Postal Rate Commission
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ORDER NO. 1463

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: George Omas, Chairman;
Dawn A. Tisdale, Vice Chairman;
Ruth Y. Goldway; and
Tony Hammond

International Mail Report Docket No. IM2006-1

SECOND NOTICE OF INTERNATIONAL MAIL DATA REQUIREMENTS FOR FY 2005

(Issued April 25, 2006)

In order to help the Commission prepare the report required by 39 U.S.C. § 3663 on the costs, volumes, and revenues of the Postal Service's international mail services, the Service is requested to provide the following information on or before May 2, 2006.

1. The ICRA Report-PRC Version, Fiscal Year 2005 (FY 2005 ICRA), states that unit mail processing costs are derived from costs contained in cost segments 2, 3, and 4. The Response of the United States Postal Service to Order No. 1457 First Notice of International Mail Data Requirements for Fiscal Year 2005 (Response to First Order FY 2005) discusses reasons for increases in cost component 3.1 unit costs for various categories of mail. Between FY 2004 and FY 2005, the unit costs for cost segment 3, excluding cost component 3.1, and cost segment 2 increased substantially for the following outbound categories: Economy Letters and Letter Packages; Economy Parcel Post; Air Letters and Letter Packages; Cards; Global Priority Mail, Global Express Mail, and Air Parcel Post.

a. Please discuss separately for each category the reasons for the increase in unit costs for cost segment 3, excluding cost component 3.1.

b. Please discuss separately for each category the reasons for the increase in unit costs for cost segment 2.

2. The Response to First Order FY 2005 discusses reasons for the increase in Non-Transportation Other unit costs for various categories of mail and states that increases were caused, in part, by "significant increases in equipment costs … for … Postal Automation Redirection Equipment (PARS)." Please discuss how PARS equipment is used in processing each of the following categories of mail: Economy Letters and Letter Packages; Economy Parcel Post; Air Letters and Letter Packages; Cards, and Air Parcel Post. Please discuss separately for each mail category.

3. The FY 2005 ICRA states that unit mail processing costs are derived from costs contained in cost segments 2, 3, and 4. The Response to First Order FY 2005 discusses reasons for decreases in cost component 3.1 unit costs for various categories of inbound mail. Between FY 2004 and FY 2005, the unit costs for cost segment 3, excluding cost component 3.1, and cost segment 2 decreased substantially for the following categories of inbound mail: Surface LC/AO, Surface Parcel Post, Express and Air Parcel Post.

a. Please discuss separately for each category the reasons for the decrease in unit costs for cost segment 3, excluding cost component 3.1.

b. Please discuss separately for each category the reasons for the decrease in unit costs for cost segment 2.

4. Between FY 2004 and FY 2005, the unit costs for cost segment 3, excluding cost component 3.1, and cost segment 2 increased substantially for inbound Air LC/AO. Please explain.

5. On page iii of the FY 2005 ICRA the last sentence states that "under further investigation, it was determined that under-reporting did occur …". Please explain how the under-reporting was identified and verified. Also please explain what steps, if any, the Postal Service has taken to prevent similar under-reporting in the future.

6. In USPS Response to First Order FY 2005, question 25, part (a), the Postal Service states, "a portion of the mail processing unit cost change results from cost pool changes in the mail processing operations." Please provide FY 2005 processing costs as they would have been reported absent the cost pool changes (i.e., configured as in the FY 2005 ICRA) for each of the international mail categories affected by the above stated cost pool change.

7. In Response to First Order FY 2005, question 2, IOCS-related costs were provided for Express Mail and Air Parcel Post from Canada to the United States. However, no volume was reported for fiscal year 2005 for these categories. Please explain this apparent anomaly and, if applicable, describe how these cost data should be treated.

8. The First Notice of International Mail Data Requirements for FY 2005, question 24, part (a), asked the Postal Service to discuss and analyze the reasons for the decrease in mail processing costs for inbound Express Mail. In Response to First Order FY 2005, the Postal Service included the observation that, "there was a 2% increase in volume, which was accompanied by a 16% increase in the weight per piece." Please explain how an increase in weight per piece would result in a lower unit mail processing cost.

9. In the PRC version of the FY 2004 Domestic CRA, cost segment 3 costs for registry mail are distributed between USPS Penalty Mail and Domestic Registry Mail based on the ratio of Domestic Registry Mail to total Registry Mail. In the FY 2005 PRC version of the Domestic CRA mail processing costs for Registry Mail are distributed 100% to Registry Mail. Please explain.

10. What percentage of outbound International Registry pieces is USPS Penalty Mail?

11. In Docket No. R2005-1, the Postal Service determined that the Base Year (BY) 2004 costs for Domestic Registry contained International Registry rural carrier costs. *See* Notice of United States Postal Service of Filing Additional Page to Testimony of Karen Meehan (USPS-T-9), June 22, 2005.
    a. Please confirm that the inclusion of International Registry costs related to rural carriers in BY 2004 meant that there was a similar reduction in FY 2004 International CRA, Cost Segment 10. Please explain.
    b. Please explain whether FY 2005 Domestic CRA, Cost Segment 10 includes International Registry rural carrier costs and, if so, whether this results in a similar reduction in the FY 2005 International CRA, Cost Segment 10.

12. The Postal Service informed the Commission by letter dated June 27, 2005 that the FY 2004 volume, revenue and cost figures should be revised for inbound Express Mail. Please provide the revised costs per piece for inbound Express mail for FY 2004 broken out in the same manner as costs for inbound Express Mail on page B-7 of the FY 2005 ICRA Report. Also please provide a breakout of the inbound Express Mail FY 2004 IOCS-related costs for Canada, ICs, and DCs.

13. The percentage increase in unit mail processing costs for International Surface Airlift mail between FY 2004 and 2005 cited in Response to First Order FY 2005, question 17, appears to be incorrect. Please confirm that the percentage increase should be 17% lower than cited.

It is ordered:

The Postal Service is directed to provide the items in the body of this order on or before May 2, 2006.

By the Commission
S E A L

Steven W. Williams
Secretary