

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2010-4

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-23 OF PRESIDING OFFICER'S
INFORMATION REQUEST NO. 3
(August 9, 2010)

The United States Postal Service hereby provides its responses to Questions 1-23 of Presiding Officer's Information Request No. 3, dated August 3, 2010. Answers were sought no later than noon, today. Each question is stated verbatim and is followed by the response. For the present, the responses to questions 20-23 are institutional, given their cross-functional nature.

The responses are sponsored by officials in this docket as follows:

Questions 1-19 -- Kiefer
Questions 20-23 -- Institutional

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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August 9, 2010

**RESPONSE OF JAMES KIEFER
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1. The discussion of the proposed price changes for First-Class Mail states that “the Postal Service does not believe that the erosion of single-piece mail through electronic diversion can be materially affected by limiting the growth of the stamp price.” Statement of James M. Kiefer at 15. It then goes on to assert that “many presort First-Class Mail customers may respond to large price increases, not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether.” *Id.* at 17.

a. Please provide all studies and analyses underlying the conclusion that electronic diversion of single-piece mail is essentially unaffected by price, while the electronic diversion of presort First-Class Mail is likely to exhibit a response to price beyond that anticipated by price elasticity.

b. Please confirm that the Postal Service believes that First-Class presort flats (11.9 percent proposed increase) are not as susceptible to price-driven electronic diversion as presort letters (5.9 percent proposed increase). If confirmed, please provide all studies and analysis underlying this conclusion. If not, please explain.

RESPONSE:

a. No specific study underlies this conclusion. Rather, the context of the argument on pages 17 through 20 is essentially that the diversion of transaction and statement mail is initiated and driven by the businesses that generate this mail. See pages 9-10 (“Key Drivers” section) of “Projecting U.S. Mail Volumes to 2020”, prepared by the Boston Consulting Group, March 2, 2010.¹ Individuals who receive this mail and send remittances are driven to shift by convenience and incentives provided by the businesses. The price of the stamp is a relatively minor consideration in this regard. See, e.g., Testimony of Claude R. Martin on Behalf of the Greeting Card Association, GCA-T-2, Docket No. R2006-1. at 22, 26, 30, and 47. In this context, the single-piece price elasticity is less than half the price elasticity of Presort mail, in absolute terms. Please see USPS-R2010-

¹ Please see: http://www.usps.com/strategicplanning/_pdf/BCG_Narrative.pdf

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4/8, workbook "vf-Oct'10 implementation md.xls", tab "Elasts". The reported price elasticities are -0.400383 for Presort Mail and -0.183752 for single-piece mail.

b. Pages 15 and 17 of my statement do not discuss flat-shaped mail at all. Postal Service demand models do not estimate separate equations for various shapes, such as flats and parcels. The Postal Service does not have sufficient information to confirm or reject the proposition that "First-Class Mail presort flats are not as susceptible to price-driven electronic diversion as presort letters"

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2. The response to CHIR No. 2 question 6, states that one reason for proposing an 11.9 percent increase for First-Class Mail presort flats "is the desire of the Postal Service to improve cost coverage for flats." While acknowledging the "unprecedented challenges" facing the periodicals industry, the Postal Service proposes an 8 percent increase for Periodicals Mail to improve its cost coverage. Statement of James M. Kiefer at 39. In contrast, the Postal Service proposes a much smaller 5.1 percent increase for Standard Mail Flats, due to concern for the delicate financial position of the catalogue industry. *Id.* at 28-30. Please provide all studies and analyses relied upon to evaluate and compare the relative financial health of the periodicals industry, the catalogue industry, and industries that use First-Class presort flats. Please also provide all other studies and analyses underlying the Postal Service's evaluation of the relative ability of each industry to withstand postal rate increases of various sizes.

RESPONSE:

The Postal Service did not conduct studies or analyses to evaluate and compare the relative financial health of the periodicals industry, the catalogue industry and industries that use First-Class Mail presort flats. Also, the Postal Service did not conduct studies or analyses to evaluate the relative ability of each industry to withstand postal rate increases of various sizes.

Instead, the Postal Service used its business judgment to determine the relative price increases each category should be asked to bear. This judgment was informed by knowledge of the industries that use these products, and our customers for these products. This knowledge was gained by regular contact with customers and industry representatives, as well as information gathered through meetings, conferences, consultation with experts, and the media that cover these industries and customers. Using this knowledge the Postal Service made an informed judgment as to the appropriate prices for these and other price categories.

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3. The response to POIR No. 2, question 3 states that, "[t]he Postal Service expects the upward trend in usage [of Full-Service IMb] to continue at least until the use of the Full Service IMb option is required to receive automation discounts."

- a. Please describe the Postal Service's plans to require the use of Full-Service IMb to qualify for automation discounts, including the timing of such a requirement and plans to address the potential difficulties for smaller mailers in adopting Full-Service IMb (as opposed to Basic IMb).
- b. Please confirm that when Full-Service IMb is required to qualify for automation discounts, the percentage of automation pieces using Full-Service IMb will be 100 percent. If not, please explain.

RESPONSE:

- a. The Postal Service does not currently plan to require the use of Full-Service IMb to qualify for automation discounts. Instead, use of the Intelligent Mail Barcode (IMb) (Basic or Full Service) will be required for automation discounts. Please see the revised response to Presiding Officer's Information Request No. 2, Question 3, also filed today.
- b. Not applicable.

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4. Please refer to the response to POIR No. 2, questions 8 and 9, including the spreadsheet "POIR.2.Q.1.8.10.xls" provided with the response.
- a. Please refer to tab 'Reply Rides Free' cells C20-C24. While labeled as assumptions, some of these data appear to be taken from other sources (e.g., current volume between 1 oz. and 1.2 oz. = 1.34388220786953%). Please explain the rationale and provide the source for each of the assumptions.
 - b. Please refer to tabs 'SP Ltrs & Crds' and 'Presort Ltrs & Crds.' The revised calculations incorporate the anticipated additional volume into the percentage rate increase by multiplying the estimated incremental volumes by new and current prices, with zero used as the current price. This has the effect of increasing the percentage rate change, which implies that the discount initiative is effectively a rate increase. A possible alternative treatment would be to isolate the additional ounces that would be subject to the discount, and apply the current (12.5 cents) and proposed (0 cents) prices to the estimated volume of discounted additional ounces. This would have the effect of showing the discount as reducing the percentage change in rates. Another alternative, given the limited scope of the proposal, the unique and unusual requirements for eligibility, and its intended purpose of retaining marginal volumes through targeted discounts, would be to treat the initiative like NSAs and other special classifications by excluding it from the price change calculations. Please explain the rationale for the method of incorporating the initiative into the price change calculations used by the Postal Service, including a discussion of why other alternatives were not used.
 - c. See response to POIR No. 2, question 9.a. Please identify the data sources and methods of recording participants':
 - i. volumes,
 - ii. profitability,
 - iii. use of ancillary materials and reply envelopes.

RESPONSE:

- a. The "current volume between 1 oz. and 1.2 oz." is an estimate of the amount of exposure for the program, based on an analysis of ODIS/RPW data.

"Program participants" is an estimate of the amount of volume that will participate in the program. The estimate is based on experience with past incentive programs, discussions with mailers, and management judgment.

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“Cost of additional weight” is an estimate of the additional cost of a 1.2-ounce piece, compared to the systemwide average. The estimate is based on previous analyses of cost by weight increment.

“Transaction and Statement Volume” is an estimate of the total size of the likely pool of qualifying volume. It is based on management’s estimate of the current amount of transaction and statement volume and the likely growth of that volume.

“Retained Presort Volume” is an estimate of the amount of volume that will stay in the mail as a result of the program, and is based on management judgment.

- b. The Postal Service accepts the second alternative provided in the question, i.e., given the limited scope of the proposal, the unique and unusual requirements for eligibility, and its intended purpose of retaining marginal volumes through targeted discounts, the estimated revenue from this incentive program will be excluded from price change calculations. Please see POIR3.Q.4.xls. This workbook incorporates the analysis from POIR2.Q.4c.FCM75.xls, filed on August 3, 2010.
- c. In general, customer data will be captured via PostalOne! mailing statements, which also feed into the Corporate Business Customer Information System (CBCIS). Analysis will be performed by extracting data from these source systems into an external database where those data can be manipulated and calculations performed.

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- i. CBCIS and mailing statements will be used to determine both total participant volume and change in volume over the base period.
- ii. Contribution will be calculated by using CBCIS data for volume and revenue, and using unit costs estimated from CRA and cost models. Total cost will be estimated by multiplying volumes by unit costs, and contribution will be determined by subtracting this amount from total revenue.
- iii. CBCIS and mailing statement weight and volume data will be used to calculate changes in weight per piece, reflecting changes in use of ancillary materials and reply envelopes.

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5. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service commencing at page 28, line 23 which states, "[t]hese volume declines have helped to drive the Flats cost coverage down to only 82 percent." Please explain how the decline in volume drove down cost coverage.

RESPONSE:

In general, the Postal Service would agree that volume increases or decreases within the relatively narrow range over which postal volumes have routinely varied for the last four decades would not be expected to have much, if any, effect on unit attributable cost or, consequently, on cost coverage. But as discussed on page 28 of the statement, the volume of Flats declined by over 20 percent over a short period of time. Despite substantial efforts to trim costs in line with volume declines, it was not possible to reduce costs by the same percentage as the massive mail volume declines that occurred within a relatively short period of time. This issue is given a more thorough discussion in the Response of the United States Postal Service to Motion of the Affordable Mail Alliance to Dismiss Request (filed August 2, 2010) on pages 51-56, including footnote 47. If attributable costs do not shrink proportionately with volumes within a specific time window, the cost coverage (the ratio of revenues -- which do tend to shrink in line with volumes -- to attributable costs) must, of mathematical necessity, also shrink.

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6. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service at page 32, footnote 28 which states “[c]atalog advertising often leads to sales of shipping services for fulfillment, as well as additional follow-on advertising using the Standard Mail Flats product as well as other Mailing Services products.”

- a. Please provide the percentage of all catalog advertising that leads to sales of shipping services for fulfillment.
- b. Please provide the percentage of shipping services for fulfillment (taken from your answer to subpart a.) that is provided by the Postal Service.
- c. Please provide a list of Postal Service products used by catalogers for fulfillment and the proportionate use of each product by catalogers.

RESPONSE:

- a. The average response rate varies among catalog companies, but according to statistics from the Direct Marketing Association, in 2009 the average response rate for the industry was 1.5 percent. This 1.5 percent response rate equates to 1.9 shipments per 100 catalogs, which includes the original order, plus any backorders, split orders, and returns.
- b. It is believed that the Postal Service has a small percentage of the total of fulfillment shipments from catalogers. No exact data are available.
- c. Based on an analysis of the top 600 catalog companies by Postal Service spending, the catalog industry uses for shipping the following Postal Service products (with each product's approximate share of the total combined postal revenue from these shipments in parentheses): Express Mail (3 percent), Priority Mail (43 percent), Parcel Post (3 percent), BPM Parcels (30 percent), First-Class Mail Parcels (10 percent), and Standard Mail NFM's and Parcels (12 percent). It is also believed that catalog mailers generate significant amounts of Parcel Select mail, but usage data by mailer for this product are not available to the Postal Service.

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7. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service and the discussion of pricing of the Standard Mail Flats product. Reference is made commencing at page 32, line 12 to the "contribution that catalog advertising makes to the health of other Postal Service products." Please provide an estimate of the contribution from other Postal Service products specifically generated by catalogs in FY 2009. Please provide all inputs and assumptions used to derive this estimate and any studies or analyses that identify or that quantify this additional contribution.

RESPONSE:

The Postal Service has not prepared any estimates of the contribution from other products generated by catalogs for FY 2009. But it has produced an estimate of cost coverage of mail sent by catalog mailers based on FY 2010-Q2 data. A public version of that analysis, from which information about competitive products has been redacted, is attached. An unredacted version is filed under seal as USPS-R2010-4/NP7. Based on this analysis the catalog industry generates mail with a total cost coverage of approximately 132 percent. This analysis includes contribution for all mail generated by catalog mailers, with the exception of Parcel Select mail, for which data at the customer level were not available.

Total Revenue/Volume - By Product - Top 600 Catalogers

Attachment to Response to POIR No. 3, Q. 7

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
	Revenue	Volume	% Total Volume	Revenue/Pc	Cost/Pc ***	Contribution/Pc	Cost Coverage	Weighted Cost/Pc
Total Of VOLUME Q2 FY2010	4,818,654,711	18,213,902,099	100.00%	\$0.265	0.20	\$0.064	132%	0.201
CARRIER ROUTE FLATS	1,749,314,114	7,203,478,767	39.55%	\$0.243	0.16	\$0.083	152%	0.063
CARRIER ROUTE LETTERS	21,770,978	109,947,735	0.60%	\$0.198	0.16	\$0.038	124%	0.001
FLATS	1,213,877,912	3,406,392,146	18.70%	\$0.356	0.448	(\$0.092)	80%	0.084
LETTERS	996,422,130	5,040,054,308	27.67%	\$0.198	0.109	\$0.089	181%	0.030
NFM	2,522,168	2,868,892	0.02%	\$0.879	1.237	(\$0.358)	71%	0.000
PARCELS	41,400,753	30,601,040	0.17%	\$1.353	1.237	\$0.116	109%	0.002
SAT HD FLATS & PAR	144,186,163	845,931,505	4.64%	\$0.170	0.063	\$0.107	271%	0.003
SAT HD LETTERS	99,076,053	680,822,509	3.74%	\$0.146	0.067	\$0.079	217%	0.003
FIRST CLASS MAIL FLATS	10,907,024	11,999,545	0.07%	\$0.909	0.753	\$0.156	121%	0.000
FIRST CLASS MAIL PARCELS	34,074,589	16,979,232	0.09%	\$2.007	1.886	\$0.121	106%	0.002
FIRST CLASS MAIL PRESORT CARD	47,375,264	225,826,165	1.24%	\$0.210	0.077	\$0.133	272%	0.001
FIRST CLASS MAIL PRESORT LETTERS	169,909,477	480,994,187	2.64%	\$0.353	0.120	\$0.233	295%	0.003
FIRST CLASS MAIL SINGLE PIECE CARD	2,108,159	7,651,852	0.04%	\$0.276	0.272	\$0.003	101%	0.000
FIRST CLASS MAIL SINGLE PIECE LETTERS	7,119,037	15,408,943	0.08%	\$0.462	\$0.263	\$0.199	175%	0.000
PRIORITY (EXCLUDING CUSTOMIZED)								
PARCEL POST	9,321,617	869,263	0.00%	\$10.724	9.432	\$1.292	114%	0.000
PACKAGE PARCEL RETURN SERVICE								
BPM	106,670,548	116,790,993	0.64%	\$0.913	0.498	\$0.416	184%	0.003
EXPRESS								

Notes

- Revenue (Col [1]): Revenue by product for top 600 catalog mailers
- Volume (Col [2]): Volume by product for top 600 catalog mailers
- Col [3]: Volume in column [2] divided by total volume (cell C6)
- Col [4]: Column [1] / Column [2]
- Cost / Piece (Col [5]): Cells E7-E25: FY2009 CRA data; Cell E6 = Cell I6
- Col [6]: Column [4] - Column [5]
- Col [7]: Column [4] / Column [5]
- Weighted Cost / Piece (Col [8]): Cells I7-I25: Col [5] * Col [3]; Cell I6 = Sum of Cells I7 to I25

*** Cost per piece data is average data for the product as a whole and may not precisely represent the unit costs of catalog mailers' mail mixes.

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8. Has the Postal Service determined the own-price elasticity for Standard Mail Flats? If yes, please provide the elasticity and all backup documentation.

RESPONSE:

The Postal Service has not yet been able to produce own-price elasticity estimates for Standard Mail Flats.

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9. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service commencing at page 28, line 21, where it states that volume declines exceeding 20 percent of the Flats product were driven by reductions in catalog mailings.

- a. Has the Postal Service conducted any studies to determine what percentage of the loss in Flats volume is due to conversion to letter-shaped catalogs?
- b. Has the Postal Service conducted any studies to determine what percentage of the loss in Flats is due to co-mailing to qualify for Carrier Route?

RESPONSE:

- a. No.
- b. No. Some Standard Mail Flats mailers engage in co-palletization and other combining activities (such as combining automation and Carrier Route flats in sacks). These programs have been around for some time and it is unlikely that the recent Flats volume declines are due to these kinds of activities.

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10. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service commencing at page 7, line 1, where it states that, “[w]e cannot afford to be short-sighted and take actions that will “fix” a coverage problem by permanently driving mail—mail that we believe will become profitable as the Postal Service and the mailing community adjust to operational and marketplace realities—or mail that is valued in the mailbox—out of the system.”

- a. Please confirm that the Postal Service's position is that the value of the mail in the mailbox, especially for flat-shaped products, offsets the negative contribution. If confirmed, please discuss the short- and long-run ramifications of this position.
- b. Please quantify the financial benefit to the Postal Service of each mail product or service that is valued in the mailbox. Please provide all supporting documentation.

RESPONSE:

- a. Not confirmed. It is not the position of the Postal Service that “the value of the mail in the mailbox” offsets negative contribution. The Postal Service's position is that all classes of mail should cover their costs and make a reasonable contribution toward the Postal Service's institutional costs.
- b. While the Postal Service believes that all mail has value in the mailbox, the portion of the Statement quoted in the preamble to the question was intended primarily to refer to Periodicals, which has long been recognized as having particularly high value in the mailbox. While the Postal Service does not have any studies that precisely quantify the external contribution (contribution from products other than Periodicals) generated by Periodicals mailers, a recent examination of the top 100 Periodicals mailers show (1) that less than half of all revenue paid by Periodicals mailers comes from products in the Periodicals class, and (2) the bulk of non-Periodicals revenues generated by Periodicals mailers is in the First-Class Mail and Standard Mail classes, both high contribution classes. Please see the Power Point slides illustrating the value of

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Periodicals to customers, attached to this response set as part of the zip file POIR.3.Q.10.11.14.ATTACHS.zip.

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11. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service at page 8, line 20, discussing the wide range of considerations in developing these prices, including "vulnerable customer segments."

- a. What customer segments are considered vulnerable? Please provide any available studies used to support these conclusions.
- b. How does the Postal Service determine which customer segments are vulnerable in areas where no independent studies exist?

RESPONSE:

- a. Many customer segments are vulnerable for a variety of reasons, but the Postal Service considers the following segments to be especially vulnerable: First-Class Mail Presort Letters mailers, First-Class Mail Single Piece Letters mailers, Standard Mail Letters and Standard Mail Flats mailers, and Periodicals mailers. As discussed in the Statement, the Postal Service does not believe that the vulnerability for every one of these categories of mail can necessarily be effectively addressed through pricing. The Postal Service has not conducted its own studies but has relied on analyses of the mail market that are reported by groups that monitor the mailing industry, together with information from its own customer contacts to develop its views as to the vulnerability of specific categories of mail. See the response to part (b) for further details.
- b. Aside from direct contact with customers, the Postal Service constantly monitors the trade media and reports and other communications prepared by industry organizations. Attached to this response set as part of the zip file POIR.3.Q.10.11.14.ATTACHS.zip are some examples of articles and presentations that the Postal Service has seen that are germane to the issue of vulnerability, particularly with respect to the catalog industry. See "Outlook 2010: The Maturation of Email in a Continuously Evolving Market," Bruce Biegel, The

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Winterberry Group, presentation April 19, 2010, slide #11, on the shift from direct mail to email. See "Postage Increase Brings a New Prospecting Breakeven," Jim Coogan, published in Multichannel Merchant Magazine, 7/2/07, for a perspective on how postage increases must lead to the cutting of catalog prospecting. See "Search To Grow As Marketers Express ROI Concerns," published in DIRECT Magazine, 3/27/10 for a recent survey showing that merchants are shifting direct mail dollars to Internet-based search engine advertising. See the testimony of Allen Abbott of the American Catalog Mailers Association to Senate and House subcommittees on 7/2/10, particularly the section entitled "Elasticity" on pp. 4-5 for ACMA's view of the responsiveness of catalog volume to price. See also the "2009 Channel Preference Study," prepared by ExactTarget, page 4 in particular, which shows how consumers' preferred channels for permission-based promotional messages are changing.

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12. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service, commencing at page 30, line 7, regarding closing the cost coverage gap for Standard Mail Flats. Mr. Kiefer argues that because "postage accounts for approximately half the cost of mailing a catalog", a large postal price increase would "put serious additional pressures on catalog mailers, thereby reducing postal volumes even further than they have already fallen."

- a. Please explain what costs are included in "the cost of mailing a catalog" as used in the quotation above.
- b. Please provide the approximate percentage of a catalog mailer's total operating expenses that is postage for mailing catalogs? Please provide the source of this estimate.

RESPONSE:

- a.- b. Although the costs vary by market segment, the cost components of mailing a catalog can be divided into five distinct categories. Estimates of cost shares for each component, based on industry input, are given after each component.

Creativity – 12%

Marketing – 5%

Paper – 30%

Print – 12%

Postage – 41%

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13. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service commencing at page 32, line 15. With regard to Standard Mail Flats, it states that the Postal Service “is seriously concerned that taking aggressive action to close the gap through pricing alone in the early days of the expected recovery period might endanger the long-run health of the catalog industry and ultimately destroy this important segment of its business.” Please also refer to USPS-R2010-4/9—Operations Plans for Flats. On page 11, it states, “[t]he Postal Service believes that Standard Mail volumes are potentially sensitive to large price increases, which may precipitate ‘rate shock,’ given that this mail is primarily composed of marketing material and other discretionary activities.”

- a. When determining the rate increase for Flats, did the Postal Service determine the effect on a typical cataloger that uses both Standard Mail Flats and Carrier Route flats?
- b. If yes, what effects were determined?
- c. Please provide the average percentage increase in rates for a typical cataloger?
- d. Could the effect of a greater increase in rates for Flats be tempered by a smaller increase for Carrier Route flats? Please explain.

RESPONSE:

- a-c. The Postal Service is aware that many of its catalog customers use both its Flats and Carrier Route products. Nevertheless the Postal Service has not attempted to define a “typical cataloger” in terms of what percentage of each product such a mailer would use, much less what distribution of presort categories the “typical cataloger” would use within the Flats product and what pattern of entry points the customer would use for each product and presort level. Consequently the Postal Service has not quantified the impact of its pricing on the “typical cataloger.” Since both the Flats product and Carrier Route flats category received approximately the same percentage increase (5.1 percent for Flats and 4.9 percent for Carrier Route flats), a mailer whose mailing resembles the volume pattern within each product’s pricing categories is likely to see an increase of approximately five percent.

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- d. Possibly. But it is also possible that giving Carrier Route flats a lower increase to "offset" a higher increase for non-carrier-route presorted flats could lead to a much higher average increase for the catalog mailer. Alternatively, it could lead to lower average prices. Any pricing design aimed at offsetting higher Flats price increases with lower Carrier Route flats price increases would necessarily have to pick a fixed mail mix for each product around which the offsetting pricing design would be built. Mailers whose mail mix mirrored the mail mix chosen for the design could potentially offset higher increases in one product with lower increases in the other. But those whose mail mixes are different from the "breakeven" patterns would likely experience either higher or lower increases than those designed for the assumed "typical cataloger." Given the fact that the Postal Service does not know how typical the "typical cataloger" is, without further information such a pricing strategy would have unknown and, possibly, unintended consequences while providing no clear assurance that most, or even many, catalogers would actually break even in the process.

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14. Please refer to the Statement of James M. Kiefer on Behalf of the United States Postal Service at page 30, footnote 25, which cites research from Comscore regarding online purchases by catalog recipients.

- a. Please provide this research.
- b. Who commissioned this research?
- c. What were the objectives of this research?

RESPONSE:

- a. Please see the research reports from ComScore, which are attached to this response set as part of the zip file POIR.3.Q.10.11.14.ATTACHS.zip.
- b. The Postal Service commissioned this research.
- c. The objective was to provide a comprehensive overview of the relationship between direct mail and its impact on subsequent online consumer behavior.

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15. In FY 2009, Confirm Service had a negative contribution. Further, in response to POIR No. 1, question 11, the Postal Service stated that "it will ultimately be the level of Product Specific costs in any given year which will have the most significant impact on the performance of [Confirm Service]." In Docket No. ACR2009, the Postal Service explained that Confirm Service's fixed cost increased because of "an IT hardware upgrade (coding) and application development, so that Confirm could provide Full Service IMb data, and use updated technology."

- a. For FY 2010, has the Postal Service undergone any similar Confirm projects that would increase the attributable costs for Confirm Service?
- b. For FY 2011, does the Postal Service anticipate undertaking any similar Confirm projects?

RESPONSE:

- a. No.
- b. The Postal Service has not fully determined plans for FY 2011, so attributable cost increases over FY 2010 cannot be ruled out.

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16. Please refer to the Postal Service's response to POIR No. 1, questions 9-10, Excel file, "POIR1Q9.xls," worksheet, 'Change Calc,' lines 42-44. The Change Calc worksheet includes revenue indices for the three International Special Services products. However, for International Ancillary Services and International Business Reply Mail, the indices differ with the Postal Service's original filing (July 6, 2010). See the table below.

July 6, 2010 Filing			
	<u>Revenue Index</u>		Percent
	<u>Transactions Multiplied by</u>		Change
	<u>Current Fees</u>	<u>Planned Fees</u>	in Fees
Intl Ancillary Services	\$17,276,689	\$19,305,230	11.741%
Intl Reply Coupon Service	\$24,644	\$25,817	4.760%
Intl Business Reply Mail	\$132,223	\$136,855	3.503%
July 23, 2010 Revised Filing			
	<u>Revenue Index</u>		Percent
	<u>Transactions Multiplied by</u>		Change
	<u>Current Fees</u>	<u>Planned Fees</u>	in Fees
Intl Ancillary Services	\$17,127,119	\$19,148,671	11.803%
Intl Reply Coupon Service	\$24,644	\$25,817	4.760%
Intl Business Reply Mail	\$189,725	\$196,336	3.485%

- a. Please explain the difference in revenue indices for International Ancillary Services and International Business Reply Mail.
- b. Did the Postal Service revise the billing determinants for International Ancillary Services and International Business Reply Mail? If yes, please provide the revised billing determinants.

RESPONSE:

- a. The correct revenue calculations and percent changes were filed on July 6, 2010, in INTL Special Services Worksheets R2010-4.xls. The International Ancillary Services and International Business Reply Mail revenue totals given in the July 23, 2010, filing were taken from a preliminary worksheet.

**RESPONSE OF JAMES KIEFER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

b. No.

**RESPONSE OF JAMES KIEFER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

17. Please refer to the Exigent Request of the United States Postal Service, Attachment A, and the prices for outbound Single-Piece First-Class Mail International postcards (1125.6 Prices). In Docket No. R2009-2, the proposed postcard price to Canada and Mexico was \$0.75 and \$0.79, respectively. For the Exigent Request, the Postal Service proposes a uniform price for postcards to Canada and Mexico of \$0.80. Please explain the rationale for proposing a uniform price for postcards to Canada and Mexico in the Exigent Request.

RESPONSE:

The price for postcards has been equal to the one-ounce price for FCMI letters since 2007, when there was one price for Canada and Mexico and another price for all other countries. In Docket No. R2009-2, the postcard prices for Canada and Mexico were differentiated to align with the one-ounce prices for First-Class Mail International (FCMI) Letters to Canada and Mexico. For the Exigent Request, there are three one-ounce prices for FCMI Letters, but management decided to return to the uniform price for postcards to Canada and Mexico in order to simplify the price structure for outbound Single-Piece First-Class Mail International postcards.

**RESPONSE OF JAMES KIEFER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

18. Please refer to the responses to POIR No. 2, questions 11 and 12. For First-Class Mail International letters, flats, parcels, and cards, please explain the adjustment(s) made in the quarterly billing determinants for the hybrid year provided in the responses to questions 11 and 12, compared to the quarterly billing determinants reported in documents previously filed with the Commission.

RESPONSE:

In the Exigent Request, Israel will be moved from FCMI price group 8 to price group 5. The quarterly billing determinants for FCMI letters, flats and packages provided for question 11 include the migration of the volumes destined to Israel from price group 8 to price group 5.

**RESPONSE OF JAMES KIEFER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

19. Please refer to the response to POIR No. 1, question 3(a) and (b). Also, please refer to the UPU Convention, Article RL 215, paragraphs 5 and 6 (quoted below) concerning Quality of Service linked terminal dues:

Article RL 215.5

Provisional quality of service linked terminal dues rates shall be calculated by the International Bureau and notified by circular no later than 1 July of each year. The provisional rates shall come into effect on 1 January of the following year and shall remain in force for the entire calendar year. The provisional terminal dues rates shall...include an incentive and an adjustment based on the quality of service results of the previous calendar year.

Article RL 215.6

Final quality of service linked terminal dues rates shall be calculated by the International Bureau following the publication of the final quality of service results relating to the calendar year in question. The final quality of service linked terminal dues rates shall be notified by International Bureau circular no later than 1 May of the year following the calendar year in question and shall replace the provisional terminal dues rate previously issued for that calendar year.

- a. According to the above referenced articles, the International Bureau has already published the provisional terminal dues rates that will be in effect for CY 2010 and CY 2011. Please provide a rationale for not using the known and certain provisional terminal dues rates for CY2010 and CY 2011 in calculating the percentage change in price for inbound First-Class Mail International in Library Reference USPS-R2010-4/1, Excel file, Inbound FCMI Worksheets R2010-4.xls.
- b. Please discuss the merits of using a weighted average rate reflecting the CY2010 and CY2011 "provisional" terminal dues rates paid by countries in the target system *and* the CY2010 and CY2011 terminal dues rates paid by countries in the transition system in calculating the percentage change in price for inbound First-Class Mail International in Library Reference USPS-R2010-4/1, Excel file, Inbound FCMI Worksheets R2010-4.xls.

**RESPONSE OF JAMES KIEFER
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RESPONSE:

- a. While the provisional terminal dues are published, they are not certain. Between CY2006 and CY2009, a comparison of the provisional terminal dues per piece component with the final CY final terminal dues per piece component shows only one revision (CY 2009). But a comparison of the provisional terminal dues per kilogram component with the final CY final terminal dues per kilogram component shows revisions for each year between CY 2006 and CY 2009. The Postal Service used the UPU base terminal dues rates in Inbound FCMI Worksheet R2010-4.xls as it did with the analogous worksheets for USPS-R2008-1/NP1 and USPS-R2009-2/1.
- b. The approach suggested in the question should be a more accurate representation to the extent that the FY 2009 inbound volume and weight distributions used in the calculations approximate the FY 2010 distributions. It should yield lower total revenue estimates that result in a small percentage increase in the price for inbound First-Class Mail International, but would have little impact on the overall percentage increase for First-Class Mail.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

20. The following questions concern potential transportation savings identified in the Flats Strategy, USPS-R2010-4-LR-9. These improvements are estimated to be implemented during the test year

- a. Please provide the percentage of Flats that currently utilize the NDC network.
- b. When will the Redesign of NDC Mail Transportation Equipment (MTE) be completed?
- c. Please provide the estimated ROI for this project.
- d. When will the NDC/Surface Transportation Center Integration be completed?
- e. Please provide the estimated ROI for this project.

RESPONSE:

- a. No estimate of this percentage has been identified.
- b. 2011
- c. No ROI for this project is currently available because cost estimates for new equipment associated with it have not been finalized
- d. 2012
- e. Expected savings for all mail is \$125 million; no additional investment is expected.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

21. The following questions concern the estimated savings from the implementation of the FSS provided in USPS-LR-R2010-4-NP-2:

- a. Please provide the total amount of cost savings estimated for the FSS in FY 2010 and FY 2011.
- b. Please provide the source and methodology for that estimate.
- c. USPS OIG Audit DA-AR-10-007, concerning the performance projection of the FSS in the FY 2010 Q1 *Investment Highlights*, states that the estimated savings from the FSS machines do not comport with the DAR methodology or current performance. How does the methodology described in subpart b. differ from the methodology used in the Q1 FY 2010 *Investment Highlights*.

RESPONSE:

- a. Savings related to FSS are detailed in the attachment to the Response of the United States Postal Service to Informal Question Regarding Cost Reduction Programs Posed at the Technical Conference on July 27, 2010 (3rd.TC.Cost.Redctn.Attach.xls, filed August 2, 2010). The information requested can be found in rows 24-27 of the first four worksheets contained in the file.
- b. The cost savings estimate is based on internal Postal Service projections of machine performance, which are in turn driven by flat mail volume projections and the FSS deployment schedule.
- c. The methodology described in subpart b is essentially the same as the Investment Highlights methodology. The range of expectations contained in the Q1 FY 2010 Investment Highlights projects a range of possibilities which varies machine throughput, and also includes benefits from the use of Transitional Employees during the implementation period.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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22. According to the Flats Strategy, USPS-R2010-4-LR-9, the estimated date of implementation for the programs listed below is after FY 2011. For each program, as available, please provide the following: (1) a description of the concept; (2) when the decision to implement the concept will be made; and (3) any available additional detail concerning cost savings estimates for:

- a. Automated Flats Preparation;
- b. Automated Package and Bundle Sorter;
- c. Material Handling;
- d. Utilize a single Incoming Secondary run for all flats;
- e. Route Optimization 100 Percent Street Routes; and
- f. Facility Optimization.

RESPONSE:

Beyond the description in the original document, details on the practical scope or implementation of these concepts relies on a number of factors, including feasibility, the cost and effectiveness of new equipment, and negotiations with the unions. Any decision to develop a program will be dependent on evaluations of these factors, which do not themselves have timelines for completion.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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23. According to the Flats Strategy, USPS-R2010-4-LR-9, the estimated date of implementation for the programs identified below occurs before or during FY 2011.

- a. Equipment Optimization
 - i. Please provide the percentage of bundles currently processed in a non-optimal fashion on the SPBS or manually.
 - ii. Please provide the FY 2009 APPS operational run-time availability, excluding maintenance time.
 - iii. Please provide the FY 2009 APPS run-time.
 - iv. Please provide the percentage of pieces currently processed in a non-optimal fashion by manual sort.
 - v. Please provide the FY 2009 AFSM operational run-time availability, excluding maintenance time.
 - vi. Please provide the FY 2009 AFSM run-time.
- b. Reduce mixed-states consolidation processing locations (L009) and optimize mixed-states flow
 - i. Please provide the current cost of the L009 operation.
 - ii. When will consolidation be completed?
 - iii. What will be the effect on service of consolidation?
 - iv. Please provide the savings from consolidation.
- c. Realign operating and transportation plan to improve utilization
 - i. Please provide the current nationwide standard for Critical Entry Times.
 - ii. Please provide the percentage of mail tendered after the Critical Entry Time.
- d. Shifting distribution from Post Office Operations (Function 4) to Mail processing Operations (Function 1)
 - i. Please provide the percentage of mail currently processed in Function 4.
 - ii. Please provide or discuss the Postal Service's plan for centralizing the processing of flats to Function 1.

RESPONSE:

- a. i. Unknown. The Postal Service does not track bundle mail that is processed annually.
- ii. 371,287 hours
- iii. 309,512 hours

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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- iv. 30 percent of volume was handled manually in FY 2009.
 - v. 2,484,195 hours
 - vi. 1,669,821 hours
- b. i. The annual cost of single-piece processing of outgoing mixed states residue flat volumes entered under the L009 labeling list is estimated at \$8.4 million
- ii. The consolidation of mixed states residue flat distribution is expected to be complete in Quarter 2 of FY 2011
- iii. The Postal Service expects that service for these volumes will improve through a combination of streamlined mail flows and reduced cycle time for origin processing.
- iv. The savings associated with this consolidation effort is estimated for the next ten years at \$28 million each year.
- c. i. The only current nationwide standard CET is 4:00 p.m. for destinating Standard Mail
- ii. This data to provide an estimate are not recorded.
- d. i. Approximately 25.5 percent
- ii. The Postal Service is continuously researching the centralizing of flat mail distribution to locations where automated equipment capacity currently exists or redeploying excess automated equipment to locations where opportunity volume is identified. This would include mail from Function 4 distribution operations being moved to Function 1 when there is available capacity within service responsive operational windows.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

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August 9, 2010