

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

ANNUAL COMPLIANCE REVIEW, 2014

Docket No. ACR2014

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
QUESTIONS 1-2 AND 4 OF CHAIRMAN'S INFORMATION REQUEST NO. 6

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 6, issued on February 9, 2015. Each question is stated verbatim and followed by the response. The response to Question 3 is still being prepared. The Postal Service was unable to file these responses yesterday due to the weather-related closure of the Commission.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. The Postal Service reports that Standard Mail volumes decreased by 9.2 percent in FY 2014 compared to FY 2013. FY 2014 ACR at 19.
  - a. How much of the decline was due to any underlying long-term trend?
  - b. How much of the decline was due to the price increases that went into effect on January 26, 2014?
  - c. How much of the decline was due to other factors?

**RESPONSE:**

Standard Mail volume in total decreased by only 0.7 percent in FY 2014 compared to FY 2013. This answer thus assumes that the question is referring specifically to Standard Flats volume, which, as indicated on the cited page from the ACR, did decrease by 9.2 percent in FY 2014.

- a. The Postal Service's best estimate is that Standard Flats volume declined by 7.3 percent in FY 2014 due to the underlying long-term trend in this mail category.
- b. The Postal Service's best estimate is that Standard Flats volume declined by 1.2 percent in FY 2014 due to the price increases that went into effect on January 26, 2014.
- c. The Postal Service's best estimate is that Standard Flats volume declined by 0.9 percent in FY 2014 due to other factors. The other factors affecting Standard Flats volume included both positive as well as negative effects. Examples of the former include population growth and improving macro-economic conditions. Examples of the latter include the lagged impact of the January, 2013, rate

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increase, and the decline in election mail from 2013Q1 (which coincided with the 2012 Presidential election) to 2014Q1.

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2. On February 3, 2015, the Postal Service filed Library Reference USPS-FY14-45, which details an adjustment to Standard Mail costs.
- a. Please update the CRA (Library Reference USPS-FY14-1) to reflect the adjusted Standard Mail costs.
  - b. Please update the Cost Segments and Components Report (Library Reference USPS-FY14-2) to reflect the adjusted Standard Mail costs.
  - c. Please update the Mail Processing Costs by Shape Library Reference (Library Reference USPS-FY14-26) to reflect the adjusted Standard Mail costs. Please use the D report (Library Reference USPS-FY14-31) adjustment method currently used in Library Reference USPS-FY14-26 to adjust costs for the Standard Mail High Density and Saturation Letters and the Standard Mail High Density and Saturation Flats and Parcel products.
  - d. Please update the Delivery Costs by Shape Library Reference (Library Reference USPS-FY14-19) to reflect the adjusted Standard Mail costs. Please use the D report (Library Reference USPS-FY14-31) adjustment method currently used in Library Reference USPS-FY14-19 to adjust costs for the Standard Mail High Density and Saturation Letters and the Standard Mail High Density and Saturation Flats and Parcel products.
  - e. Please update the Standard Mail Flat Worksharing Cost Avoidance Model (Library Reference USPS-FY14-11 file "USPS-FY14-11 STD\_flats.xls") to reflect the adjusted Standard Mail costs.
  - f. Please update the Discounts and Passthroughs of Workshare Items Library Reference (Library Reference USPS-FY14-3) to reflect the adjusted Standard Mail costs.
  - g. Please update any other library references impacted by the adjusted Standard Mail costs.
  - h. If updating Library Reference USPS-FY14-3 causes passthroughs to be further above 100 percent, please provide a statutory justification pursuant to 39 U.S.C. § 3622(e) for all impacted passthroughs.

**RESPONSE:**

a.-b. For the types of reasons explained in detail in the Postal Service's response to Q.6 of ChIR No. 1 in Docket No. R2015-4 (filed concurrently with USPS-FY14-45 on February 3, 2015), it would be infeasible to attempt to develop an adjusted Cost Segment and Component Report (C Report) from the bottom up. Necessary for a reasonable attempt at that exercise would be a complete set of recoded IOCS tallies, which the USPS-FY14-45 analysis was incapable of generating. In particular,

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computing mail processing non-labor costs (piggybacks on mail processing labor) by component would require adjusted IOCS-based distribution keys at the cost pool level. Moreover, as noted in USPS-FY14-45, limitations of the analysis imply that an exercise to further recode IOCS tallies would “likely shift costs inappropriately in some cost pools, even if the overall adjustment is accurate.”

Instead, as also indicated in the Q.6 response in the CPI case, the output of the USPS-FY14-45 review is more appropriately used in an exercise to make an adjustment of the type sometimes made in the D Report. Accordingly, the Folder 31 folder of USPS-FY14-48 provides the materials extracted from the CRA Model (USPS-FY14-31) necessary for a D Report adjustment based on the cost adjustment amounts presented in USPS-FY14-45. The results of that D Report Adjustment exercise are, in turn, reflected on the page provided in CRA format appearing in the Folder 1 folder of USPS-FY14-48.

c.-d. As suggested in the question, it is computationally possible, using the results of the D Report adjustment exercise provided in response to part a. of this question, to adjust the materials from USPS-FY14-19 and USPS-FY14-26 to reflect the results provided in USPS-FY14-45, along the lines of other D Report adjustments already made in USPS-FY14-19 and USPS-FY14-26. However, USPS-FY14-26 provides estimates at the cost pool level, which are used in various downstream folders, but for which detailed adjustments are not provided by the USPS-FY14-45 analysis. As a mechanical exercise, it is possible to adjust the cost pool-level costs in proportion with the overall mail processing adjustment. However, the actual effects at the cost pool

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level will in general differ from the overall cost impacts estimated in USPS-FY14-45.

Thus, detailed cost pool level results from the D Report adjustment exercise are subject to additional uncertainty and may not reflect cost shifts at that level, even if the overall adjustment is accurate.

Nonetheless, despite these reservations regarding the validity of the exercise, D Report adjustments of the type requested have been made in the USPS-FY14-19 and USPS-FY14-26 materials, and the results are provided in the Folder 19 and Folder 26 folders of USPS-FY14-48.

e.-f. As suggested in the question, it is computationally possible, using the results of the adjustment exercise conducted with respect to USPS-FY14-26 and provided in response to parts c.-d. of this question, to reflect those results in the USPS-FY14-11 and USPS-FY14-3 materials. For the reasons explained above in response to subparts c.-d., however, the results of such an exercise (i.e., adjusted outputs from USPS-FY14-11 and USPS-FY14-3) are subject to additional uncertainty beyond that in the USPS-FY14-45 analysis. The USPS-FY14-26 adjustments affect the cost avoidance estimates in USPS-FY14-11 through the CRA proportional adjustment factor.

Generally, redistributing mail processing costs from Standard Flats to other products as in the USPS-FY14-45 analysis will tend to lower the proportional adjustment factor in USPS-FY11-11, reduce the measured Standard Flats cost avoidances, and increase measured passthroughs. The actual effects will depend on the cost pool composition of Standard Flats costs in addition to the overall Standard Flats mail processing costs. As noted above, the USPS-FY14-45 analysis does not provide estimates of cost changes

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at the cost pool level within mail processing, and so the effects on USPS-FY14-11 and USPS-FY14-3 are subject to additional uncertainty.

Nonetheless, despite these reservations regarding the validity of the exercise, the requested exercise has been conducted with the USPS-FY14-11 and USPS-FY14-3 materials, and the results are provided in the Folder 11 and Folder 3 folders of USPS-FY14-48.

g. Theoretically, adjustments made to USPS-FY14-19 and USPS-FY14-26 materials could flow through to USPS-FY18 and the unit NSA costs in USPS-FY14-30, but the likely effects do not seem sufficiently material to warrant such extension of the exercise.

h. With respect to the Folder 3 materials provided above in response to part f. of this question, the adjusted Standard Mail cost avoidances and passthroughs appearing therein are only as valid as the implicit assumptions upon which they are premised. As explained above in response to subparts c.-d. of this question, however, these are beyond the scope of the USPS-FY14-45 analysis. Computationally, new estimates based on those assumptions can be generated, but, particularly in light of the relatively small size of the variations in question, with substantially less confidence that the new outputs of Folder 26, Folder 19, Folder 11, and Folder 3 of USPS-FY14-48 are actually any better than the original estimates in any meaningful sense. Therefore, while it may be interesting to see the implied magnitude of potential shifts in Standard Mail passthroughs if an exercise were conducted in which new numbers were mechanistically plugged in through the series of specified steps, one should not

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reflexively leap to the further conclusion that these outputs constitute the passthrough levels to which the statutory analysis should be applied.

Nevertheless, despite these circumstances, comparing the Standard Mail passthroughs as presented in Folder 3 of USPS-FY14-48 based on the applicable discounts to the corresponding passthroughs originally presented in USPS-FY14-3, the following observations can be made. To the extent that some of the Standard Mail Flats passthroughs calculated in Folder 3 are further above 100 percent, the small differences shown do not cause any need to modify the justifications already provided throughout the ACR process with respect to the USPS-FY14-3 passthroughs. Moreover, there are no instances in which passthroughs previously below 100 percent would move above that level as a result of this exercise.



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4. With respect to Bound Printed Matter Flats, the volume of measured mailpieces dropped significantly in Q2 and Q3 of FY 2014. Please discuss the factors contributing to the decreased measured volume.

**RESPONSE:**

The volume of measurable Bound Printed Matter Flats (BPM Flats) mail fluctuates because this product has significantly less volume and far fewer mailers compared to other mail classes measured using Full Service Intelligent Mail® barcodes (IMbs). In FY14 there were approximately 100 distinct mailer CRIDs having BPM Full Service data in measurement. Consequently, it is easier for a single mailer to influence the number of measurable pieces in a given quarter.

A few large BPM Flats mailers accounted for most of the variability in the data in FY14. Although the largest mailer accounted for more than 70 percent of mail in measurement in all of FY14, the mailer's volumes varied widely from quarter to quarter, with several million pieces in measurement in each of Quarters 1 and 4, but less than 1 million in each of Quarters 2 and 3. Thus the changes in volume for a single mailer dramatically changed the overall volume in measurement across FY14. The decline in the mailer's volume for Q2 and Q3 was not due to lack of scans or exclusions for other reasons.