

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

COMPETITIVE PRODUCTS PRICE CHANGES
RATES OF GENERAL APPLICABILITY

Docket No. CP2011-26

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-2 OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(November 29, 2010)

Chairman's Information Request No. 1 was issued on November 22, 2010. Responses were requested by November 29, 2010. Attached are the Postal Service's responses to Questions 1-2. Each request is stated verbatim, and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1**

1. In response to Chairman's Information Request (CHIR) No. 1, Question 1(a) in Docket No. MC2009-19, the Postal Service provided FY 2008 revenue and cost data for Address Enhancement Services (AES). Please provide FY 2010 and FY 2009 revenue and cost data for AES, and explain how the proposed price increase satisfies 39 U.S.C. § 3633(a)(2).

RESPONSE:

The Postal Service is currently working on the Fiscal Year 2010 costs for Address Enhancement Services (AES) for the 2010 Annual Compliance Report. The costs will be submitted in that docket by December 29, 2010. The Postal Service does not have costs for Fiscal Year 2009.

The revenue for FY 2009 was \$1,495,192 and the revenue for FY 2010 was \$1,430,857. Increasing the price of these products will not have an impact on costs; therefore, a price increase will lead to higher cost coverage for these products.

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2. Please explain how the proposed price changes for (a) Greeting Cards, Stationery, and Related Items; and (b) Shipping and Mailing Supplies satisfy 39 U.S.C. 3633(a)(2).

RESPONSE:

Section 3633(a)(2) seeks to ensure that each competitive product covers its attributable costs. Ideally, of course, when setting prices, to satisfy this provision, one has an attributable cost estimate, and then only establishes prices in excess of such an estimate. In Docket No. MC2009-19, however, the Postal Service explained why a firm estimate of a critical component (retail or window clerk costs) of total attributable costs for these products is lacking. See Postal Service Response to Chairman's Information Request No. 1, Question 1, filed as part of USPS-MC2009-19/NP2 (May 29, 2009). As further explained in that response, the Postal Service thus used a placeholder retail cost (as well as industry-standard margins of retail prices over wholesale prices) when seeking at that time to ensure that prices would cover costs. When proposing an increase in the upper bound of the price range for these products in the instant proceeding, however, the Postal Service had no additional cost information beyond that provided in Docket No. MC2009-19. (The Postal Service, though, expects to be able to provide FY10 attributable cost estimates next month in the FY10 ACR.) The Postal Service believes that the MC2009-19 information still provides a sufficient foundation for concluding that section 3633(a)(2) will be satisfied. Moreover, increasing the price range of these products is intended to allow the Postal Service to add new product offerings that would have exceeded the present price range. If the Postal Service had any reason to believe that a new product would not cover costs, even at the upper end of the new higher price range requested, then the Postal Service simply would not offer the product.