

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

Rate Adjustment Due to Extraordinary
or Exceptional Circumstances

Docket No. R2013-11

PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

(Issued November 6, 2013)

To clarify the Postal Service request for rate adjustments due to extraordinary or exceptional circumstances, filed September 26, 2013 (Request), the Postal Service is requested to provide written responses to the following questions. Answers should be provided no later than November 13, 2013.

1. In Order No. 864, the Commission stated "When quantifying the net adverse financial impact of non-exigent circumstances, the Postal Service must factor out the financial impact of non-exigent circumstances, such as the continuing effects of electronic diversion." Order No. 864 at 48.
 - a. Please identify and describe the "non-exigent circumstances" identified by the Postal Service in its filings.
 - b. Please explain how each of those non-exigent circumstances was "factored out."
2. On page 15 of the Statement of Stephen J. Nickerson on Behalf of the United States Postal Service, September 26, 2013 (witness Nickerson's Statement), he states: "All three forecast scenarios assume no price increase for Competitive Products. However, it is anticipated that a price increase for Competitive Products will also be effective on January 26, 2014. Actual price changes for Competitive Products will be decided by the USPS Board of Governors and

announced at a later date. Given that Competitive products' revenues are less than 20 percent of total revenues, any possible price increase on this population will not materially impact our liquidity or the analysis in this filing."

- a. Please place an upper bound on your definition of "not materially impact."
 - b. For each of the last three price changes of general applicability on competitive products (Docket Nos. CP2011-26, CP2012-2, and CP2013-3), please state (i) the overall average percentage increase in revenue, and (ii) the estimated total annual dollar increase in contribution.
 - c. If the "anticipated" price increase for competitive products is "decided by the USPS Board of Governors during the pendency of this case," please update all relevant Postal Service filings to take these competitive products price changes into account.
3. On page 16 of witness Nickerson's Statement, he states: "Historical and forecasted exogenous economic data were obtained from Global Insight's July 2013 baseline forecast. Historical and forecasted data for other exogenous variables... were obtained from RCF."
- a. Please identify and describe the historical and forecasted exogenous economic data obtained from Global Insight and used by the Postal Service in the current docket.
 - b. Please identify and describe each "other exogenous variables" obtained from RCF and used by the Postal Service in the current docket.
4. On page 5 of the Further Statement of Thomas E. Thress on Behalf of the United States Postal Service, September 26, 2013 (witness Thress's Statement), he states: "The impact of the Great Recession on mail volumes is the sum of the impact of those factors which are judged to be attributable to the Great Recession. This includes macro-economic variables, such as Employment,

Investment, and Retail Sales, as well as other factors which began to affect mail volumes over the time period associated with the Great Recession.”

- a. Please identify and describe each “factor[]” which the Postal Service “judged” to be attributable to the “Great Recession.” Please include in your descriptions both the macro-economic factors (except Employment, Investment and Retail Sales) as well as “other factors.”
- b. Please confirm that each of the above mentioned factors might affect mail volume independently of the Great Recession.
- c. If part b. is confirmed, please explain how your model differentiates the effects caused by the factors attributable to the Great Recession from those that are caused by the same factors, but could have occurred anyway due to other reasons. Please provide such explanation for each factor.
- d. If part b. is not confirmed, please explain why each factor identified and described in response to part a. was attributable to the Great Recession as opposed to some other cause. Please provide all data, studies, and analysis in support of your response.
- e. For each factor identified and described in response to part a., please provide the reasons why it was derived for use in the demand equation(s), or why it was rejected.
- f. Please confirm that at a certain point in the future, a particular factor “attributable to the Great Recession” (e.g., employment) will start having a positive impact on the economy and will no longer be a factor “attributable to Great Recession” anymore? If confirmed, please explain under what circumstances such point can be reached. If not confirmed, please explain why this is not possible.

5. On page 5 of witness Thress's Statement, he states: "The effect of the Great Recession, as I use the term here, refers to events which affected the U.S. economy which triggered temporary and permanent losses in mail volumes as well as significant downturns in long-run mail volume trends. These factors closely parallel the factors which caused the Great Recession as it affected the overall U.S. economy." Please identify and describe the factors used in your demand equations that "triggered temporary and permanent losses in mail volumes as well as significant downturns in long-run mail volume trends" that are different from "the factors which caused the Great Recession as it affected the overall U.S. economy." As part of your response, please explain how such factors were different. If these factors are almost identical, please confirm that.
6. On page 6 of witness Thress's Statement, he states: "For example, gross private domestic investment, the primary macro-economic variable in the Postal Service's demand equations for Standard Mail, peaked in 2006PQ2, seven full quarters before the initial downturn in the U.S. macro-economy, as identified by NBER. Because of this, the exigent factors that are generally explained (here and elsewhere) as being due to the Great Recession began to adversely affect mail volumes already in FY 2007."
 - a. Please identify and describe the exigent factors that are generally explained (here and elsewhere) as being due to the Great Recession.
 - b. Please confirm that for purposes of determining volume loss due to the recession, you assume that the recession begins at a point when recession-related variables included in the demand equations reached their peak values?
 - c. Please explain how and where the Postal Service identifies the beginning of the recession for purposes of determining the effects of the Great Recession on mail volume for each factor considered recession-related.

- d. In response to Presiding Officer’s Information Request (POIR) No. 3, question 6.c., you state that the Postal Service “compare[s] the impact of the Great Recession to a baseline that assumes zero macro-economic growth.” Should the Great Recession’s impact on mail volume for purposes of this docket be measured (i) from the effects of the initial downturn in the U.S. macro-economy, (ii) from the bottom of a typical recession, (iii) from a point in time where the economy is stagnant (not growing or contracting), or (iv) at some other point? As part of the response to this part, please explain your rationale for your choice. Please provide all analysis and/or previous studies on which you rely.
7. On page 6 of witness Thress’s Statement, he states: “Even more significant to the Postal Service, the Postal Service’s financial losses due to factors related to and triggered by the Great Recession continue to accrue even now....”
 - a. Please identify and describe all factors that (i) are related to the Great Recession and (ii) all factors that are triggered by the Great Recession as those terms are used in that section of your testimony.
 - b. Please explain what you mean by the terms “triggered by” and “related to” the Great Recession. If these terms and the corresponding factors are identical, please state that. If these terms and related factors are different, please explain the difference.
8. On page 7 of witness Thress’s Statement, he states: “Unlike after the 2001 recession, however, where Standard Mail volume returned to pre-recession growth rates, Standard Mail volume has had only one year of meaningful growth since the declared end of the Great Recession (FY 2011, when Standard Mail volume grew 2.6 percent) and Standard Mail volume in FY 2012 was 3.3 percent below its level two years earlier. The story is similar for First-Class Mail. From FY 2004 to FY 2006, First-Class Mail volume declined, but at a fairly modest average annual rate of only 0.3 percent. From FY 2010 to FY 2012, while

employment grew (albeit somewhat slowly), First-Class Mail volume declined at an average annual rate of 5.8 percent.”

- a. You state that Standard Mail “has had only one year of meaningful growth since the declared end of the Great Recession.” However, the Postal Service and your demand equations appear to attribute losses to the Great Recession after that year of meaningful growth. Please explain why the impact of the Great Recession on Standard Mail has not ended during (or directly after) the referenced year of meaningful growth.
 - b. What caused the meaningful growth in Standard Mail volumes in FY 2011?
 - c. Please confirm that Standard Mail volumes are subject to cyclical trends and that, given the growth in volumes in FY 2011, FY 2012 volumes reflect a cyclical trend. If not confirmed, please explain.
 - d. On page 7 of witness Thress’s Statement, he states: “if macro-economic conditions had not deteriorated between FY 2007 and FY 2012, and the *relationship between mail volume and macro-economic and other factors had remained the same as before the Great Recession*, total Market-Dominant mail volume would have been 53.5 billion pieces....” (emphasis added). Perhaps it’s already been asked, but the assumption that the relationship between mail volumes and macro and other factors remains the same would appear to be untenable. How does he take into account the cyclical effects of those factors on mail volumes?
9. Table Two of witness Thress’s statement includes a column entitled “Macro-Economy & Recession-Induced Factors.”
- a. Please confirm that all factors in this column provide the impact on mail volumes attributable to the Great Recession. If not confirmed, please explain.

- b. If applicable, please provide the revised Table Two dividing this “Macro-Economy & Recession Induced-Factors” into two: the “Macro-Economy Factors” segregated from the “Recession-Induced Factors.”
10. On page I-1 of witness Thress’s Statement, he refers to Sources-of-Change tables filed with his testimonies in Dockets Nos. R2005-1 and R2006-1. Witness Thress states: “These tables presented the percentage change in mail volume from one Fiscal Year to the next attributable to various factors which were identified in my testimonies.” Please provide a complete list of each of the “various factors” referred to on page I-1, lines 8-10 of your testimony that are no longer being used in your current statement. As part of your response, please explain and describe each such factor and why it is no longer being used.
11. On page I-2 of witness Thress’s Statement, he states: “I use a standard order in which explanatory variables are analyzed for all mail categories: population, macroeconomic variables, time trends, Internet variables, input prices, Postal prices (nominal), competitor prices, inflation, other econometric factors (e.g., dummy variables), seasonality, and ‘other’ unexplained factors.”
 - a. Please confirm that you provide the exhaustive list of “explanatory variables” in the Library Reference USPS-R2010-4R-9, DataDictionary.docx.
 - b. If not confirmed, please provide an exhaustive list of all explanatory variables (including a list of other econometric factors and other unexplained factors).
12. In witness Thress’s Statement and in prefaces to the library references he is sponsoring, there is a reference to three demand models and forecasting materials: (i) filed with the current docket in USPS-R2010-4R-10, (ii) filed in the original Docket No. R2010-4 in the Library Reference USPS-R2010-4-8 on July 6, 2010, and (iii) filed with the Commission on January 22, 2013.

- a. On page II-1 of witness Thress's Statement, he states: "For the other classes of mail, the equations used to construct Table Two were generally similar to the equations described in the Narrative Statement noted above, filed with the Commission on July 1, 2013." Please identify and describe all differences between that those equations used in this case and those identified and described in the "Narrative Statement" that was "filed with the Commission on July 1, 2013." Please explain the reasons for the described changes.
 - b. Please explain the differences in datasets used to estimate demand equations in the current docket and in the two other referenced demand models (filed with the Commission in January 22, 2013 and filed in the original R2010-4 Docket on July 6, 2010).
 - c. Please identify and describe all methodological differences between the demand model filed in the current docket and the original model filed in Docket No. R2010-4.
13. On page II-3 of witness Thress's Statement, he states: "The most critical factor affecting First-Class single-piece mail volume over at least the past ten years has been the loss of this volume to electronic alternatives. The diversion of First-Class single-piece mail to the Internet and other electronic alternatives is modeled through the inclusion of linear trends starting at three distinct time periods: 1993Q4, 2002Q4, and 2007Q4. The starting dates of these trends are chosen to coincide with periods when the rate of diversion appeared to accelerate for First-Class single-piece mail volume."
 - a. Is it a meaningful pattern or just a coincidence that all three trends started during the same quarter? Please explain the rationale for your response.
 - b. What caused the change in trend in 1993Q4? Was it attributable to a recession?

- c. What caused the change in trend in 2002Q4? Was it attributable to a recession?
 - d. Given the causes identified in your responses to parts b. and c., is it possible that the change in trend in 2007Q4 was not entirely due to the Great Recession? Please explain the rationale for your response.
14. Please update the “Source of Change by Year” analysis in Library Reference USPS-R2010-4R/10, ExigentImpact.xls, tab “Volumes,” to include FY 2013 and FY 2014 before-rates volume projections.
15. This question refers to Library Reference USPS-LR-R2010-4R/8, FY2014BR.CompSumRpt.BR—Final.xls, “ComponentSummary”, Rows 234 and 248.
- a. Please identify the major factors that resulted in “Miscellaneous Support” costs increasing from \$20.281 million in FY 2013 to \$320.281 million in FY 2014 (Before Rates).
 - b. Please identify the major factors that resulted in “Workers Compensation” costs increasing from \$421.134 million in FY 2012 to \$2,093.817 million in FY 2014 (Before Rates).
 - c. For each major factor identified in response to parts a. and b., please identify the dollar amount of costs that the Postal Service has attributed to that factor in FY 2014, and provide all data and analyses on which the Postal Service relies.
16. On pages 9-10 of the Request, it states: “Mr. Thress’s statement documents a source-of-change analysis that decomposes the volume losses of the last five years into those stemming from the recession and those stemming from other factors. Mr. Thress concludes that, *in FY2012 alone*, the amount of lost volume attributable to the recession was approximately 53.546 billion pieces.” (emphasis added). Similarly, on page 11 of the Request, it states: “The table above shows

that, but for the recession, the Postal Service would have processed approximately 54 billion more mail pieces *in FY2012 alone*, resulting in approximately \$16.9 billion in additional revenue and \$6.7 billion in additional contribution for that year.” (emphasis added). However, Table 2 on page 10 appears to attribute those figures to the cumulative years of “FY2008 through FY2012.” Please reconcile Table 2 with the statements in the Request.

17. On page II-6 of witness Thress’s Statement, he states: “Prior to 2002, there was very little, if any, apparent Internet diversion of First-Class workshared mail (or, to the extent such diversion existed, its presence was offset by other factors). The rate of diversion actually attenuated somewhat starting 2004, but more recently, negative economic conditions have acted as a trigger for increased diversion.”
 - a. Please confirm that you are attributing all of the increased diversion to the more recent negative economic conditions. If not confirmed, please explain.
 - b. Is it possible that the increasing rate of diversion could be due to factors in addition to, or in lieu of, the more recent negative economic conditions. Please explain the rationale for your response.
18. Please refer to witness Thress’s Statement.
 - a. On page II-5 of witness Thress’s Statement, he uses the term “Private Employment.” Please define this term and provide the source for the data.
 - b. On page II-8 of witness Thress’s Statement, he uses the term “gross private domestic investment (INVR) per adult.” See *also* witness Thress’s Statement at II-12. Please define this term and provide the source for the data.
19. On page II-8 of witness Thress’s Statement, he states: “The second Intervention variable is included in recognition of the fact that the most recent recession hit advertising expenditures, and, hence, Standard mail volume, much harder than

would have been expected, even given the decline that occurred in private investment. To capture this effect econometrically, an Intervention variable was added to the Standard Regular demand equation that starts in 2008Q2.” Is it possible that Standard Mail volume was hit much harder than would have been expected, even given the decline that occurred in private investment because it was due to factors other than the Great Recession? Please explain the rationale for your response.

20. On page II-9 of witness Thress’s Statement, he states: “The second trend, which starts in 2007Q1, has a negative coefficient which perfectly offsets the positive long-run trend, reflecting a change in direct-mail’s role within the advertising marketplace which began with the recent downturn in the overall advertising market.”
 - a. Is it fair to say that the change in direct-mail’s role within the advertising marketplace is entirely due to the Great Recession? Please explain the rationale for your response.
 - b. Is it fair to say that the recent downturn in the overall advertising market is entirely due to the Great Recession? Please explain the rationale for your response.
21. On page II-14 of witness Thress’s Statement, he states: “The Standard Nonprofit mail equation includes a full-sample linear time trend, TREND and a second time trend starting in 2011Q2.” Please explain why you included the second time trend starting in 2011Q2 as attributable to the Great Recession.
22. On page II-15 of witness Thress’s Statement, he states: “A second Intervention variable is included in the Standard Nonprofit equation starting in 2009Q2 to capture the extraordinary impact of the ‘Great Recession’ on Standard Nonprofit mail volumes. This Intervention variable follows the same specification as the

1997Q1 Intervention variable, except that the long-run step value, ω_2 , is set equal to zero.”

- a. Please explain why you included this non-linear intervention variable starting in 2009Q2 (page II-16) as attributable to the Great Recession.
 - b. What was the cause of the 1997Q1 intervention variable that essentially follows the same specification as the non-linear intervention variable starting in 2009Q2?
23. This question refers to Table 5.1 U.S. Advertising Spending Growth by Medium, 2010-2012 (Percent Growth from Prior Year) on page 39 of the FY 2012 Household Diary Study.
- a. Please state in dollars the U.S. annual advertising spending by medium underlying this chart.
 - b. Please provide annual advertising spending by medium in the same format as your response to part a. for 2007, 2008, and 2009.
24. Please refer to witness Thress’s response to POIR No. 1, question 9 which discusses the Postal Service’s belief that the Great Recession had a significant impact on long-run macro-economic trend.
- a. Please explain, in particular, why the Postal Service believes that the trend component of employment is to be included in the First-Class single-piece letters, cards, and flat demand equation **and attributed to the Great Recession**. See witness Thress’s Statement at II-2.
 - b. Please explain why the Postal Service included the trend component of “Investment” as a separate explanatory variable into the Standard Nonprofit equation **and attributed to the Great Recession**. See witness Thress’s Statement at II-14.

25. In the response of witness Thress to POIR No.3, question 1, he states: “The Great Recession dramatically altered the behavior of consumers, businesses, and governments within the United States and around the world. One effect of these changes may well have been an increase in the diversion of some mail to the Internet and other electronic alternatives. To the extent that such increased diversion was a reaction to the Great Recession, it is certainly reasonable and appropriate to attribute such volume losses to the Great Recession.”
- a. Is it the Postal Service’s position that there would have been no increase in the rate of diversion if the Great Recession has not occurred? Please explain the rationale underlying your response.
 - b. If the increased electronic diversion could have happened without the Great Recession, how do you account for this in your demand equations?
26. Please refer to the Statement of Altaf Taufique on Behalf of the United States Postal Service, September 26, 2013 (witness Taufique’s Statement), Appendix A at 15, which shows the workshare discounts and benchmarks for Media Mail and Library Mail.
- a. Please confirm that for both Media Mail and Library Mail, the avoided costs of Basic and 5-Digit are transposed.
 - b. If part a. is confirmed, please provide a revised version of the table, and a revised discussion of the worksharing passthroughs for this product, including justifications for setting the discount for Basic presort in excess of avoided costs, and for setting the discount for 5-Digit presort substantially below the avoided costs. See 39 C.F.R. § 3010.12(b)(6).
 - c. If part a. is not confirmed, please provide a source for the Basic and 5-Digit avoided costs estimates and reconcile those estimates with FY 2012 ACD, Table VII-25 at 131.

27. Please provide Excel files to support the schedule of workshare discounts and avoided costs provided in Appendix A to witness Taufique's Statement.

Ruth Y. Goldway
Presiding Officer