

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Postal Regulatory Commission
Submitted 2/2/2011 12:34:04 PM
Filing ID: 71750
Accepted 2/2/2011

DISCOVER NSA

Docket No. MC2011-19

DISCOVER NSA

Docket No. R2011-3

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S
INFORMATION REQUEST NO. 1**
(February 2, 2011)

Chairman's Information Request (CHIR) No. 1 was issued on January 27, 2011.
The request sought answers no later than February 2, 2011. Attached are the Postal
Service's responses to Questions 1 through 12.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product Support

Brandy Osimokun

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-2982, Fax -6187
Brandy.A.Osimokun@usps.gov
February 2, 2011

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

1. Please confirm that the revenue figure in Discover NSA.xlsx, tab: Value, cell: C39 excludes any sales rebates earned for the 12-month period preceding February 1, 2011 pursuant to Article II.B.1 of the contract. If not confirmed, please provide updated spreadsheets that reflect Article II.B.1 of the contract.

RESPONSE:

Confirmed.

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

2. 39 CFR 3010.42(c)(1) and (2) require the Postal Service to file estimated mailer specific costs, volumes, and revenues of the Postal Service absent and with implementation of the agreement, respectively. Additionally, if mailer-specific costs are not available, 39 CFR 3010.42(c)(4) requires the Postal Service to provide the source and derivation of the costs that are used as well as a discussion regarding the currency and reliability of those costs and their suitability as a proxy.
 - a. Please identify the locations in the Postal Service's filings where this information is provided. If such information has not been provided, please supplement the filing to provide the necessary information.
 - b. Please provide a narrative explaining the rationale for adjustments made to costs, volumes, and revenues absent and with implementation of the agreement. See Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: C92:F93; see also Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: C88:F90.

RESPONSE:

- a. The Postal Service used Fiscal Year 2010 system-wide average unit costs as a proxy for DFS' costs; these cost data are taken from USPS-FY-10-30 in the FY 2010 ACR, and reproduced in the "Unit Cost Inflation" tab of "Discover NSA.xls." These costs are inflated for each year of the contract using data from Global Insight's January 2011 macroeconomic forecast. DFS' historical volumes and revenues are taken from the Postal Service's Corporate Business Customer Information System (CBCIS), and are provided in the "Inflation and Vol Trend" tab of "Discover NSA.xls." Projections for each contract year are presented in the "Value" tab of the same workbook.
- b. The "adjustments" referred to are the Postal Service's projections of DFS' volumes in the absence of the agreement. These projections are based on management's expectations of DFS' growth, adjusted for our best estimate of the likely range of variability. See Notice of the United States Postal Service at 5.

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

3. 39 CFR 3010.42(c)(3) requires the Postal Service to file an analysis of the effects of the agreement on the contribution to institutional costs from mailers not party to the agreement. Please identify the location in the Postal Service's filings where this information is provided. If such information has not been provided, please supplement the filings to conform with these requirements.

RESPONSE:

The Postal Service expects no change to contribution from mailers not party to the agreement; thus, no analysis was provided.

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

4. Please explain how the data collection plan presented in Attachment D to the filing conforms with the requirements of 39 CFR 3010.43. If necessary, please revise the proposed data collection plan for the agreement.

RESPONSE:

39 CFR 3010.43 requires the Postal Service to provide “a plan for providing data or information on actual experience under the agreement sufficient to allow evaluation of whether the negotiated service agreement operates in compliance with 39 USC 3622(c)(10).” By providing actual volumes, revenues, rebates, and the calculations performed to determine those rebates, the Postal Service will have provided all the available data information to be used (along with system-wide unit cost estimates) to estimate a value for the agreement.

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

5. The Postal Service assumes specific price adjustments for First-Class Mail and Standard Mail in Attachment F. See Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: H74 and H75. Assuming higher than expected price adjustments in contract years 2 and 3, please provide:
- a. an analysis demonstrating when expected rebates paid will exceed expected additional contribution; and
 - b. a narrative explaining the Postal Service's plans to ensure that the agreement improves the net financial position of the Postal Service in accordance with 39 CFR 3010.40(a)(1).

RESPONSE:

- a. Assuming prices will consistently exceed expected inflation, average price increases of between 1.85 percent and 3.92 percent will cause expected rebates to exceed expected additional contribution. See attached workbook "Discover CHIR1 Q5.xls."
- b. At the current time, Postal management has no plans to consistently raise First-Class Mail presort letter prices or Standard Mail letter prices more than inflation. Nevertheless, the Postal Service will monitor performance of this NSA, and, should it be deemed necessary, will exercise its right to terminate the agreement.

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

6. In Docket No. R2011-2, rates for eligible First-Class Mail and Standard Mail, as defined in the agreement, receive above-average increases. Please explain why it is reasonable to assume average CPI-U increases for contract prices in the next two rate adjustments. See Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: H74 and H75.

RESPONSE:

At the current time, Postal management has no plans to consistently raise First-Class Mail presort letter prices or Standard Mail letter prices more than inflation. It is also possible that prices for these products may increase less than the rate of inflation; Postal management believes that an assumption that prices will rise close to the rate of inflation seems to be the most neutral approach.

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

7. The CPI figures calculated in Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: H74 and H75 use the 12-month averages of January through December of each year. Please confirm that these calculations should use the 12-month averages beginning in December and ending 12 months later in November. If not confirmed, please explain if the Postal Service intends to begin filing generally applicable notices of rate adjustment after the December CPI-U figure is released each year, which differs from the recent Docket No. R2011-2 notice of rate adjustment.

RESPONSE:

The CPI figures used in the DFS model are an assumption based on the balance of historical experience. The Postal Service has made no determination about the timing of future price change filings.

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

8. Article II.E. of the agreement sets forth the penalty that DFS will have to pay if it does not meet the revenue threshold set forth in Article II.B. For years 2 and 3 of the agreement, Article II.E. states that "the parties shall agree upon a penalty for DFS if DFS fails to reach the revenue threshold" for that respective year. Assuming the parties reach agreement, please explain the Postal Service's view whether the change requires the Postal Service to submit a notice of price adjustment to the Commission.

RESPONSE:

The Postal Service would be willing to submit such notice to the Commission.

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

9. The agreement is executed by the Postal Service and DFS, including its subsidiaries and affiliates. Please provide a list of all DFS's subsidiaries and affiliates.

RESPONSE:

At this time, DFS has no subsidiaries or affiliates.

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

10. Do the cost, revenue, and volume before- and after-rates data provided in the filing reflect all the subsidiaries and affiliates identified in question 9, above?

RESPONSE:

Not applicable.

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

11. In contract year 3, with a high volume estimate, the Postal Service estimates a negative net value to the Postal Service. See Discover NSA.xls, tab: Value, Cell: F57. For each contract year, please provide:
- a. a narrative explaining the likelihood of the net value being negative; and
 - b. an analysis demonstrating the volume level when expected rebates paid will exceed expected additional contribution.

RESPONSE:

- a. The Postal Service believes that the high-volume scenario represents the high end of the likely range of results for this NSA. This scenario embeds an average growth rate for DFS' Standard Mail of well over ten percent for the duration of the agreement, much higher than DFS' growth over any sustained period in the recent past. As a result, the Postal Service believes it unlikely that, in the absence of the agreement, DFS would achieve the even higher growth rates necessary to result in a negative net value to the Postal Service.
- b. DFS' Standard Mail volume would have to grow in excess of 12.8 percent per year over the life of the agreement for expected rebates to exceed expected additional contribution. See attached workbook "Discover CHIR1 Q11.xls"

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

12. Please refer to Docket No. ACR 2010 USPS-FY10-30, FY 10 NSA Unit Cost Detail Data Calculation.xlsx, tab: Letters. Please reconcile the figures in this tab with their respective counterparts in USPS-FY10-10 and USPS-FY10-42, Excel file ChIR.1.Q.1.USPS-FY10-10.ACR2010.xlsx. For example, in USPS-FY10-10 the unit mail processing for Automation Mixed AADC Letters is \$0.0874, and in USPS-FY10-30 it is \$0.0926. Please update all applicable workpapers in Docket Nos. ACR2010 and R2010-3.

RESPONSE:

See attached workbook "Discover NSA 2-2-11 update.xls." Changes to inputs are marked with a blue highlight. These changes have no impact on the expected value of the agreement.