

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2013-11

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-4 OF PRESIDING OFFICER'S
INFORMATION REQUEST NO. 13**
(June 6, 2014)

The United States Postal Service hereby provides its responses to Questions 1-4 of Presiding Officer's Information Request No. 13, dated May 30, 2014. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Eric P. Koetting
John F. Rosato
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
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1. Please refer to Excel file "ExigSrchgRevFCM(2Q14).xls", tab "Outstanding [sic] Forever Stamp Adj.". The Postal Service calculates an adjustment (PIHOP Adjustment) to the amount of surcharge revenue accrued through FY 2014, Quarter 2, to account for Forever stamps purchased before January 26, 2014 that the Postal Service estimates will be used during the period the exigent surcharge is in effect.

a. Please provide workpapers showing the derivation of the estimate of the number of Forever stamps purchased before January 26, 2014, and not yet used.

b. Please confirm that although the PIHOP Adjustment was applied to First-Class single-piece letters, it is intended to reflect all Forever stamps purchased before January 26, 2014 that the Postal Service expects to be used during the period the exigent surcharge is in effect.

c. Please confirm that some Forever stamps purchased during the period the exigent surcharge is in effect will be used after the surcharge is no longer in effect. If not confirmed, please explain.

d. If your response to part c. is confirmed, please provide an estimate of the number of Forever stamps that will be purchased during the period the exigent surcharge is in effect that are expected to be used after the surcharge is no longer in effect. Please provide workpapers detailing the derivation of this estimate and how this effect is incorporated into the Postal Service's calculation of the surcharge revenues.

e. Please confirm that the Postal Service tracks the number of Forever stamps sold at each price level. If confirmed, please describe the source or sources of this data.

RESPONSE:

a. Please see the spreadsheet POIR.13.Q.1.PIHOP.xls, attached to this response electronically.

b. Partially confirmed. As shown on the first tab of POIR.13.Q.1.PIHOP.xls, excluded from the calculation of the adjustment was revenue from Global Stamps, Forever Envelopes, and Forever Stamped Cards. Otherwise, the calculation was based on the simplifying assumption stated.

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- c. Yes, it is likely that some Forever stamps purchased during the period the exigent surcharge is in effect will be used after the surcharge is no longer in effect.
- d. The Postal Service has no established basis upon which to make such an estimate, because there has been no experience since Forever stamps were introduced under circumstances in which the price of the stamp actually decreased. In all previous instances, the price of the stamp has increased, giving mailers an incentive to “stock up” on Forever stamps before the rate change. The relatively large 3-cent increase in January would only have strengthened that incentive. In contrast, the prospect of a price *decrease* would give mailers an incentive to buy the absolute minimum number of stamps they might need before any such rate decrease were implemented. Therefore, while no doubt mailers would be unable to control their stamp inventory to perfection, relative to the amount of Forever stamps normally purchased ahead of a stamp price increase, it seems reasonable to expect that after any rate decrease were announced, purchases would decline as mailers instead tried to use their existing stock. Consequently, fewer stamps purchased at the surcharge price would be carried over to be used after the expiration of the surcharge. Given the possibility of such circumstances, no attempt was made to incorporate any such effects into calculation of the surcharge revenue.
- e. Not confirmed. If the Postal Service explicitly tracked the number of stamps sold, rather than generally focusing on the associated revenue, that information would have been used in the estimation methodology shown in

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POIR.13.Q.1.PIHOP.xls to derive the number of stamps upon which the
adjustment is based.

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2. Please refer to Excel file "ExigSrchgRevFCM(2Q14).xls", tabs "Split Quarter" and "Presort". Please confirm that the volumes for Move Update Assessment in workbook tab "Split Quarter", Cells F24 and G24 are not in thousands and therefore workbook tab "Presort", Cell D38 should be 48.292 instead of 48,292. If confirmed, please provide revised workpapers. If not confirmed, please explain.

RESPONSE:

Confirmed. Please see POIR13.FCM.xls, filed with the responses to this POIR.

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3. Please refer to Excel file "ExigSrchgRevSTM(2Q14).xlsx", tabs "HD-Sat-CR Revenue@CPI Prices" and "HD-Sat-CR Revenue@Exig. Prices". These tabs show the exigent surcharge revenue calculations for the High Density, Saturation, and Carrier Route mail. It appears that these tabs do not include revenue calculations for some DFSS Scheme price categories. See Column S in both tabs.

a. Please explain why some DFSS price categories were excluded from the exigent surcharge revenue calculations for High Density, Saturation, and Carrier Route mail.

b. Please file revised Standard Mail workpapers that include all DFSS Scheme price categories in the exigent surcharge revenue calculations for High Density, Saturation, and Carrier Route mail.

RESPONSE:

a. These DFSS price categories were inadvertently omitted from the calculations.

b. Please see POIR13.SM.xls, filed with the responses to this POIR.

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4. The following question refers to First-Class Mail and Standard Mail's exigent surcharge revenue workpapers. See Excel files "ExigSrchgRevFCM(2Q14).xls", tab "Branded Color Mobile Tech Prom" and "ExigSrchgRevSTM(2Q14).xlsx", tab "Branded Color Mobile Tech Prom". For the Branded Color Mobile Technology Promotion, the Postal Service's approach is to calculate the total surcharge revenue before accounting for the promotion's discounts, then to subtract the portion of the total value of these discounts related to the exigent rate increase. The Postal Service refers to the resulting amount as the Branded Color Mobile Technology Promotion adjustment. The Postal Service estimates this adjustment using the following formula:

$$\text{AdjustmentUSPS} = DE * \text{Exigent Percentage Change In Rates},$$

where DE = the total value of the discounts provided under the exigent rates.

Please answer the following:

a. Please confirm that the following formula is a more accurate estimate of the promotion's exigent surcharge revenue adjustment (the derivation of this formula is shown in Attachment A to POIR No. 13, question 4):

$$(1) \quad \text{Adjustmentalt} = DE - \frac{DE}{1+E\%}$$

(2) Where $E\%$ = Exigent Percent Change in Rates

If not confirmed, please explain.

b. Please file revised First-Class Mail and Standard Mail exigent surcharge revenue workpapers that use the formula discussed in part a. of this question to calculate the additional discount value due to exigent rates. Attachment B to POIR No. 13, question 4 shows a hypothetical example of this calculation.

RESPONSE:

a. Confirmed

b. Please see POIR13.FCM.xls and POIR13.SM.xls, filed with the responses to this POIR.