

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

NOTICE OF RULEMAKING

Docket No. RM2010-9

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1  
(September 10, 2010)

Chairman's Information Request (CHIR) No. 1 was issued on August 13, 2010. The request sought answers no later than September 10, 2010. Attached are the Postal Service's responses to Questions 1 -8.

UNITED STATES POSTAL SERVICE

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September 10, 2010

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1. The following questions concern differences between methods used in the data collection reports filed in Docket Nos. R2009-3 and R2009-5.
  - a. Please confirm that applying the methodology used in each report to the input data of the other would not generate the same results.
  - b. If not confirmed, please demonstrate that the application of the methodology used in each report to the input data of the other report produces the same estimated effect on Postal Service contribution. Please also demonstrate that the convergent results are not a coincidence, and that applying each method to any given set of input data would consistently generate the same results.
  - c. If confirmed, please identify which of the methods the Postal Service believes produces the most reliable results. Please explain all reasons for that preference.
  - d. The Postal Service has stated that "the more appropriate way to proceed would be to allow the Postal Service to present its proposed methodology during the comment period."<sup>1</sup> Please identify what methodology (e.g., Docket Nos. R2009-3 or R2009-5) the Postal Service is proposing. Please explain all reasons for the preference.

**RESPONSE:**

- a. Since the methodology used in R2009-5 incorporates enhancements to that used in R2009-3, there should be no expectation that they would yield identical results, but the estimates they produce should be similar.
- b. Not applicable.
- c-d. The Postal Service believes that each method yielded useful estimates for the program to which it was applied. As noted in its initial comments, the Postal Service believes there is still room for substantial improvement over either the methodology used in R2009-3 or R2009-5. As we gain more experience with programs of this

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<sup>1</sup> Response of the United States Postal Service in Opposition to Motion of the Public Representative Requesting Adjustment to Procedural Schedule, June 18, 2010, at 2.

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type, and collect more data from them, the Postal Service plans to develop and refine this methodology and to explore others in order to understand the effects of this type of pricing on our customers. The Postal Service imagines this will be an ongoing, evolutionary process.

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2. Please refer to the “loyalty growth” analysis on page 3 of the Docket No. R2009-5 data collection report (filed July 26, 2010). The table shows the “average loyalty percentage” as calculated based on volume trends for winter (Jan—Mar), spring (Apr—June), and summer (July—Sept). In the spreadsheet containing individual mailer volumes (First-Class Mail Incentive—Order 299—20100504.xls), the individual tabs state in a footnote that “MSP volume data were collected for the following months: Oct—Dec. 2007, Sept. 2008—Jan. 2009, Sept. 2009—Jan. 2010.”
  - a. Please provide a revised spreadsheet with Mail Service Providers (MSP) volumes for each month, consistent with the data collection plan. See Docket No. R2009-5, Order No. 299, November 16, 2009, at 19. If the required data are not available, please explain.
  - b. MSP volumes are the only volumes reported for many mailers and make up the majority of the volume of many more mailers. Please explain the rationale for the assumption that mailer volume trends for periods that exclude MSP volumes can be meaningfully applied to the fall period, which includes MSP volumes. Please include an explanation of how trends were calculated for mailers with no non-MSP volumes as well as any adjustments made to the non-MSP volumes of mailers that also sent MSP volumes.
  - c. Please provide the spreadsheet containing the calculation of the figures presented in the “loyalty growth” table (Loyalty Analysis.xls).

**RESPONSE:**

- a. See the attached file “CHIR.1.Q2a.FCM.MSP.Vol.Comp.xls.”
- b. MSP volumes comprise mail owned by a variety of customers; this aggregation will tend to mask the true extent that the rate of volume growth or decline differs among mailers, and including them in the analysis would have yielded a biased estimate of the proportion of volume that belonged to customers whose growth differed significantly from the mean. Therefore, the Postal Service deemed that mail-owner-identifiable volumes were the best basis for evaluating the dispersion of growth

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rates. Although this data partially excludes some customer volume and totally excludes others, the Postal Service believes this data set gives the best estimate of the range of customer growth.

- c. See the attached file "CHIR.1.Q2c.Loy.Anal.xls."

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3. Please refer to the Docket No. R2009-5 data collection report, (filed July 26, 2010, revised July 29, 2010).
  - a. Please provide separately reported data for each company involved in an acquisition or merger during the data collection period on (i) a pre-acquisition or pre-merger basis, and (ii) for the combined company, on a post-acquisition or post-merger basis, with appropriate links between the sheets for each company involved in the acquisition or merger. See Docket No. R2009-5, Order No. 299, November 16, 2009, at 19.
  - b. Please provide a spreadsheet with a crosswalk linking the mailer's generic identification number to the identity of each mailer. The Postal Service may request that the spreadsheet be granted protective conditions. See Docket No. R2009-5, Order No. 299, November 16, 2009, at 19 n. 22.

**RESPONSE:**

Only one participating customer was involved in a merger or acquisition during the program reporting period; that customer participated as a discrete entity, and its volume was tracked and recorded separately from the volume of the other legacy company.

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4. Would different methodologies be appropriate for "loyalty growth" initiatives as compared to prospecting initiatives? If so, please elaborate.

**RESPONSE:**

It depends on the nature and definition of a "prospecting initiative." A program that, say, offers a discount on incremental prospecting pieces (however that is defined) can be thought of as a hard to verify, difficult to track, and expensive to administer volume growth program, and in theory, analyses similar to those used for the sale programs could be applied. A program with a different structure, such as a flat discount on all prospecting volume, might be dissimilar enough to require a conceptually different approach. In either case, however, it should be noted that, since there is no obvious way to reliably identify prospecting volume either directly or indirectly in the historical data, there may be practical limits on the approach used in any evaluation.

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5. The Postal Service's non-empirical proposal mentions the importance of customer growth rates outside of the incentive period to estimate leakage volume. To estimate additional contribution from the pricing incentive in Docket No. R2009-3, the Postal Service provided the following formula:

<u>Theoretical Spring Sale</u>		
1 Spring 2008 Volume	8,075,371,963	Actual Apr 08 - Jun 08 volume of 923 rebate eligible mailers
2 Spring 2009 Threshold	6,451,844,292	Aggregate Apr 09 - Jun 08 thresholds of these 923 mailers
3 Spring 2009 Volume	6,158,630,167	Actual Apr 09 -Jun 09 volumes of these 923 accounts
4 Loyalty Volume (Growth Above Threshold)	570,815,567	Total rebate eligible volume when Summer Sale 2009 rules are applied
5 As Percentage (high est)	7.07%	Row 4/ Row 1

The method is then applied to the 2009 Summer Volume (July-September) to estimate the volume resulting from growth before the implementation of Docket No. R2009-3, as follows:

<u>Actual Summer Sale Data</u>		
6 Summer 2009 (Jul-Sep) Volume	6,795,063,650	As reported in Docket No. R2009-3
7 Total October Adjustment	96,134,934	As reported in Docket No. R2009-3
8 Summer Sale Incremental Volume (as of Feb, 2010)	995,265,167	As reported in Docket No. R2009-3
9 Additional Incremental Volume from Accounts Still Being Processed	10,000,000	
10 Estimated Summer Sale Incremental Volume at End of Program	1,005,265,167	Estimated
11 incremental Volume Due to Loyalty	384,180,788	Line 6 * Line 5 - Line 7
12 Incremental Volume Due to New Growth	621,084,380	Line 10- Line 11
13 Percentage of Incremental Volume Due to New Growth	61.8%	Line 12/ Line 10

- a. Line 4, "Loyalty Volume," is calculated as an aggregate for all mailers participating in the Summer Sale.
  - i. How many mailers with "Loyalty Volume" did not receive a rebate?
  - ii. Of the 570,815,567 pieces in "Loyalty Volume" how much volume was sent by mailers that did not receive a rebate?
- b. Why does the volume growth of mailers that experience volume growth before the incentive period but not during the incentive period affect the amount of leakage volume?
- c. In line 11, why is the October Adjustment Volume (line 7) variable subtracted from the product of Summer Sale 2009 Volume and Loyalty Volume as a percentage of Spring 2009 Volume (Line 6 x Line 5)?

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- a. Since loyalty volume is defined for the purpose of these programs as the volume earning a rebate that would have been mailed even in the absence of the program, no mailers who did not earn a rebate had loyalty volume, and no volume that did not earn a rebate is considered loyalty volume.
- b. The volume growth estimate from the earlier period is used as a proxy to estimate the amount of volume growth above threshold that would have existed in the absence of the program. Total mail-owner-identified volume was used because there is no reason to expect individual mailers to consistently out- or under-perform the market over time, so the distribution of the total market is the best proxy to use.
- c. The October adjustment volume was ineligible for rebates, so does not count towards the loyalty volume estimate.

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6. The following table uses the same method as question 1, but only uses data from mailers that received rebates.

<u>Theoretical Spring Sale</u>			
1	Spring 2008 (Apr-Jun) Volume	4,382,104,164	Actual Apr 08-Jun 08 vol. of mailers w ith rebate
2	Loyalty Volume (Grow th Above Threshold)	413,118,365	
3	As Percentage (high est)	<b>9.43%</b>	Percent of volume that is "Loyalty"
<u>Actual Summer Sale Data</u>			
4	Summer 2009 (Jul-Sep) Volume	4,548,126,736	As reported in Docket No. R2009-3
5	Total October Adjustment	96,134,934	As reported in Docket No. R2009-3
6	Summer Sale Incremental Volume (as of Feb, 2010)	995,265,167	As reported in Docket No. R2009-3
7	Additional Incremental Volume from Accounts Still Being Processed	10,000,000	Estimated
8	Estimated Summer Sale Incremental Volume at End of Program	1,005,265,167	
9	Incremental Volume Due to Loyalty	428,769,972	Line 3 * Line 4
10	Incremental Volume Due to New Grow th	576,495,195	Line 8 - Line 9
11	Percentage of Incremental Volume Due to New Grow th	<b>57.3%</b>	Line 10 / Line 8

a. Please describe the advantages of the method proposed in Docket No. R2009-3, Pricing Incentive Program data collection report, using "loyalty growth" information from mailers that did not receive discounts.

b. This method does not include the "October Adjustment" volume in the calculation of "Incremental Volume Due to Loyalty." Please explain how the inclusion of that variable would improve the accuracy.

**RESPONSE:**

The premise of this question is incorrect. See the response to CHIR 1, question 5.

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7. The following table contains a Same Period Last Year (SPLY) analysis, similar to the method proposed for Docket No. R2010-3, using the Docket No. R2009-3 analysis.

<b>Theoretical Spring Sale</b>		
1 Spring 2008 (Apr-Jun) Volume	4,382,104,164	Actual Apr 08-Jun 08 vol. of mailers w ith rebate
2 Growth above SPLY	147,918,630	
3 As Percentage (high est)	<b>3.38%</b>	Percent of volume that is "Loyalty"
<b>Actual Summer Sale Data</b>		
4 Summer 2009 (Jul-Sep) Volume	4,548,126,736	As reported in Docket No. R2009-3
5 Summer 2008 (Jul-Sep) Volume	4,349,019,918	As reported in Docket No. R2009-3
6 Volume growth above SPLY	199,106,818	Line 4 - Line 5
7 Incremental Volume Due to Loyalty	153,522,749	Line 3 * Line 4
8 Incremental Volume Due to New Growth	45,584,069	Line 6 - Line 7
9 Percentage of Incremental Volume Due to New Growth	<b>21.8%</b>	Line 8 / (Line 6 + 10,000,000)
rebate vol	1,005,265,167	
line 9 x rebate vol	219,141,956	
elasticity incremental vol	217,493,471	

- a. The data contained in the file "Summer Sale 2 –Loyalty Analysis\_Redacted.xls" do not contain mailer identification for 33 mailers (such as "800072B") when compared to "PRC Report V1.xls." The above table does not include information on 33 mailers. Please provide a table with the above information for all mailers who earned rebates in Docket No. R2009-3.
- b. Please discuss the benefits of the Postal Service proposed methodology as compared to a method using growth over SPLY volumes.
- c. The "Percentage of Incremental Volume Due to New Growth" using this method is 21.8%. Assuming that the mailers who mailed less than SPLY volumes can attribute that same percentage (21.8%) of their incremental volumes above threshold, the estimate of incremental volume attributable to the discount closely matches the elasticity estimate yielded by the Commission's current methodology. Please discuss the benefits of this version of the Postal Service's proposed methodology as compared to the Commission's accepted methodology.

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a. See the attached Excel file "CHIR.1.Q7a.SS2.Loy.Anal.xls."

b-c. See the response to CHIR 1, question 5.

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8. In Docket Nos. R2009-3, R2009-4, R2009-5 and R2010-3, the Postal Service stated that Short-Run Attributable Costs were lower than the Long-Run Attributable Costs estimated in Docket No. ACR2009.
- a. Does the Postal Service believe that incremental mail from mailers eligible for these programs has lower attributable costs? If so, please provide all studies estimating this effect.
  - b. Does the Postal Service believe that this phenomenon will continue?
  - c. Has the Postal Service measured the effect of the decreased attributable cost of incremental pieces on the attributable costs of the products with volumes incentivized by these programs? If so, please provide all studies estimating this effect.

**RESPONSE:**

- a. The Postal Service believes it is possible that the incremental cost of processing and delivering new volume resulting from the incentive programs is lower than the average unit attributable cost, but has prepared no studies estimating this effect.
- b. Given that both the volume-generating effect of the program and the time period over which that effect is expected to occur are small relative to the overall size of the products, it seems likely that only minor adjustments to staffing plans and operations would be needed to accommodate the additional volume. To the extent that this continues to be true, then it stands to reason that the incremental operating cost of the program will also be small.
- c. The Postal Service has not measured this effect.