.a was not based on the correct set of prices implemented in May of 2009. When (what were thought to be) the correct set of prices implemented in May of 2009 (as well as the correct set of prices implemented in May of 2008) were inserted into the price index spreadsheets previously filed as part of USPS-R2010-4/8 and USPS-R2010-4/NP3 in connection with Mr. Masse’s Statement, there were a variety of consequences, which were reflected in the Postal Service’s revised response of August 27, 2010. Further subsequent review, based on additional concerns raised on page 4 of the PSA Reply Comments (September 2, 2010) confirmed the need for further revisions in the current and proposed prices upon which the spreadsheets were based.

The most recent revisions relate to rate elements of the FY 2009 billing determinants which no longer exist as a result of the Postal Service’s rate changes which took effect on May 11, 2009. For example, as of May 11, 2009, it is no longer possible for a Standard Regular irregular parcel to qualify for a 3-digit presort discount if it is not dropshipped to at least the BMC level. Prior to May 11, 2009, however, there was a unique rate associated with non-dropshipped Standard Regular 3-digit irregular

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parcels (\$0.761 for piece-rated parcels, which was higher than the price for DBMC-dropshipped 3-digit irregular parcels, \$0.728, and lower than the price for non-dropshipped ADC-presort irregular parcels, \$1.080). The price indices used in making volume and revenue forecasts in this case rely on FY 2009 billing determinants. Because some part of FY 2009 pre-dates the May 11, 2009, rate changes, there remain billing determinant volumes associated with these rate categories which were eliminated at that time (such as the aforementioned non-dropshipped Standard Regular 3-digit irregular parcels).

For the purposes of calculating price indices associated with the May, 2009 rate change as well as with the proposed Exigent rate increase, it was the intention of the Postal Service to assume that mail within these rate elements would pay the lowest rate possible assuming no additional worksharing on the part of such mailers. So, for example, it was assumed that mail which, prior to May, 2009, paid non-dropshipped Standard Regular 3-digit irregular parcel rates would continue to be non-dropshipped, thereby being forced to pay ADC-presort rates, which is the highest level of presortation for which the Postal Service offers presort discounts for non-dropshipped mail. The prices which were actually input into the spreadsheets, however, did not match these intentions. Correcting these prices changes the forecasted volumes and revenues, as well as other relationships.

For example, as shown in cell F135 of tab "May, 2009" in the attached Excel spreadsheet (Fur.Rev.PSA.Stnd.Parcels.Prices.xls), the actual magnitude of the May 2009 price increase for Standard Parcels/NFMs, when measured using FY09 billing determinants, was 15.6 percent, rather than 3 percent. But the changes also affect the

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volume and revenue forecasts results presented by Mr. Masse for this category in FY10, FY11BR, FY11AR (Jan), and FY11AR(Oct). Those revised volume and revenue forecasts are presented in another Excel spreadsheet (Fur.Rev.PSA.Stnd.Parcels.Vols.xls) attached electronically to this response. The corrected before-rates and after-rates price indices are also presented in that spreadsheet. Correcting the errors identified by the PSA reduces before-rates volume for FY 2011 by 938,000 pieces and increases FY 2011 before-rates revenue by \$1.832 million. After-rates volume (Jan. implementation) is reduced by 1.922 million pieces for FY 2011, with after-rates revenue increased by \$6.013 million.

Lastly, a third attached Excel spreadsheet (Further.Rev.PSA.Stnd.Parcels.Fin.xls) indicates the effects of these changes by showing what the Standard Parcels/NFM line would have looked like in the FY10, FY11BR, FY11AR(Jan), and FY11AR(Oct) Masse attachments (Attachments 9, 10, 11. and 12, respectively), if the original volume and revenue forecasts were replaced with those based on the correct previous prices for this category. For purposes of this exercise, the previous attributable costs per piece in the Masse attachments were multiplied by the new volumes in each scenario to generate the corresponding new levels of attributable costs, from which were then generated new estimates of cost coverage.

A hardcopy version of the Financials spreadsheet table appears as the last page of this response. Several elements of this table merit comment. First, the implicit change in revenue-per-piece from the FY09 CRA level of 93.1 cents to the new FY10 level of 98.8 cents is approximately 6.1 percent. (Recall that PSA initiated this discussion by noting that the corresponding implicit change in the original Masse

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attachments was only 1.5 percent.) In part, this figure (6.1 percent) is lower than the size of the May 09 increase measured using FY09 billing determinants (the 15.6 percent mentioned above) because the FY09 rev/pc in the FY09 CRA already reflected almost 5 months of the higher (May 09) prices. In part, the difference also reflects some level of mail mix changes. Additionally of note are the estimated cost coverages for the product. The before-rates cost coverages -- FY10, FY11BR -- go up, driven essentially by higher rev/pc, while the after-rates cost coverages -- FY11AR(Jan), FY11AR(Oct) -- go down relative to those filed with the Request, driven essentially by lower rev/pc.

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ATTACHMENT TO 9/8/10 REVISED POSTAL SERVICE RESPONSE TO PSA FOLLOW-UP QUESTION

STANDARD MAIL Not Flat-Machinables and Parcels										
		Revenue (in millions)	Volume (in millions)	Attributable Cost (in millions)	Volume Variable Cost (in millions)	Product Specific Cost (in millions)	Revenue \$ (per piece)	Attributable Cost \$ (per piece)	Contribution \$ (per piece)	Cost Coverage
Masse (as Revised, Aug. 6, 2010)										
FY10	27	\$625	662	\$804	\$804	\$0	\$0.945	\$1.215	-\$0.270	77.8%
FY11 BR	27	\$673	714	\$866	\$866	\$0	\$0.943	\$1.214	-\$0.270	77.7%
FY11 AR Jan Implementation	27	\$793	688	\$837	\$836	\$0	\$1.153	\$1.215	-\$0.063	94.9%
FY11 AR Oct. Implementation	27	\$833	678	\$824	\$824	\$0	\$1.230	\$1.216	\$0.014	101.1%
Masse With Corrected Previous Prices (1)										
FY10	27	\$646	657	\$798	\$798	\$0	\$0.984	\$1.215	-\$0.231	81.0%
FY11 BR	27	\$694	706	\$857	\$857	\$0	\$0.983	\$1.214	-\$0.231	81.0%
FY11 AR Jan Implementation	27	\$772	688	\$836	\$836	\$0	\$1.122	\$1.215	-\$0.093	92.3%
FY11 AR Oct. Implementation	27	\$797	681	\$828	\$828	\$0	\$1.171	\$1.216	-\$0.045	96.3%
Masse with All Prices Corrected (2)										
FY10	27	\$648	656	\$797	\$797	\$0	\$0.988	\$1.215	-\$0.227	81.3%
FY11 BR	27	\$696	705	\$856	\$856	\$0	\$0.987	\$1.214	-\$0.227	81.3%
FY11 AR Jan Implementation	27	\$778	686	\$834	\$834	\$0	\$1.134	\$1.215	-\$0.081	93.3%
FY11 AR Oct. Implementation	27	\$804	678	\$825	\$825	\$0	\$1.186	\$1.216	-\$0.030	97.5%

(1) Source: Rev.PSA.Stnd.Parcels.Vols.xls, filed 8/27/10
for Volumes and Revenues. New Att Costs derived by
multiplying new volumes by Att Cost/pc.

(2) Source: Fur.Rev.PSA.Stnd.Parcels.Vols.xls, filed 9/8/10
for Volumes and Revenues. New Att Costs derived by
multiplying new volumes by Att Cost/pc.

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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