

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

COMPETITIVE PRODUCTS PRICE CHANGES  
RATES OF GENERAL APPLICABILITY

Docket No. CP2016-9

**RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1,  
WITH PORTIONS FILED UNDER SEAL**  
(November 2, 2015)

The United States Postal Service hereby provides its responses to Chairman's Information Request No. 1, which was issued on October 26, 2015. Responses were due by November 2, 2015. Each question is reprinted verbatim and is followed by the Postal Service's response. Revised worksheets associated with the Postal Service's response to Question 6 have been provided under seal. The Postal Service herein incorporates by reference its Application for Non-Public Treatment in this docket for the protection of the material filed under seal.

Respectfully submitted,

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November 2, 2015

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1. Pursuant to 39 C.F.R. § 3015 *et seq.*, please provide an explanation and justification for the following changes to the MCS:
  - a. In Section 2115.1, the revision of the \$3.00 fee to forward or return Parcel Select pieces to “an applicable fee.” If the “applicable fee” is fixed, please explain what the fee is. If the “applicable fee” is not fixed, please explain how the fee is calculated.
  - b. In Section 2115.4, the rebranding of the price category “Machinable Lightweight Parcels” as “Parcel Select Lightweight.”
  - c. In Section 2115.4, the addition of “SCF DNDC and Origin entry levels Commercial eligible” to the Parcel Select Lightweight price category.
  - d. In Section 2115.4, the addition of “Single-Piece” to the “Mixed NDC Origin entry level Commercial eligible” component of the Parcel Select Lightweight price category.
  - e. In Section 2115.4, the elimination of the “Irregular Lightweight Parcels” price category from Parcel Select.
  - f. In Section 2115.6, for each price category, the revision in paragraph d, “Forwarding and Returns,” that provides that customers using Address Correction Service with Shipper Paid Forwarding/Return, and also using an Intelligent Mail package barcode, pay a \$1.50 fee to forward or return Parcel Select pieces.

**RESPONSE:**

- a. The “applicable fee” is fixed, at either \$3.00 or \$1.50. The new fee of \$1.50 is a lower fee for a forwarded or returned Parcel Select piece given to customers using Address Change Service (ACS) with Shipper Paid Forwarding/Return, and also using an Intelligent Mail package barcode. The \$3.00 fee applies to all other forwarded or returned Parcel Select pieces. The new “applicable fee” language in Section 2115.1 was designed to avoid the need for future changes to that section, if the \$3.00/\$1.50 fees are adjusted in the future.
- b. The Parcel Select Lightweight price tables have been merged into a single price table and single price category, thus the need for the name change in the MCS. The operational requirements are unchanged for Machinable and Irregular Parcel Select Lightweight parcels.

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c. The Parcel Select Lightweight price tables have been merged into a single price table and single price category. The category "SCF DNDC" is not new, but an offering under the former Parcel Select Lightweight Irregular price table. Thus, the apparent addition of the category "SCF DNDC" is simply the result of merging the Machinable and Irregular charts. The operational requirements are unchanged for Machinable and Irregular Parcel Select Lightweight parcels.

d. The addition of the term "Single-Piece" to the "Mixed NDC" component of the Parcel Select Lightweight price table is not a new offering, but is instead a term added to better align the MCS language with the language used in the Notice 123.

e. The Parcel Select Lightweight price tables have been merged into a single price table and single price category, thus the "Irregular Lightweight Parcels" subcategory was no longer needed in the MCS. The operational requirements are unchanged for Machinable and Irregular Parcel Select Lightweight parcels.

f. For each price category, the new \$1.50 fee is a lower fee for a forwarded or returned Parcel Select piece given to customers using Address Change Service (ACS) with Shipper Paid Forwarding/Return, and also using an Intelligent Mail package barcode. The lower fee is being instituted to provide an incentive to use ACS with Shipper Paid Forwarding/Return, which provides address corrections and allows the Postal Service to calculate, invoice, and collect the forwarding and/or return postage and fees electronically, without delivery unit intervention.

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2. Governors' Decision No. 15-1 justifies eliminating several price categories based on "insufficient volumes" or low customer demand. Please explain how the Postal Service determined that the following price categories had "insufficient volumes" or low customer demand and should be eliminated:
- Priority Mail Express Flat Rate Box
  - Priority Mail Regional Rate Box C
  - Priority Mail Critical Mail
  - Parcel Select Original Network Distribution Center Presort
  - Parcel Select Network Distribution Center Presort
  - Parcel Return Service Return Network Distribution Center
  - Priority Mail Express International Flat Rate Box
  - Priority Mail International Regional Rate Box C

**RESPONSE:**

The Postal Service determined that the above price categories had low customer demand by examining the current volume of the offering, as well as recent volume trends, and by seeking input from a variety of groups including Finance, Marketing, International, Sales, Pricing, and Operations. The decision to eliminate these price categories was made cross-functionally, with input from staff, managers, and high level representatives from these groups. A rigid threshold or minimum volume requirement was not employed in the determination. Nevertheless, there was consensus among management that the above price categories should be eliminated in order to simplify and streamline current product offerings.

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3. Refer to Governors' Decision No. 15-1 at page 2, where it states that in January 2016, the Commercial Plus prices will match the Commercial Base prices for Priority Mail Express and that the Postal Service's long term goal is to eliminate the Commercial Plus category. As Commercial Base and Commercial Plus planned prices for Priority Mail Express are equivalent, please explain why the Postal Service will retain the Commercial Plus price category.

**RESPONSE:**

While it is the long-term goal of the Postal Service to eliminate Commercial Plus pricing (CPP), the price category is maintained for 2016 so that the Postal Service can make all necessary programming changes toward eliminating CPP in the future, without causing a sudden disruption to the marketplace or to the Postal Service's customers in the interim. Maintaining the CPP category will not affect the existing customer commitment agreements between the Postal Service and its Priority Mail Express CPP customers. Additionally, many of the Postal Service's Negotiated Service Agreements (NSAs) involving Priority Mail Express are tied to CPP pricing in some way. Maintaining the CPP category avoids the need to amend multiple NSAs between now and January 17, 2016, to remove CPP references.

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4. Refer to Governors' Decision No. 15-1 at page 4, where it states that "[t]o simplify the First-Class Package Service, the 3-digit, 5-digit, and ADC presort levels will be eliminated."
- a. First-Class Package Service was formerly commercial First-Class Parcels, a market dominant product. When the Postal Service requested Commission approval for the transfer of commercial First-Class Parcels from the market dominant product list to the competitive product list, the Postal Service stated that one distinguishing characteristic between retail First-Class Parcels and commercial First-Class Parcels is that commercial First-Class Parcels offered the 3-digit, 5-digit, and ADC presort price categories. Please explain what distinguishes First-Class Parcels from First-Class Package Service if the Postal Service eliminates the 3-digit, 5-digit, and ADC presort levels of First-Class Package Service.
  - b. Please confirm that First-Class Package Service is an offering exclusively available to commercial customers. If confirmed, please point to proposed MCS language stating such in Attachment, Part B: Competitive Products.
  - c. Please explain how the Postal Service will distinguish Single-Piece First-Class Package Service pieces dropped off at retail facilities or other non-bulk mail entry units from First-Class Mail Parcel mail pieces for volume and cost calculation purposes.
  - d. Pursuant to 39 C.F.R. § 3020 subpart E, please provide supporting justification for the proposed changes to section 2125 of the MCS; including:
    - i. A description and rationale for the proposed changes to the product description.
    - ii. An explanation of why the proposed changes will not result in the violation of any of the standards of 39 U.S.C. § 3633 and 39 C.F.R. part 3015.
    - iii. A description of the likely impact that the changes will have on users of the product and on competitors.

**RESPONSE:**

- a. Unlike First-Class Mail (FCM) Parcels, First-Class Package Service (FCPS) is not available at the retail counter. FCPS can only be entered into the mail stream through the Business Mail Entry Unit (BMEU). Also, only commercial payment systems (Permit Imprint, PC Postage and metered mail) are allowed for FCPS, and prices are not available through the retail Point of Sale (POS) terminal. Another distinguishing characteristic is that the commercial product

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includes parcels weighing up to 16 ounces; for retail, the maximum weight is up to 13 ounces.

- b. Confirmed, FCPS is exclusively available to commercial customers. The Postal Service would not be opposed to adding language to that effect in the MCS to better identify FCPS as a commercial offering.
  
- c. FCPS is differentiated from First-Class Mail Parcels in several ways. A volume information profile (VIP) code (unique to FCPS) is listed on the Postage Statement. The parcels are also identified by different markings: "First-Class Package" (or "FCPkg") is a required marking for commercial products. For retail products, no marking is required, although it may be marked "First-Class Mail", "FCM" or "FCM Parcels". In addition, a parcel may be identified as retail or commercial by the rate applied.
  
- d.
  - i) Changes to the product include elimination of the 5-Digit, 3-Digit, ADC and Mixed ADC sortation levels, as well as the elimination of separate Commercial Base and Commercial Plus price tables. The rationale for this change is historical and continued low volumes for both the associated sort levels and the Commercial Plus price category.
  
  - ii) As explained above, FCPS continues to be a commercial offering that the Postal Service will continue to distinguish from First-Class Mail parcels in a

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number of ways. FCPS is correctly categorized as a competitive product, as it continues to be positioned as a lightweight offering used by businesses for fulfillment purposes. The proposed changes for January 2016 are designed to streamline and simplify the product offering, not change its fundamental nature or customer base. Additionally, the changes will not impair the ability of FCPS to continue to cover its attributable costs (39 U.S.C. § 3633(a)(2)), and should result in competitive products as a whole complying with 39 U.S.C. § 3633(a)(3), which, as implemented by 39 C.F.R. § 3015.7(c), requires competitive products collectively to contribute a minimum of 5.5 percent to the Postal Service's institutional costs. Accordingly, no issue of subsidization of competitive products by market dominant products should arise (39 U.S.C. § 3633(a)(1)).

iii) Although the impact is expected to be minimal because of low volume, some FCPS customers may experience higher prices if the Single-Piece FCPS price category is used as a substitute for 5-Digit, 3-Digit and ADC sortations. However, current FCPS Commercial Plus customers will benefit from lower prices, as this proposed change includes lower prices at all Single-Piece weight cells currently included in the Commercial Plus price category. Finally, some competitors may benefit from this change if volume shifts from the Postal Service to the competitors' equivalent commercial products.

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5. Please explain how the new annual fee established for the International Service Center zone chart will be applied to Priority Mail.

**RESPONSE:**

The question refers to Priority Mail, to which the new annual fee for the International Service Center zone chart fee is not applicable. The International Service Center (ISC) Zone Chart is designed to assist mailers in determining the proper postage prices for Priority Mail International mail pieces for partner countries (currently Canada). Postage prices are based on mail piece weight and the distance the mail piece travels, using the zone assignments. The ISC Zone Chart matrix is used to determine the distance factor that will be used in the proper calculation of postage from the ZIP Code™ where the mailpiece enters the mailstream (origination) through the USPS International Service Center (ISC) and ultimately to the international destination. The annual fee of \$63.00 provides customers the ISC Zone Chart matrix and also provides monthly updates to the matrix through the product year.

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6. The Postal Service filed supporting financial information and an Application for Non-Public Treatment with its Notice. Notice at 1. In the folder titled "International," for each of the three spreadsheets, please refer to the worksheet tab "Revenue and Volume." Please provide revised worksheets excluding Market Dominant letter products. Please also provide revised Contribution Reports based on the revised worksheets.

**RESPONSE:**

The Postal Service is today filing under seal the revised International worksheets excluding market dominant letter products and related services. These adjustments did not affect the Contribution Reports originally filed in this docket.