

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

Notice of Market-Dominant  
Price Adjustment

Docket No. R2015-4

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued January 23, 2015)

To clarify the issues raised by the Postal Service's Notice of Market-Dominant Price Adjustment in Docket No. R2015-4,<sup>1</sup> the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than January 30, 2015.

**Periodicals**

1. The Periodicals Mailer Database contains billing determinant data for each publication for the fiscal year.
  - a. Please provide the FY 2014 Periodicals Mailer Database.
  - b. What is the average price increase for all Periodicals mailers, assuming mailers do not adjust mail preparation and entry levels?
  - c. Please detail how the new Flats Sequencing System (FSS) pricing and mail preparation rules impact mailers that entered 30 percent or more of their FY 2014 volume at Carrier Route prices.

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<sup>1</sup> United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015 (Notice).

## **FSS Prices**

2. On page 53 of the Notice, the Postal Service states that one proposed change to the Mail Classification Schedule (MCS) is to “eliminate some price cells and add some new price cells, to reflect the new price structure for flat-shaped pieces prepared for and entered at FSS locations, in Standard Mail High Density and Saturation Flats/Parcels, Carrier Route, and Flats, and in Periodicals Outside County and Bound Printed Matter Flats.”
  - a. Currently, mailers are allowed to pay Carrier Route prices for mail presorted for the FSS in FSS scheme or pallet bundles. Please confirm that with the implementation of the proposed prices, mailers that enter FSS presorted pieces will be required to pay FSS prices. If not confirmed, please explain.
  - b. Please confirm that, for mail destinating in FSS zones, mailers will not be allowed to enter mail at prices lower than FSS prices, such as Carrier Route, High Density, or Saturation prices. If not confirmed, please explain.

## **Billing Determinants**

3. 39 C.F.R. § 3010.23(d) states “The Postal Service shall make reasonable adjustments to the billing determinants to account for the effects of classification changes such as the introduction, deletion, or redefinition of rate cells.... The Postal Service shall identify and explain all adjustments. All information and calculations relied upon to develop the adjustments shall be provided together with an explanation of why the adjustments are appropriate.”
  - a. On pages 28 and 29 of the Notice, the Postal Service discusses adjustments to the Periodicals billing determinants.
    - i. The Postal Service states that the “[a]djustment for FSS Full year Volume is estimated based on the Quarter 3 and Quarter 4 Volume. The Adjustment is made for all FSS mail categories.” Notice at 28. Please identify the calculations used to make this

- adjustment. If the calculations have not been provided in this docket, please provide them.
- ii. The Postal Service states “[t]wo new FSS prices are introduced for FSS Machinable Barcoded Flats and FSS Machinable Nonbarcoded Flats. The volumes for these price categories are estimated based on the Mail Characteristic Study. The volumes were also used to derive the weighted average prices for these new rates.” Notice at 28-29.
1. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.
  2. Please identify the workbook and tab of Library Reference USPS-FY14-14 that contains the cited volume information. If the volume information was not provided in an Excel workbook in Library Reference USPS-FY14-14, please provide the information in an Excel workbook, linked to the file “CAPCALC-PER-R2015-4.xls.”
- iii. The Postal Service states “[t]o encourage mailers to create cost efficient Pallets, a Pure Carrier Route Pallet was introduced. These pallets are required to include only Carrier Route bundles. This type of mail preparation will reduce the additional work related to bundle sorting. A discounted price is introduced for Pure Carrier Route Pallets at all entry levels.” Notice at 29. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.
- iv. The Postal Service states “Carrier Route and Firm Bundles are created at the pallet level. The volumes for these types of preparation were estimated using the Mail Characteristic Study.” Notice at 29.

1. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.
  2. Please identify the workbook and tab of Library Reference USPS-FY14-14 that contains the cited volume information. If the volume information was not provided in an Excel workbook in Library Reference USPS-FY14-14, please provide the information in an Excel workbook, linked to the file "CAPCALC-PER-R2015-4.xls."
- v. Please link all volume data, including adjustments, in the file "CAPCALC-PER-2015-4.xls" to the Periodicals billing determinants in USPS-LR-FY14-4, file "FY 2014 Periodicals.xls" or other sources as applicable.
- b. On pages 25 and 26 of the Notice, the Postal Service discusses changes to the Standard Mail billing determinants.
- i. The Postal Service states that the "first adjustment deals with breaking down the volume in Carrier Route Flats. Currently there is only one type of Carrier Route Flat resulting in only one set of volumes and one set of prices. We propose to add a Carrier Route Flat category called '5-Digit pallet' that will encourage efficiency by providing lower prices for Carrier Route Flats on 5-Digit pallets than Carrier Route Flats in other containers." Notice at 25-26. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.
  - ii. The Postal Service states that the "second adjustment deals with the fact that pound prices for letters are being eliminated. Going forward, the Postal Service will be charging only piece prices for letters. Since the decision to eliminate pound rated pieces was made after postage statements had been finalized, pound prices

will remain in the postage statements until the next release, but the prices will be zero.” Notice at 26.

1. Please provide a revised Excel file “CAPCALC-STD-R2015-4.xlsx” that shows the underlying calculations reflecting the proposal to charge only minimum-per piece prices for Standard Mail Letters. See Preface to USPS-LR-R2015-4/2 at 3, which states that billing determinants data for the pound-rated pieces were included in the cells for the piece-rated pieces and that the current (Docket No. R2013-10) prices were adjusted to generate an amount equivalent to the pound-rated revenues.
  2. Please explain why the pound-rated pounds billing determinants were set to 0 in Excel file “CAPCALC-STD-R2015-4.xlsx.” In the response, please discuss where the current revenue (under Docket No. R2013-10 prices) for pound-rated pounds is reflected in Excel file “CAPCALC-STD-R2015-4.xlsx.”
  3. To assist in the Commission’s analysis of the price changes for Standard Mail, please provide a revised Excel file “CAPCALC-STD-R2015-4.xlsx” that includes the pound-rated pounds billing determinants data from Library Reference USPS-FY14-4.
- iii. The Postal Service states that the “third change deals with moving all Carrier Route and High Density FSS Flats to the L-F-P Flats category and reporting them as Scheme Pallets or Not-Scheme Pallets. This creates 88 new price cells. The composition of each new rate cell will be discernable in the on “FSS Blended Rates Auto” and “FSS Blended Rates NonAuto” in CAPCALC-STD-R2015-4.xlsx.” Notice at 26. The tabs “FSS Blended Rates Auto” and “FSS Blended Rates NonAuto” contain the statement “Source: Volumes estimated using Mail

Characteristics Data in ACR 2014 USPS-FY14-14.” Please identify the workbook and tab of Library Reference USPS-FY14-14 that contains the cited volume information. If the volume information was not provided in an Excel workbook in Library Reference USPS-FY14-14, please provide the information in an Excel workbook, linked to the Excel file “CAPCALC-STD-R2015-4.xlsx.”

- iv. Please link all volume data, including adjustments, in the Excel file “CAPCALC-STD-R2015-4.xlsx” to the source data in Library Reference USPS-FY14-4, Excel file “FY2014 STANDARD.xlsx,” or other sources as applicable.
- c. The Postal Service does not discuss adjustments to the Package Services billing determinants in its Notice. The Postal Service states “FSS price categories have been introduced for BPM Flats. FSS price categories have been introduced for presort at originating entry, DNDC entry, DSCF entry, and DFSS entry. There will be no FSS pricing for DDU destination entry, nor will carrier route presort be available within FSS zones. The FSS price categories will be priced to encourage the creation of FSS scheme bundles within FSS zones.” Notice at 30.
  - i. Please provide and discuss the calculations used to make these adjustments to the Package Services billing determinants for the introduction of FSS pricing.
  - ii. Please link all volume data, including adjustments, in the file “R2015-4 Package Services Cap Calculations.xlsx” to the source data in Library Reference USPS-FY14-4, file “FY2014 BPM.xlsx,” or other sources as applicable.

### **Package Services**

- 4. The Postal Service proposes to set the DDU Bound Printed Matter (BPM) Parcel passthrough above 100 percent and states that “[t]his was necessary in order to protect the relationships between BPM Parcels’ pricing cells.” Notice at 52.

- a. Please explain or define the relationships between BPM Parcels' pricing cells.
  - b. Please explain how setting the passthrough for DDU BPM Parcels above 100 percent is "necessary in order to protect the relationships between BPM Parcels' pricing cells."
  - c. Please explain how "reduction or elimination of the discount would impede the efficient operation of the Postal Service" under 39 U.S.C. § 3622(e)(2)(D).
5. The Postal Service provides avoided dropship costs for BPM Flats and BPM Parcels in Attachment B to the Notice, Excel file "(Attachment B).xls," tabs "Bound Printed Matter Flats" and "Bound Printed Matter Parcels." The avoided costs from that file are shown below and appear to be partially based on FY 2013 data. In the attached Excel file (Attachment B-Commission Version), the Commission calculated avoided costs using the data provided in Library Reference USPS-FY14-15, Excel file "USPS-FY14-15.BPM.xlsx," tab "Summary," cells "C5, C6, C7." The updated data in the file are color coded. The chart below shows the avoided costs calculated by the Postal Service and the Commission.

<b>Dropship (dollars/piece)</b>	<b>Postal Service Avoided Cost</b>	<b>Commission Avoided Cost</b>
BPM Flats, Basic, Carrier Route DSCF	0.607	0.583
BPM Flats, Basic DFSS Flats	0.607	0.583
BPM Flats, Basic, Carrier Route DDU	0.776	0.751
BPM Parcels, Basic, Carrier Route DSCF	0.607	0.583
BPM Parcels, Basic, Carrier Route DDU	0.776	0.751

- a. For “BPM Flats, Basic DFSS Flats,” please provide the source for the calculation of dropship avoided cost. If the dropship avoided cost for “BPM Flats, Basic, Carrier Route DSCF” is a proxy for the dropship avoided cost for “BPM Flats, Basic DFSS Flats,” please explain why “BPM Flats, Basic, Carrier Route DSCF” is an appropriate proxy.
- b. Please confirm the Commission calculations of avoided cost are correct. If not confirmed, please provide an explanation for the Postal Service avoided cost calculations.
- c. If part b. is confirmed, please file a revised Attachment B to the Notice, Excel file “(Attachment B).xls,” with updated avoided costs rounded to 3 digits and updated passthroughs for BPM Flats and BPM Parcels. If any updated passthroughs exceed 100 percent, please provide justification under 39 U.S.C. § 3622(e).

### **General Pricing**

6. In Docket No. ACR2014, the Postal Service filed the Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313 on January 15, 2015. In that filing, the Postal Service summarized its efforts to review IOCS tallies for Standard Mail Flats with FSS pricing markings.
  - a. Please confirm that if this review leads to a modification of the FY 2014 CRA, the Postal Service will concurrently provide revised Standard Mail workpapers in this docket.
  - b. Please confirm the potential revision will be reflected in a revised version of the worksharing passthroughs in Attachment B, including justifications for any passthroughs over 100 percent.
  - c. If parts a. and b. are not confirmed, please explain.

By the Acting Chairman.

Robert G. Taub