

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

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2015-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**
(February 4, 2015)

The United States Postal Service hereby provides its responses to questions 1-5, and question 6 (parts a-d), of Chairman's Information Request No. 3, issued on January 28, 2015. Each question is stated verbatim and is followed by the response. The response to question 6 (part e) is still being prepared.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Christopher C. Meyerson
John F. Rosato
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-8597, Fax -6187
John.F.Rosato@usps.gov

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

1. The following request concerns the calculation of revenue for Inbound Letter Post from certain countries, which is used to derive the percentage change in price for Inbound Letter Post. Refer to Library Reference USPS-LR-R2015-4/NP1, Excel file "Inbound CAPCALC-Letterpost-R2015-4-NP1.xls", worksheet tab "FY14Inbound Revenue Calculation."
 - a. For Country Code 717, please confirm that the Calendar Year (CY) 2014 and CY 2015 transition system provisional terminal dues rates found in International Bureau (IB) Circular 111 (July 1, 2013), Table 2.2, and IB Circular 112 (June 30, 2014), Table 2.2, respectively, should be used in calculating CY 2014 and CY 2015 revenues. If not confirmed, please explain.
 - b. For Country Code 738, please confirm that the CY 2014 and CY 2015 transition system base (combined) terminal dues rates found in IB Circular 111, Table 2.2, and IB Circular 112, Table 2.2, respectively, should be used in calculating CY 2014 and CY 2015 revenues. If not confirmed, please explain.
 - c. For Country Code 785, please confirm that the CY 2014 and CY 2015 transition system provisional terminal dues rates found in IB Circular 111, Table 2.2, and IB Circular 112, Table 2.2, respectively, should be used in calculating CY 2014 and CY 2015 revenues. If not confirmed, please explain.
 - d. For Country Code 791, please confirm that the CY 2014 and CY 2015 new target system provisional terminal dues rates found in IB Circular 111, Table 1.2, and IB Circular 112, Table 1.2, respectively, should be used in calculating CY 2014 and CY 2015 revenues. If not confirmed, please explain.
 - e. For Country Code 809, please confirm that the CY 2015 target system provisional terminal dues rates found in IB Circular 112, Table 1.1, should be used in calculating CY 2015 revenues. If not confirmed, please explain.
 - f. For Country Code 933, please confirm that the CY 2015 transition system base (combined) terminal dues rates found in IB Circular 112, Table 2.2, should be used in calculating CY 2015 revenues. If not confirmed, please explain.
 - g. For Country Code 971, please confirm that the CY 2014 and CY 2015 transition system base (combined) terminal dues rates found in IB Circular 111, Table 2.2, and IB Circular 112, Table 2.2, respectively, should be used in calculating CY 2014 and CY 2015 revenues. If not confirmed, please explain.

RESPONSE:

- a. Confirmed.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. Confirmed.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

- 2.** This request concerns the calculation of revenue to the Postal Service for the internal air conveyance of Inbound Letter Post. Refer to Postal Service Library Reference USPS-LR-R2015-4/NP1, Excel file "Inbound CAPCALC-Letterpost-R2015-4-NP1.xls." To calculate internal air conveyance revenue, please confirm that the Total FY 2014 Kilograms for Inbound Air Letter Post in column "J" of worksheet tab "FY14 Inbound Revenue Calculation" should be used in column "N" of worksheet tab "Air Conveyance Revenue." If not confirmed, please explain.

RESPONSE:

Confirmed.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

3. The following request concerns classification changes for Inbound International Return Receipt and Inbound International Restricted Delivery. The Postal Service proposes to remove Inbound International Return Receipt and Inbound International Restricted Delivery from the Mail Classification Schedule (MCS) because these services “do not generate revenue for the Postal Service, and do not need to be listed.” Notice at 55. The Postal Service also proposes to make conforming changes by renaming International Return Receipt as Outbound International Return Receipt. *Id.* A review of the International Cost and Revenue Analysis (ICRA) for Fiscal Years 2012, 2013, and 2014 indicates that volumes are reported for these services.
- a. Please confirm that Inbound International Return Receipt and Inbound International Restricted Delivery are service obligations of the Postal Service as a member of the Universal Postal Union. If not confirmed, please explain.
 - b. Assuming the Commission approves the renaming of International Return Receipt, the renamed service (Outbound International Return Receipt) will remain available for registered outbound First-Class Mail International items. Please confirm that the Postal Service will remunerate foreign postal operators for the return receipt attached to such outbound First-Class Mail International items. If not confirmed, please explain.
 - c. Assuming the Commission approves the classification changes for Inbound International Return Receipt and Inbound International Restricted Delivery, please confirm that the Postal Service will continue to separately report annual volumes for these services in the ICRA. If not confirmed, please explain.

RESPONSE:

- a. Confirmed that Inbound International Return Receipt is a mandatory service of the Universal Postal Convention (see Art. 15:3.3). Inbound International Restricted Delivery (Delivery to the addressee in person), however, is optional (see Letter Post Regulation RL142:1).
- b. Not confirmed. The Postal Service does not remunerate foreign postal operators for the return receipt attached to such outbound First-Class Mail International items. The Postal Service does, however, charge the mailer a fee for Outbound International Return Receipt, which is why the Postal Service is requesting that

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

Mail Classification Schedule (MCS) section 1510.3 Outbound International Return Receipt remain in the MCS.

- c. Not confirmed. The Postal Service seeks to remove Inbound International Return Receipt as an accounting matter, so that the Postal Service does not have to continue to report information on this service for RPW and ICRA reports.

The RPW reports the Inbound International Return Receipt estimate developed by the System for International Revenue and Volume, Outbound and International Origin and Destination Information System (SIRVO-IODIS) and reports the Inbound International Restricted Delivery based upon estimates developed by the System for International Revenue and Volume, Inbound (SIRVI).

Neither of these two inbound services provide the Postal Service with additional revenue for their respective ancillary services. In addition, the volumes are very low, and do not warrant the additional steps required for data collection and RPW reporting. (Please see USPS-LR-R2015-4/NP3 for FY2013 and FY2014 volume for market-dominant Inbound International Return Receipt and market-dominant Inbound International Restricted Delivery.) Were these two inbound services to be removed from the RPW, the Postal Service could streamline the data collection process in SIRVI and SIRVO-IODIS, and streamline the process for RPW production.

The proposed change in reporting would have no impact on the accuracy of reporting revenue, as no additional revenue is received for these items.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

Furthermore, the proposed change would streamline data collection and the RPW process.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

4. In response to Order No. 1890, the Postal Service revised the per-piece rates for three Standard Mail Flats commercial automation categories: 5-Digit, DFSS Facility, and DFSS Scheme. See Docket No. R2013-10, Response of the United States Postal Service to Order No. 1890, November 29, 2013, Excel file "CAPCALC-STD-R2013-10_Remand_USPS.xls", tab "L-F-P New Prices." In Order No. 1902, the Commission approved the revised rates. See *id.*, Order Approving Amendments to Notice of Market Dominant Price Adjustment, December 11, 2013, at 3-4 (Order No. 1902). However, the Standard Mail price cap calculation workpapers filed in this docket, Excel file "CAPCALC-STD-R2015-4.xlsx," do not use the revised rates approved in Docket No. R2013-10.
- a. Please confirm that the rates displayed in Excel file "CAPCALC-STD-R2013-10_Remand_USPS.xls" are the correct rates for Docket No. R2013-10. If not confirmed, please explain.
 - b. If confirmed, please update the tabs in "CAPCALC-STD-R2015-4.xlsx" to reflect the correct rates, e.g., tabs "L-F-P Current Prices," and "FSS Blended Rate Auto."

RESPONSE:

- a. Confirmed.
- b. The corrected rates and tabs can be found in excel workbook "CAPCALC-STD-R2015-4-CHIR3Q4b.xlsx" submitted with this response. While preparing the response to question 5 below, it was discovered that the entire Nonprofit non-automation price cell section was incorrect. These prices have been corrected and are highlighted in yellow in the new CAPCALC file.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

5. The Postal Service states that based on the proposed Flats Sequencing System (FSS) restructuring, several commercial and nonprofit discounts differ in order to preserve the sensible pricing relations between entry points. Notice at 45.
- a. Please explain why proposing different discounts for commercial and nonprofit price categories preserves sensible pricing relationships between entry points.
 - b. Please identify all price categories where commercial discounts differ from nonprofit discounts.

RESPONSE:

- a. When the Postal service said that certain nonprofit workshare discounts differed from their commercial counterparts in order to preserve the relationship between entry points, it should have expanded this discussion to include preserving the relationship between sortation levels and entry points. The migration of FSS volumes into the newly created price cells was an extremely complex undertaking. Approximately 2.7 billion flat pieces were moved from their original cells to the newly created cells. The current prices had to be derived from the blended origins for each newly created cell. It is important for FSS scheme prices to be lower than FSS non-scheme prices, and for FSS non-scheme prices to be lower than 5-Digit prices. Similarly, it is important for the DFSS entry price to be lower than the DSCF entry price, the DSCF entry price to be lower than the DNDC price, and the DNDC entry price to be lower than the Origin entry price. Equalizing all nonprofit discounts (to their commercial counterparts) for sorting and entry would make it impossible to maintain the hierarchy of incentives described above.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

For example, the proposed Commercial Origin price for 5-Digit Automation Flats is \$0.376 and the proposed Commercial Origin price for Non-Scheme FSS is \$0.337. This is a discount of \$0.039. On the nonprofit side, the proposed nonprofit Origin price for 5-Digit automation is \$0.237. The proposed price for nonprofit non-scheme FSS is \$0.222. This is a discount of \$0.015, well below the Commercial Discount of \$0.039. Increasing the nonprofit discounts up to the commercial discount would move the nonprofit non-scheme origin price to \$0.198. The price of \$0.198 is problematic, because the scheme price is \$0.213 and the Postal Service does not want to have non-scheme prices that are lower than scheme prices. Other adjustments might be possible, but fixing all nonprofit discounts for the 44 newly created nonprofit FSS cells is too constraining for this complex, but economically beneficial, pricing exercise.

- b. All nonprofit discounts that differ from their commercial counterparts are highlighted in yellow in "*CHIR_3Q5b.xlsx*" filed with this response.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

6. The following request seeks to reconcile differences between the billing determinants reported for Special Services in the Market Dominant Price Adjustment in Docket No. R2015-4 (Rate Case) and billing determinants reported in the Postal Service's 2014 Annual Compliance Report in Docket No. ACR2014 (ACR Proceeding). Please refer to Library Reference USPS-LR-R2015-4/5 in the Rate Case, Excel workbook, "CAPCALC-SpecServ-R2015-4.xlsx," and to Library Reference USPS-FY14-4, Excel workbook "FY 2014 Special Services and Free Blind.xlsx" in the ACR Proceeding. If changes to "CAPCALC-SpecServ-R2015-4.xlsx" are required, please update and resubmit that workbook.
- a. Tab "F-4 PO Boxes" in "CAPCALC-SpecServ-R2015-4.xlsx" shows a total volume of 6,123,987. By contrast, Tab "F-4 PO Boxes" in "FY 2014 Special Services and Free Blind.xlsx" reports a total volume of 7,361,620. Please explain and reconcile this difference.
 - b. Tab "F-13 Premium Cards and Stationery" in "FY 2014 Special Services and Free Blind.xlsx" reports volumes of 686 for Cards and 42 for Stationery. Tabs "F-13 Premium Stamped Cards" and "F-14 Premium Stamped Stationery" in "CAPCALC-SpecServ-R2015-4.xlsx" show a Premium Stamped Cards volume of 4,682 and a Premium Stamped Stationery volume of 118. Please explain and reconcile these differences.
 - c. The summary sections on tab "G-3 Certificates of Mailing" report a total volume of 16,240,681 in "CAPCALC-SpecServ-R2015-4.xlsx" and a total volume of 16,207,293 in "FY 2014 Special Services and Free Blind.xlsx." Please explain and reconcile this difference.
 - d. Tab "H-7 CreditCard Authentication" in "CAPCALC-SpecServ-R2015-4.xlsx" shows a volume of 14,603,448. Tab "H-7 ICOA" of "FY 2014 Special Services and Free Blind.xlsx" reports a volume of 3,201,144 for the same service. Please explain and reconcile this difference.
 - e. The cap calculations in Excel file "CAPCALC-SpecServ-R2015-4.xlsx" do not appear to include billing determinants and prices for the late payment charge for Address Correction Service. Please identify the location of these amounts in the file or provide revised cap calculation worksheets, as applicable.

RESPONSE:

- a. As noted in the preface filed with USPS-LR-R2015-4/5, and in *CAPCALC-SpecServ-R2015-4.xlsx* (tab "F-4 PO Boxes"), the 1,237,633 difference is the

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5, AND QUESTION 6 (PARTS A-D) OF
CHAIRMAN'S INFORMATION REQUEST NO. 3**

result of additional PO Box locations moving from the market dominant fee schedule to the competitive fee schedule effective August 27, 2014.¹

- b. The Billing Determinants filed with the ACR did not report the volume for the full year. The volumes filed in "*CAPCALC-SpecServ-R2015-4.xlsx*" are correct.
- c. Both files contained an error for Certificates of Mailing. The "*FY 2014 Special Services and Free Blind.xlsx*" file did not include the duplicate copies of Certificates of Mailing, and presented the volume for Standard Mail Bulk Certificates of Mailing as revenue and the revenue as volume. The "*CAPCALC-SpecServ-R2015-4.xlsx*" file presented the volume for Standard Mail Bulk Certificates of Mailing as revenue and the revenue as volume. The correct volume is 16,242,400.
- d. The volume reported in the FY2014 Billing Determinants with the ACR only reported a single quarter of data. The volume reported in "*CAPCALC-SpecServ-R2015-4.xlsx*" accurately reported the full fiscal year.

¹ See, Transfer of Additional Post Office Box Locations to Competitive Fee Groups, 79 FED. REG. 38972 (July 9, 2014); Letter to Shoshana Grove on Federal Register Notice Related to Post Office Box Service, PRC Docket No. MC2011-25 (July 9, 2014).