Postal Regulatory Commission
Submitted 10/25/2013 4:05:19 PM
Filing ID: 88121
Accepted 10/25/2013

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

NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT	Docket No. R2013-10

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-3 AND 5-6 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

(October 25, 2013)

The Postal Service hereby files its responses to questions 1-3 and 5-6 of Chairman's Information Request No. 5, issued on October 22, 2013. Each question is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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

____
John F. Rosato

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-8597, FAX: -6187
John.F.Rosato@usps.gov

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-3 AND 5-6 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

1. The Postal Service justifies the following workshare discounts under 39 U.S.C § 3622(e)(2)(D):

First-Class Mail Discounts
(1) Mixed AADC Automation Cards;
(2) AADC Automation Cards; and
(3) ADC Automation Flats
Standard Mail Discounts
(4) Nonautomation ADC Nonmachinable Letters;
(5) Nonautomation 3-digit Nonmachinable Letters;
(6) Automation 5-digit Flats;
(7) Nonautomation 5-digit Flats; and
(8) NDC irregular Parcels.

In response to CHIR No. 2, question 1, the Postal Service claims that it did not align these passthroughs with avoided costs because of volatility of past estimates of avoided costs and the potential effects on mailer behavior arising from price increases. The Postal Service contends that additional price adjustments "could end up sending inconsistent and frequently changing price signals to mailers that could ultimately impact the efficient operations of the Postal Service."

The 39 U.S.C § 3622(e)(2)(D) exception applies where there is a reasonable claim of "unusual operational circumstances" that would cause a reduction of the discount to impede the efficient operation of the Postal Service. *See* Order No. 66 at 34-35; 2009 ACD at 72. Please identify the specific operation(s) the Postal Service believes would be impeded if each of the above discounts were aligned with avoided costs.

RESPONSE:

Were the Postal Service to reduce the above listed automation passthroughs (Mixed AADC Automation Cards; AADC Automation Cards; ADC Automation Flats; Automation 5-Digit Flats) to 100 percent, the discounts would be reduced by 27 percent, 23 percent, 11 percent, and 5 percent respectively. Since these discounts are designed to encourage mailers to enter pre-barcoded mail into the Postal network, the Postal

Service is concerned that such sudden reductions could encourage mailers to be less diligent in ensuring that their pieces are properly barcoded. Unexpected increases in non-barcoded mail would direct additional volumes to DIOSS machines for barcode application and sortation during an already narrow processing window. Any failures in barcoding would send additional mail to manual operations. This would have a cascading effect to other downstream automation operations (e.g., OSS, Reject Encoding Machine, etc.) and manual piece-sorting operations not only in terms of operation efficiency, but also service. Plants not adequately equipped with machines and staffing to handle additional non-barcoded volume could experience service disruptions in the short-term.

Similarly, were the Postal Service to reduce the above listed nonautomation passthroughs (Nonautomation ADC Nonmachinable Letters; Nonautomation 3-digit Nonmachinable Letters; Nonautomation 5-digit Flats; NDC irregular Parcels) to 100 percent, the discounts would be reduced by 14 percent, 13 percent, 22 percent, and 54 percent respectively. Since these discounts are designed to encourage mailers to enter more finely presorted mail into the Postal network, the Postal Service is concerned that such sudden reductions could reduce mailers' incentive to perform these presorting activities. Given that fewer processing plants now contain both originating and destinating operations (in response to declining non-presorted letter and card volumes), entry of non-presorted mail would require entry at origin facilities. This could result in additional allied operations, manual mail processing operations, and transportation costs when such mail is entered at a destinating facility and subsequently transported to a facility that houses originating operations.

2. [Standard Mail] The Postal Service cites the 3622(e)(2)(D) exception for (1) NDC Irregular Parcels; (2) NDC Marketing Parcels; and (3) SCF Marketing Parcels. Notice of United States Postal Service Notice of Market-Dominant Price Adjustment, October 11, 2013 at 49-51. The Postal Service notes the recent classification changes that have restructured the Parcel product have caused unit avoided costs to fluctuate. *Id.* In Docket No. R2013-1, the Postal Service stated that the Parcel mail processing avoided cost model was improved. *See id*. at 45.
   a. Please confirm that the Parcel product restructuring was complete as of January 22, 2012, when the Docket No. R2012-3 rates took effect. If not confirmed, please explain.
   b. Please explain when the Postal Service anticipates this model will produce accurate avoided cost estimates based on the new Parcel rate structure.
   c. Please identify the specific operations that would be impeded if the Postal Service aligned these discounts with reported avoided costs.

RESPONSE:

a) Confirmed

b) Cost avoidance estimates for any given mail type can fluctuate as price structures, postal operations, mail characteristics, cost methodologies, and other circumstances change over time. Fluctuating cost estimates are not necessarily inaccurate cost estimates. It is therefore not possible to provide a definitive moment when any future cost avoidance estimate will be "accurate," as one might choose to define that term. As circumstances change for a given mail type, the Postal Service attempts to modify the cost study supporting that mail type in a way that reflects the changed circumstances, given the most recent information and data that are available.

c) Were the Postal Service to align the discounts for NDC Irregular Parcels, NDC Marketing Parcels, and SCF Marketing Parcels with avoided costs, the discounts would decrease by 54 percent, 23 percent, and 8 percent respectively. The Postal Service is concerned that such sudden reductions could reduce mailers' incentive to perform these presorting activities. Since more than half of the Postal Service's 21 NDCs do not perform outgoing parcel distribution, less finely presorted parcels dropped at an NDC not performing outgoing distribution (Tier 1 NDC) would incur additional handling and transportation costs associated with moving them to a distribution site (Tier 2 NDC). With its current efforts to eliminate excess distribution and transportation capacity, the Postal Service believes that it would be counterproductive to create a need for capacity in facilities where it is not needed today.

3. [Standard Mail] In order to mitigate rate shock, the Postal Service identifies the exception claimed under 39 U.S.C. § 3622(e)(2)(B) as justification for the 5-digit nonmachinable letters passthrough exceeding 100 percent.
   a. Please explain how this exception applies to the discount. Provide qualitative description and/or quantitative analysis (*e.g.*, economic damage or disruption to business plans) to support use of this exception.
   b. Please provide a schedule for phasing out the amount of the discount above costs avoided.

RESPONSE:

a) Were the Postal Service to align the 5-digit Nonmachinable Letter discount with avoided costs, mailers would experience a price of up to 9 percent. This price adjustment would exceed the average price increase that this price category has received over the past several years. Though the Postal Service has not conducted a formal evaluation of the impact of reducing this passthrough to 100 percent on mailers' business plans, the Postal Service believes that the mailers would be better served by reducing this passthrough gradually.

b) As price increases must be approved by the Governors before postal management is authorized to implement them, the Postal Service is not in a position to provide a schedule at this time. However, the Postal Service reiterates its commitment to reducing the 5-digit Nonmachineable Letters passthrough to 100 percent in future price adjustments.

5. [Standard Mail] The avoided cost associated with automation mixed ADC letters is negative 0.3 cents. In the 2012 ACD the Commission requested that the Postal Service investigate this anomalous cost. 2012 ACD at 123. The Postal Service explains that it "continues to evaluate potential solutions to this issue." Notice at 46.
   a. Please explain what steps the Postal Service has taken to correct this anomalous avoided cost estimate.
   b. Please explain the rationale for increasing the discount from 0.8 cents to 1.1 cents for automation mixed ADC letters while a reliable avoided cost estimate is not available.

RESPONSE:

a. The Postal Service is still investigating the impact of the technological and operational changes that led to an increase in productivity of the ISS (barcoding) operation and a simultaneous decrease in the productivity of the BCS (sorting) operation. While an anomaly was not evident in Proposal 17's results (Docket No. RM2012-2), it became evident after inputs from them FY2012 ACR were applied to the approved cost models. With advances and enhancements to automation equipment, the distinct (and positive) cost differences between ISS and BCS operations have changed. To properly study and represent the mailflow in the cost models, the Postal Service plans to conduct field studies. The Postal Service will then aggregate and implement the data into the cost models and ensure that the results match operational realities.

b. If the discount had remained at 0.8 cents, Nonbarcoded Machinable and Nonbarcoded Nonmachinable letters would have received lower percentage increases than automation letters. Given the Postal Service's desire to encourage mailers to enter automation mailings, it was deemed unacceptable to allow nonautomation letters to receive lower percentage price increases than automation letters. Accordingly, the discount was increased to 1.1 cents.

6. For Collect on Delivery (COD), the Postal Service indicates that the Notice of nondelivery, Alteration of COD charges, and Designation of new addressee options will no longer be offered as part of COD. The *Federal Register* notice announcing the changes indicates that they were scheduled to take effect on July 28, 2013. 78 FR 41305 (July 10, 2013). Please:
   a. confirm that the changes were implemented prior to instituting the present docket;
   b. explain why the changes do not constitute a rate adjustment under the Commission's rules;
   c. explain what impact the changes have on the price cap for the Special Services class.

RESPONSE:

a. Confirmed.

b-c. Since the Notice of Nondelivery, Alternation of COD Charges, and Designation of New Addressee options are being eliminated, and there are no alternative Market-Dominant prices available, the Postal Service does not believe that these changes constitute a rate adjustment under the Commission's rules. For the same reasons, the Postal Service does not believe that these changes have any impact on the price cap calculation for the Special Services class. The Postal Service does, however, recognize that these changes should have been submitted to the Commission as mail classification changes. The Postal Service will work to ensure that similar changes are appropriately communicated to the Commission in future.