

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 COMMISSION'S INFORMATION REQUEST NO. 1
(December 22, 2010)

Commission's Information Request (CIR) No. 1 was issued on November 24, 2010. The request sought answers no later than December 22, 2010. Attached are the Postal Service's responses to Questions 1 -3.

UNITED STATES POSTAL SERVICE

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December 22, 2010, 2010

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1. The data collection plan approved in Order No. 299 requested the Postal Service to provide volumes sent by participants through mail service providers (MSPs) for each month of the data collection period.¹ The response provided participants' volumes separately for each MSP used by the mail owner. See CHIR.1.Q2a.FCM.MSP.Vol.Comp.xls. It did not provide MSP volumes for the months missing from the original data collection report. The Postal Service later revised its response by providing an additional text file (PRC_FCM_Oct06_Sep10.txt) with over 700,000 lines of data, each of which contains monthly volumes spanning the data collection period. However, the numerical identifiers ("CUI_CUST_ID") used in the text file do not appear to correspond to the account codes used in other portions of the data report, and it is not clear whether each line represents a mail owner, an MSP, a permit, or some other entity. Please revise the spreadsheet "First-Class Mail Incentive-Order 299-20100504.xls" (filed with the data collection report on July 26, 2010) to include volumes sent by each participant through MSPs for each month of the data collection period (October 2006 through January 2010). The volumes should fill in the missing values in cells B10-AO10 on each sheet. If data are unavailable for any cell, please note that fact.

RESPONSE:

No additional data beyond those previously reported are available. In most cases, extracting, reporting, and reconciling MSP data for individual customers was (and still is) a highly labor-intensive manual process involving effort from and coordination between Postal Service personnel, MSP staff, and customer representatives. Because the time and effort required were so great, MSP data verification was limited to the base and performance periods of the sales. Data for other periods was not collected or verified.

¹ Docket No. R2009-5, Order Approving First-Class Mail Incentive Pricing Program, September 16, 2009 (Order No. 299).

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2. The Postal Service has made several statements in this case that raise questions about the quality and reliability of the data collected from volume incentive pricing initiatives to date, as well as suggesting doubt that any reliable estimates of the effects of pricing initiatives on its finances can possibly be developed. It has stated that the data have “technical flaws”² and “serious limitations.”³ In some instances, the Postal Service has suggested that it may be possible to develop a reliable method for estimating the financial effects of pricing incentive programs “with enough effort (and data)”⁴ and “through a great deal of research and data from the incentive programs themselves.”⁵ However, it also characterizes efforts to estimate the financial effects of the incentives as an “impossible task” and states that the answer “will never be known or testable,” even if the data problems are addressed. *Id.*
- a. Please describe the referenced problems with the currently available data that make them unsuitable for use in estimating the programs’ effect on Postal Service finances.
 - b. Please address the changes to currently available data (or reporting systems) and, if appropriate, future data collection efforts that would allow the development of reliable estimates, *e.g.*, describe the research or changes in the scope and method of data collection that would facilitate reliable estimates. Also, please describe any plans or steps the Postal Service has taken or contemplates taking to achieve this goal.

RESPONSE:

- a. There are two main problems with the data which exist that make them unsuitable for estimating the effects of the sale programs. The first is that the data are simply not complete. As explained in the data collection reports (and the response to question 1 of this CIR), not all of the data necessary to develop a complete customer-by-customer estimate, for either participants or non-participants, of

² See Initial Comments of the United States Postal Service Concerning Methods to Estimate Volume Changes Caused by Pricing Incentive Programs, July 16, 2010, at 9 (Postal Service Comments, July 16, 2010); see *also* Response of the United States Postal Service in Opposition to the Public Representative’s Motion for Issuance of Information Request and Adjustment to Procedural Schedule, August 3, 2010, at 2 (Postal Service Comments, August 3, 2010).

³ Response of the United States Postal Service in Opposition to the Public Representative’s Motion Requesting Technical Conference, September 17, 2010, at 2.

⁴ See Postal Service Comments, July 16, 2010, at 9.

⁵ Postal Service Comments, August 3, 2010, at 2.

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revenue, volume, or cost for all (or in some cases, any) of the time needed to perform an econometric analysis of the sales is available.

Even if the data were complete, however, there still is not enough information to develop a reliable estimate of the sales' effect. To date, there has been only one sale program for each of First-Class Mail and Standard Mail. Because of the complex environment that influences both of these mail streams, it is highly unlikely that a change that occurred at only one point in time can be reliably analyzed among all the other factors involved (that is, what amounts to a one-period dummy in a multivariate regression can't be expected to yield an effective predictor of a future instance).

- b. Overcoming the data shortfall mostly requires collecting more detailed information on whom MSPs are mailing on behalf of, and how much (that is, better by-for information). To some extent, required Intelligent Mail ("IM") data elements will help address this for MSPs and customers that use IM systems. Additionally, the Postal Service is developing tools that should allow customers to help identify and track their volumes, and information from those tools may help in developing a more complete picture of customer-by-customer volumes.

However, estimating the effects of sales (at least econometrically) will also require more experience with sales themselves. The more sales we have data for, the more likely we are to be able to tease apart the effects of a sale program from other factors affecting mail volume.

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3. In reporting on the results of the most recent incentive program, the Postal Service indicates that one participant was involved in a merger but that it had no affect on its discount, whereas the Public Representative states that "93 companies receiving a discount were involved in at least 571 mergers during the relevant discount period."⁶
 - a. Please discuss this discrepancy and resolve, if possible.
 - b. With respect to prior pricing incentive programs, please describe the protocol used by the Postal Service to identify and account for mergers and acquisitions by participants in pricing incentive programs. If they varied by program, please elaborate.

RESPONSE:

- a. The Postal Service does not know the source of the Public Representative's information, and so cannot comment on its accuracy or relevance. However, the Postal Service notes that an announced merger, or intent to merge, does not imply an immediate (or even near-term) combination of operations. For the purposes of incentive programs, the Postal Service is concerned only with mergers that actually became effective between (and including) the base period and the performance period.
- b. Generally, the Postal Service has relied on a combination of publically available information, the knowledge of sales and business mail entry staff, and information provided by involved companies themselves.

⁶ Public Representative Motion for Issuance of Information Request, October 20, 2010, at 2.