

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Notice of Market-Dominant  
Price Adjustment

Docket No. R2013-1

COMMISSION INFORMATION REQUEST NO. 1

(Issued October 18, 2012)

To clarify the basis of the Postal Service's planned price adjustment for Standard Mail Flats, the Commission requests that the Postal Service provide written responses to the following questions. Answers should be provided as soon as possible, but no later than October 23, 2012.

1. Pursuant to the 2010 Annual Compliance Determination (ACD) (at 107), please provide:
  - a. An explanation of how the proposed prices for Standard Mail Flats will move the Flats cost coverage toward 100 percent.
  - b. A statement estimating the effect that the proposed prices will have in reducing the intra-class subsidy of the Flats product.
  - c. All workpapers and data used to respond to subparts a. and b.
2. The Postal Service states (Notice at 24-25):

[W]hen taking into account additional cost savings that will be realized from Network Rationalization, the Postal Service believes that the proposed price change sets Standard Mail Flats on a sustainable path toward 100 percent cost coverage. Indeed, the Postal Service estimates that Standard Mail Flats' cost coverage will modestly increase in FY 2012, and continue increasing in FY 2013.

- a. Please quantify the additional unit cost savings to the Standard Mail Flats product that will be realized in FY 2013 from Network Rationalization. Provide all supporting workpapers.
  - b. Please explain and quantify how Network Rationalization cost savings will reduce the intra-class cross subsidies present in Standard Mail in FY 2013.
  - c. Please provide the empirical bases, *e.g.*, supporting workpapers, for the Postal Service's assertion that Standard Mail Flats' cost coverage will modestly increase in FY 2012 and continue increasing in FY 2013.
  - d. Please explain whether the estimated "modest increase" is in addition to the improvement to 84.0 percent cost coverage estimated by the Postal Service in its 2011 ACD response to CHIR No. 1 Question 9(d).
3. Please refer to Standard Mail Contribution.xls to respond to the following requests. The Postal Service's Standard Mail Contribution model uses average annual growth rates from FY 2009 through FY 2011 to project volumes for a future hybrid year (quarter 4 of FY 2012 and quarters 1, 2, and 3 of FY 2013). It also uses proposed price adjustments to calculate future revenues.
  - a. Please provide projected estimates of unit attributable costs that correspond with the projected volumes and revenues. Explain all assumptions used to calculate these projected unit costs and provide all supporting workpapers.
  - b. Explain why it is appropriate to use growth rates from FY 2009 through FY 2011 rather than using the Postal Service's Demand

Analysis and Volume Forecast filed with the Commission on January 20, 2012.

- c. Please confirm that the growth rates used do not isolate the effect of the planned price changes on volumes. If confirmed, please explain why the Postal Service's approach did not isolate the effect of the planned price changes on volume. If not confirmed, please explain.
  - d. Please provide separate price elasticities for Standard Mail Letters and Standard Mail Flats, including all supporting workpapers.
4. Please see the three attached files: (a) Standard Mail Contribution Model\_PRC.xls; (b) vf2012-md-PRC.xlsx; and (c) Standard Contribution.docx.

<b>Scenario Assumptions</b>	<b>Change in Contribution (millions)</b>
1a: Flats Average Increase (2.570%); Letters Above Average Increase (2.772%)	\$346.5
1b: Flats Above Average Increase (4.570%); Letters Below Average Increase (2.229%)	\$352.3
Difference	\$(5.8)

- a. Please confirm that if the Postal Service's 2012 Demand Analysis is used to project future annual volume growth, assuming the proposed price adjustments went into effect the first quarter of FY 2012, the following changes in contribution can be expected for Standard Mail Letters and Flats in the future hybrid year (quarter 1 of FY 2012 and quarters 1, 2, and 3 of FY 2013).
- b. If not confirmed, explain and provide estimates in changes in contribution using the 2012 Demand Analysis.

5. The Postal Service states (Notice at 24):

[T]he Postal Service's pricing decision for Flats was also influenced by the need to manage the price gap between Standard 5-Digit automation flats and Carrier Route flats. Had the Postal Service given a larger price increase to Standard Mail Flats, it would have been forced to increase Carrier Route prices (which are already increasing by 3.133%) even further. To avoid such an increase, which would have negatively impacted Carrier Route volumes, the Postal Service allowed the gap between these two products to grow from 8.2 cents to 8.3 cents. However, it is not the Postal Service's intention to signal a widening gap in this area.

Please confirm that a worksharing relationship does not exist between Standard Mail 5-Digit automation Flats and Carrier Route Flats and that this is not a legal requirement.

6. The Postal Service plans to increase Standard Mail Letters by more than the class average and more than Standard Mail Flats.
- a. Please confirm that in FY 2011, the unit contribution for Standard Letters was 8.9 cents and for Standard Flats was -9.5 cents. If not confirmed, please explain.

- b. Please confirm that the planned prices for Standard Mail Flats and Standard Mail Letters in this proceeding (as opposed to planned prices that would give Standard Mail Flats a larger price increase than Standard Mail Letters) will exacerbate the unit contribution gap, between the two products in FY 2013. If not confirmed, please explain and provide all workpapers supporting your response.

By the Commission.

Ruth Ann Abrams  
Acting Secretary