

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 OF CHAIRMAN'S INFORMATION REQUEST NO. 16**
(March 3, 2015)

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 16, issued on February 27, 2015. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1. Page 28 of the Notice states, "[i]n Addition to the FSS prices of Pallets, which were introduced in FY13, new prices for FSS Pieces, Bundles, and Sacks are also incorporated." In order to account for the volume of these new pricing categories, the Postal Service estimates the historical volumes that would have been mailed in the new rate categories, had they been offered.
 - a. Please confirm that in Quarters 3 and 4 of FY 2014 mailers were allowed to enter FSS zone mail but pay bundle prices other than FSS bundle prices. If not confirmed, please explain. If confirmed, has the Postal Service identified any pieces that were required to be presorted for the FSS but were entered at Carrier Route, 5-digit, or 3-digit bundle prices for FY 2014 Quarter 3 and/or Quarter 4?
 - b. Please confirm that the Mail Characteristics Study provided in Excel file "CAPCALC-PER-R2015-4Mod.xls," tab "FSS Piece Data" identifies 225,545,231 Periodicals mailpieces that were presorted to the FSS and entered in 7,589,363 FSS priced bundles in FY 2014 Quarter 3. If not confirmed, please explain.
 - c. Please confirm that using the Mail Characteristics Study provided in Excel file "CHIR6Q19.xls," tab "FSS Piece Data" identifies 227,835,903 Periodicals mailpieces that were presorted to the FSS and entered in 7,995,924 FSS priced bundles in FY 2014 Quarter 4. If not confirmed, please explain.

RESPONSE:

- a. Not confirmed. In Quarters 3 and 4, mailers had to pay FSS bundle prices (14.3 cents for bundles on FSS Facility, Scheme and 3-Digit/SCF containers, 20.7 cents for bundles on ADC containers, and 29.9 cents for bundles on Mixed ADC containers). However, it should be noted that the pieces in FSS scheme bundles paid the presort prices based on their virtual preparation.
- b. Confirmed.
- c. Confirmed for the number of FSS bundles. Not confirmed for the piece number. The correct number of FSS pieces is 227,497,131 and not

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227,835,903 (which seems to show the first three digits of cell I30 and the last six digits of cell H30).

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2. ¹In Response to CHIR No. 6, question 18, the Postal Service confirmed that some Carrier Route bundles will be required to pay FSS bundle prices after implementation of the planned prices.²
- a. As detailed in the spreadsheet attached to CHIR No. 14, Excel file "Resp CHIR14 Que1 Spreadsheet.xls," tab "bundle analysis," the volume of bundles associated with the piece volume that would have been mailed at FSS prices is calculated by dividing the number of FSS pieces by the average pieces per bundle for each presort level. As an example, 641.4 million Carrier Route pieces would have been mailed at FSS pieces prices in FY 2014 if those prices were required (cell B12). Carrier Route bundles contained, on average, 14.7 pieces per bundle (cell J12). The tab "bundle analysis" contains the calculation that 641.4 million Carrier Route pieces were mailed in 43.8 million bundles (cell D4). Both the 641.4 million pieces and 43.8 million bundles were mailed at non-FSS prices in FY 2014 but would have been required to be mailed at FSS prices if they had been in effect. In FY 2014 Quarters 3 and 4, FSS presorted bundles averaged 29.1 pieces per bundle (tab "Periodicals Flats" cell S30) compared to 14.7 pieces per bundle for Carrier Route presorted bundles. Please discuss which number of pieces per bundle is appropriate to use for estimating the FY 2014 Quarters 1 and 2 volume of bundles that would have been required to presort to the FSS.
 - b. The FY 2014 Quarters 3 and 4 billing determinants identify 15,586,982 FSS priced bundles, and the Mail Characteristics Study data details that 433,685,915 FSS presorted pieces (tab "FSS piece Data q3" cell P38) were entered in those 15,586,982 FSS bundles. Please confirm that the FY 2014 Quarter 3 and 4 bundle volumes do not need to be adjusted to account for FSS pieces, as the bundles with FSS pieces were entered at FSS prices. If not confirmed, please explain.
 - c. Please confirm that FY 2014 Quarters 1 and 2 bundle data needs to be adjusted to account for the estimated 448,161,524 FSS pieces for FY 2014 Quarters 1 and 2 (tab "bundle analysis" cell b9- tab "FSS piece Data q3" cell P38). If not confirmed, please explain.

¹ Question was amended by the Commission on March 2, after the discovery of an error.

² Response of the United States Postal Service to Questions 1, 4-16, and 18-19 of Chairman's Information Request No. 6, February 11, 2015, question 18 (Response to CHIR No. 6).

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RESPONSE:

a. The 641.4 million pieces represent an estimate of the number of pieces mailed in FY 2014 that destinate in FSS zones and would qualify for Carrier Route rates. In FY 2014 some of these pieces were prepared in Carrier Route bundles, and some were prepared in FSS bundles. This is also true of just Quarters 1 and 2 of FY 2014, because the implementation of required FSS preparation occurred in the early part of Quarter 2 (January), and some customers voluntarily prepared FSS bundles prior to the requirement. When converting these pieces to a uniform bundle preparation, the appropriate measure to use if converting to the number of bundles that would have existed in the absence of FSS preparation would be the average number of pieces per Carrier Route bundle (14.7 pieces per bundle). When converting to the number of bundles assuming full FSS preparation, the appropriate conversion factor would be the average number of pieces in an FSS bundle (29.1 pieces per bundle). The average number of pieces will be larger for FSS bundles, as multiple bundles (Carrier Route, 5-Digit, and portions of 3-Digit) will be merged into FSS bundles.

b. Confirmed.

c. Confirmed.

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3. In Response to CHIR No. 14, question 1, the Postal Service confirmed that FSS pricing requirements necessitate adjustments to the billing determinants for sacks and pallets destined for FSS zones.³
- a. Please identify the quantity of sacks that would have been mailed at FSS Facility sack prices in FY 2014 Quarters 1 and 2 if FSS prices and mailing requirements had been in place.
 - b. Please identify the prices that mailers paid for the sacks identified in part a. (for example, the 5-digit DDU entry sack price) and the volumes mailed at each price.
 - c. Please identify the quantity of sacks that would have been mailed at FSS Scheme sack prices in FY 2014 Quarters 1 and 2 if FSS prices and mailing requirements had been in place.
 - d. Please identify the prices that mailers paid for the sacks identified in part c. (for example, the 5-digit DDU entry sack price) and the volumes mailed at each price.
 - e. Please identify the quantity of pallets that would have been mailed at FSS Facility pallet prices in FY 2014 Quarters 1 and 2 if FSS prices and mailing requirements had been in place.
 - f. Please identify the prices that mailers paid for the pallets identified in part e. (for example, the 5-digit DSCF entry pallet price) and the volumes mailed at each price.
 - g. Please identify the quantity of pallets that would have been mailed at FSS Scheme pallet prices in FY 2014 Quarters 1 and 2 if FSS prices and mailing requirements had been in place.
 - h. Please identify the prices that mailers paid for the pallets identified in part g. (for example, the 5-digit DSCF entry pallet price) and the volumes mailed at each price.

RESPONSE:

a,c,e,g The estimated number of FSS Facility sacks, FSS Scheme sacks,
FSS Facility Pallets, and FSS Scheme pallets that would have been

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mailed in Quarters 1 and 2 if FSS preparation requirements had been in effect for all of FY 2014 are presented in the "Regular Rate BD", "Nonprofit BD", and "Classroom BD" tabs of the workbook "ChIR 16 Qu3 Response.xlsx" in column H. In this workbook, the Postal Service's response to CHIR 14, question 1 is modified to explicitly identify the Q1 and Q2 FY 2014 actual container volumes as mailed and the Q1 and Q2 FY 2014 estimated volumes under FSS preparation requirements.

b,d,f,h- The transition to any of the FSS containers (FSS Scheme sack, FSS Facility Sack, FSS Scheme pallet, and FSS Facility pallet) is not linear. FSS containers can be constructed from mail that previously was prepared in any number and type of containers. For example an FSS Scheme pallet can be made from mail that was previously on a 5-Digit pallet, or it can be constructed from a portion of a pre-existing SCF or ADC pallet. Similarly FSS sacks can be constructed by merging mail that was previously prepared in 5-Digit and 5DCRTS sacks, or from mail that was previously prepared on ADC or SCF pallets. It is infeasible to map the transition of mail from one container type to another under different

³ Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 14, February 25, 2015, question 1 (Response to CHIR No. 14).

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preparation requirements without explicit knowledge of every mailing and the preparation preferences of every individual customer.

The Postal Service can present a before and an "estimated" after picture of containerization. In the workbook "ChIR 16 Qu3 Response.xlsx," on tabs "Regular Rate BD", "Nonprofit BD", and "Classroom BD," the container volumes as mailed in Q1 and Q2 of FY 2014 are presented in column G, and the estimated FSS preparation container volumes for Q1 and Q2 of FY 2014 are presented in column H.

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4. The Postal Service plans to add a DFSS price for FSS Facility and Scheme sacks. The Postal Service assumes that 20 percent of DSCF sacks would have qualified for DFSS prices in FY 2014, if such prices had been offered. In Response to CHIR No. 10, the Postal Service stated “[t]he Postal Service has no data showing how these sacks would be entered, but believes there would be strong bias towards DSCF entry. Thus, 80 percent DSCF and 20 percent DFSS are applied to the sack volumes.”⁴ Pursuant to 39 C.F.R. § 3010.23(d)(2), please provide an explanation for the 80 percent DSCF and 20 percent DFSS assumption applied to sack volumes.

RESPONSE:

Due to lack of data on the FSS sack volumes, a macro estimate of total FSS volume entered in FSS zones is applied. In FY 2013 it was estimated that 18 percent of total mail was entered in FSS zones. Increasing this by 2 percent to recognize a small improvement for FY2014 results in a 20 percent volume migration from total DSCF sack volume to FSS sacks.

⁴ Response of the United States Postal Service to Chairman's Information Request No. 10, February 18, 2015, question 2 (Response to CHIR No. 10).

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5. In its Response to CHIR No. 6, question 19, the Postal Service provided Excel file "CHIR6Q19.xls." The tab "FSS Piece data" contains Periodicals Mail Characteristics Study data through FY 2014 Quarter 4. In Response to CHIR No. 1, the Postal Service provided Excel file "CAPCALC-PER-R2015-4Mod.xls," in which the tab "FSS Piece Data" contains Periodicals Mail Characteristics Study data through the period FY 2014 Quarter 3.⁵
- a. For FY 2014 Quarter 3, Excel file "CAPCALC-PER-R2015-4Mod.xls" identifies FSS piece volume of 225,545,231 and Excel file "CHIR6Q19.xls" identifies FSS piece volume of 225,568,089. Please reconcile this discrepancy.
 - b. For FY 2014 Quarter 3, Excel file "CAPCALC-PER-R2015-4Mod.xls" and Excel file "CHIR6Q19.xls" both identify FSS bundle quantities of 7,589,363. In Docket No. ACR2014, Excel file "RespCHIR2Qu1.XLS," tab "Total FY 2014" identifies FY 2014 Quarter 3 FSS bundle quantity of 7,590,326. Please reconcile this discrepancy.

RESPONSE:

- a. The lower FSS piece volume reflects preliminary Quarter 3 FY2014 data. The latter number is from the final Quarter 3 FY2014 data, with all revisions and adjustments.
- b. The Billing Determinants presented in Docket No. ACR2014 (Excel file "RespCHIR2Qu1.XLS," tab "Total FY 2014") identifies FY 2014 bundle volumes for all shapes. In Quarter 3 of FY 2014 there were 517 FSS bundles presented to the Postal Service that were identified on the postage statement as containing letter shaped pieces, and 446 FSS bundles that were identified on the postage statement as containing parcels. The Periodicals Mail Characteristics Study data in

⁵ Response of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, January 30, 2015, question 3 (Response to CHIR No. 1).

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"CHIR6Q19.xls" only measures flat-shaped pieces; letters and parcels are excluded.