

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report

Docket No. ACR2009

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued January 22, 2010)

To clarify the basis of the Postal Service's estimates in its Annual Compliance Report, filed December 29, 2009, the Commission requests the Postal Service to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than February 1, 2010.

First-Class Mail

1. Please refer to the discussion of worksharing discounts in the Annual Compliance Report at 58-73. For each Standard Mail, Periodicals, and Package Services discount that exceeds avoided costs, the Postal Service explains its position that one or more of the exceptions in § 3622(e) applies. For First-Class Mail discounts that exceed avoided costs (Auto Mixed AADC Letters, Auto AADC Letters, Auto 3-Digit Cards, Auto 5-Digit Cards, and Auto ADC Flats), no such exceptions are identified. Please explain whether the Postal Service believes that some or all of these discounts are covered by exceptions in § 3622(e), and if so, for each discount for which a § 3622(e) exception is claimed, identify the exception and explain how it applies to the discount.

Periodicals

2. Please confirm that USPS-FY09-11, File: PerOCflts.xls, Sheet: BUNDLE DATA, Cell M18 should have a value of 100 percent and not 1 percent.
 - (a) If you do confirm, please file a revised version of PerOCflts.xls.
 - (b) If you do not confirm, please explain.

3. Please explain the reason USPS-FY09-11, File: PerOCflts.xls Sheet: BUNDLE DATA, Cell K38, references the coverage of an originating APPS bundle sort, while the accepted model uses the average of destinating coverage for APPS and SPBS / LIPS operations. Please file a revised version of PerOCflts.xls if the current methodology remains appropriate.

4. Please explain the reason USPS-FY08-11, File: PerOCflts.xls, Sheet: Productivities, Cell B16, the variability of REC Keying is 100 percent, while in USPS-FY09-11, File: PerOCflts.xls, Sheet: Cell B16, it is 95 percent. Please explain which variability figure is correct, and file a revised version of PerOCflts.xls if the correct variability of REC keying is 100 percent.

5. The values in USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cells C8, C9, C10, and C11 are equal to the allied productivity factors found in Cells L43, L44, L31 and L32, respectively.
 - (a) Please explain why the same calculations were not made in the Postal Service's 2008 filing.
 - (b) Please explain whether this change constitutes a change in methodology.
 - (c) Please file a revised version of PerOCflts.xls if the current methodology remains appropriate.

6. Please refer to values in two files: (a) USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cells C12, C13, C14, and C15; and (b) USPS-FY08-11, File: Per OC flts.xls, Sheet: Productivities, Cells C12, C13, C14, and C15. The values referred to in each file list the Facility Study undertaken in Docket No. RM2009-1 as the source, yet only the ACR 2009 file explicitly shows that the productivity factor is calculated as bundles sorted per hour divided by an overhead factor.
 - (a) Please explain whether the productivity values for these cells in the ACR 2008 version are also the bundles sorted per hour divided by an overhead factor.
 - (b) If you do confirm, please provide the overhead factors and identify their sources.
 - (c) If you do not confirm, please explain how the raw productivity values from the Facility Study were altered to arrive at the values in USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cells C12, C13, C14, and C15. Please also identify the source of the values that modified the Facility Study productivities.

7. Please confirm that the MODS Productivity value for RECs Keying in USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cell C16 is from a source other than the one used in ACR 2008.
 - (a) If you confirm, please explain whether this constitutes a change in methodology.
 - (b) If you confirm, please explain why this source is an improvement over the previous source.

8. Please confirm that the value for bundles per container in Docket No. RM2009-1, File: Facility.xls, Sheet: Bundles Per Container, Cell: K27 is 97.88, and is the value that should be used in USPS-FY09-11, File: PerOCflts.xls, Sheet: CONVERSIONS, Cell: B18.
 - (a) If you do confirm, please file a revised version of PerOCflts.xls.
 - (b) If you do not confirm, please explain.

9. Please confirm that USPS-FY09-7__Excel_Workbooks, File: USPS-FY09-7 part6.xls, Sheet: 8 MP Cost Pool Variabilities, is the source of the data found at USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Column "M," which contains allied volume variability factors.
 - (a) If you do confirm, please file a revised version of PerOCflts.xls.
 - (b) If you do not confirm, please identify the source of data for this worksheet, and file an electronic copy of it, if it has not already been filed with the Commission.

10. This question is directed to the method of calculating the avoided prebarcoding costs of Within County, Basic Automation Periodical Flats.
 - (a) Please confirm that the current method of calculating the Within County avoided prebarcoding cost of a Basic Automation Periodical Flat is to calculate the difference between the unit mail processing cost of a Basic Non-Barcoded and Barcoded Periodical Flat.¹ The unit delivery costs of

¹ Where the unit mail processing cost of a Basic Non-Barcoded Periodical Flat is calculated as the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable Periodical ADC Flat, and the unit mail processing cost of a Basic Barcoded Periodical Flat is calculated as the volume-weighted average unit mail processing cost of a Barcoded Non-Machinable and Machinable Periodical ADC Flat.

both are the same, namely, the unit delivery cost of a Regular Standard Flat, so they cancel each other out.²

- (b) Please also confirm that the method of calculating the avoided prebarcoding cost of a Basic Automation Periodical Flat proposed in USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, Sheet: Periodicals Within County, Cell F19, is the difference between the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable, ADC Periodical Flat (which reproduces the current method), and the unit mail processing cost of a Barcoded Machinable ADC Periodical Flat (which does not reproduce the current method because there is no non-machinable component). Please refer to Table 1 below, which shows the spreadsheet calculations of the two methods, and highlights the different methods they use to estimate cost automation cost avoidances.
- (c) If you do confirm “a,” please file a version of Within County automation cost avoidances using the current methodology.
- (d) If you do confirm “a” and “b,” please provide a rationale for the proposed change in method of estimating Within County prebarcoding automation cost avoidances.

² See Responses of the United States Postal Service to Questions 9, 10, 12, 13, and 17 of Commission Information Request No. 2, February 14, 2008, Question 13, Within.County.xls, Sheet: Periodicals Within County, Cell F45; and PRC-ACR2008-LR5 – FY 2008 Periodicals, File: PRC_Periodicals_WS_ACR08.xlsx, Sheet: Within County, Cells H5-H10 (Docket No. ACR2007, Response to CIR No. 2).

Table 1

Within County Periodicals, Avoided Cost Calculations							
		Unit Mail Processing Costs ¹		Mail Volume ²		Current v. Proposed Methods	
		Machinable	Nonmachinable	Machinable	Nonmachinable	Current Method ³	Proposed Method ⁴
		C1	C2	C3	C4	C5	C6
	Barcoded						
L1	AADC Non-Auto	0.212	0.413	14,955,516	12,344,073	L1: (C1C3+C2C4)/(C3+C4)	L1: (C1C3+C2C4)/(C3+C4)
L2	3-Digit NonAuto	0.186	0.376	61,132,089	34,610,085	L2: (C1C3+C2C4)/(C3+C4)	L2: (C1C3+C2C4)/(C3+C4)
L3	5-Digit NonAuto	0.097	0.160	103,785,351	38,970,998	L3: (C1C3+C2C4)/(C3+C4)	L3: (C1C3+C2C4)/(C3+C4)
	NonBarcoded						
L4	AADC Auto	0.236	0.467	66,566,601	5,044,024	L4: (C1C3+C2C4)/(C3+C4)	L1C1
L5	3-Digit Auto	0.208	0.422	664,096,005	33,981,360	L5: (C1C3+C2C4)/(C3+C4)	L2C1
L6	5-Digit Auto	0.107	0.167	1,960,181,726	5,855,940	L6: (C1C3+C2C4)/(C3+C4)	L3C1
				Basic Prebarcoding Discount		L1C5 - L4C5	L1C6 - L4C6
				3-Digit Prebarcoding Discount		L2C5 - L5C5	L2C6 - L5C6
				5-Digit Prebarcoding Discount		L3C5 - L6C5	L3C6 - L6C6
1	Source: USPS-FY09-11, PER OC Fits.xls, Tab: SUMMARY						
2	Worksharing_Discount_Table-FY_2009_12_29_09.xls.xlsx, Worksheet WC, Cells: J8, J9, J14, J15, J20, J21						
3	Resp.CIR2.Qu.7.9.10.11.12.xls, Sheet: Periodicals Within County, 2/6/2009						
4	USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xlsx, Sheet: Periodicals Within County						

11. This question is directed to the method of calculating the avoided prebarcoding costs of Within County 3-Digit Automation Periodical Flats.
- (a) Please confirm that the current method of calculating Within County avoided prebarcoding cost of a 3-Digit Automation Periodical Flat is to calculate the difference between the unit mail processing cost of a 3-Digit Non-Barcoded and Barcoded Periodical Flat.³ The unit delivery costs of both are the same, so they cancel each other out.⁴

³ Where the unit mail processing cost of a 3-Digit Non-Barcoded Periodical Flat is calculated as the volume weighted average of the unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable, 3-Digit Periodical Flat, and the unit mail processing cost of a 3-Digit Barcoded Periodical Flat is calculated as the volume weighted average unit mail processing cost of a Barcoded, Non-Machinable and Machinable, 3-Digit Periodical Flat.

⁴ See Docket No. ACR2007, Response to CIR No. 2, Within.County.xls, Sheet: Periodicals Within County, Cell F46; and PRC-ACR2008-LR5 – FY 2008 Periodicals, File: PRC_Periodicals_WS_ACR08.xlsx, Sheet: Within County, Cells H6-H11.

- (b) Please also confirm that the method of calculating the avoided prebarcoding cost of a 3-Digit Automation Periodical Flat proposed in USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, Sheet: Periodicals Within County, Cell F20, is the difference between the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable, 3-Digit Periodical Flat (which reproduces the current method), and the unit mail processing cost of a Barcoded Machinable 3-Digit Periodical Flat (which does not reproduce the current method because there is no non-machinable component).
 - (c) If you do confirm “a,” please file a version of Within County automation cost avoidances using the current methodology.
 - (d) If you do confirm “a” and “b,” please provide a rationale for the proposed change in method of estimating Within County prebarcoding automation cost avoidances.
12. This question is directed to the method of calculating the avoided prebarcoding costs of Within County, 5-Digit Automation Periodical Flats.
- (a) Please confirm that the current method of calculating Within County avoided prebarcoding cost of a 5-Digit Automation Periodical Flat is to calculate the difference between the unit mail processing cost of a Non-Barcoded and Barcoded 5-Digit Periodical Flat.⁵ The unit delivery costs of both are the same, so they cancel each other out.⁶

⁵ Where the unit mail processing cost of a 5-Digit Non-Barcoded Flat is calculated as the volume-weighted average of the unit mail processing cost of a Non-Barcoded, NonMachinable and Machinable, 5-Digit Flat; and the unit mail processing cost of a 5-Digit Barcoded Flat is calculated as the volume-weighted average unit mail processing cost of a Barcoded, Non-Machinable and Machinable, 5-Digit Flat.

⁶ See Docket No. ACR2007, Response to CIR No. 2, Within.County.xls, Sheet: Periodicals Within County, Cell F47; and PRC-ACR2008-LR5 – FY 2008 Periodicals, File: PRC_Periodicals_WS_ACR08.xlsx, Sheet: Within County, Cells H7-H12.

- (b) Please also confirm that the method of calculating the avoided prebarcoding cost of a 5-Digit Automation Periodical Flat proposed in USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, Sheet: Periodicals Within County, Cell F21, is the difference between the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable 5-Digit Periodical Flat (which reproduces the current method), and the unit mail processing cost of a Barcoded Machinable 5-Digit Periodical Flat (which does not reproduce the current method because there is no non-machinable component).
- (c) If you do confirm “a,” please file a version of Within County automation cost avoidances using the current methodology.
- (d) If you do confirm “a and “b,” please provide a rationale for the proposed change in method of estimating Within County prebarcoding automation cost avoidances.

Standard Mail

- 13. The following questions refer to the passthrough calculation for High Density Flats.
 - (a) Please confirm that the cost avoidance for High Density Flats is 4.0 cents (unit cost for Basic Flat—14.2 cents minus unit cost of High Density Flat—10.1 cents).
 - (b) If you do confirm “a,” please confirm that the resulting passthrough is 108 percent.
 - (c) If you do confirm “b,” please provide a justification for the above 100 percent passthrough using one of the exceptions under § 3622(e)(2).

14. Regarding the passthrough calculation for High Density Flats:
- (a) Please provide quarterly billing determinants for FY 2009 for all Market dominant products excluding First-Class Mail.
 - (b) Please split 3rd quarter billing determinants into two periods (pre- and post-rate change).
 - (c) Please reconcile the quarterly billing determinants with the annual billing determinants.

Package Services

15. Please confirm that the formula in USPS-FY09-15 Excel file: BPM MP.xlsx, tab: Productivities, cell: D35 should be “=488.81663694823/D47”. If not confirmed, please explain.
16. Please confirm the value in USPS-FY09-15 Excel file: BPM MP.xlsx, tab: “Flat-Parcel”, cell: D6 and USPS-FY09-32, is 43,855, which matches Excel file: CS06&7-P.xls, tab: “Outputs to CRA”, cell: F36. If not confirmed, please explain.
17. Regarding USPS-FY09-15, Excel file: BPM MP.xlsx, tab: “Volume Data”:
- (a) Please confirm that columns [6] and [7] should be updated to reflect FY 2009 billing determinants. If so, please provide updated spreadsheets.
 - (b) Provide specific references for data in column [9].

18. There are several instances in USPS-FY09-15 and USPS-FY09-16 where the Bound Printed Matter and Media Mail models reference the former Single-Piece Parcel Post split between Intra-BMC and Inter-BMC. Because the Single-Piece Parcel Post distinction between Intra-BMC and Inter-BMC no longer exists, the models now use the FY 2008 Intra-BMC/Inter-BMC volume split as a proxy. Please explain the rationale for using the FY 2008 disaggregation, and if this methodology will continue in the future models.
19. Please provide FY 2009 Inbound International Surface Parcel Post (at UPU rates) billing determinants.

Special Services

20. Please refer to USPS-FY09-28, Excel file "Confirm2009.xls."
- (a) In cell E3, please confirm that the date "11/17/2008" is accurate. If the date is accurate, please explain the significance of the date. If the date is inaccurate, please provide the correct date and explain its significance.
- (b) For FY 2009, the fixed costs for the Confirm Service increased by \$1,669,855, from \$1,067,495 to \$2,737,350. Please discuss the causes of the increase in fixed cost. Specifically, please address the cost increase of \$1,509,252, from \$1,065,187 to \$2,574,439, in Account No. 52411 "MISD Charge Back." (See lines 45 and 47). In addition, please provide a detailed description of the cost element as well as any underlining financial workpapers.

21. Please refer to the FY 2009 Annual Compliance Report at 52-53, and Table 5, Special Services Mail Volume, Revenue and Cost by Product. Also, please refer to USPS-FY09-28, Excel file "Correction of MailingLists2009.xlsx." For Address List Services, please provide the source document(s) for the unit revenue and unit cost figures of \$0.373 and \$0.368, respectively.

22. Please refer to the Public Cost and Revenue Analysis (PCRA), Excel file "FY09PublicCRA.xls" and the FY 2009 Billing Determinants, Excel file "09 Special Services BD.xls."
 - (a) For COD, please reconcile the revenue and volume of \$7,564,147 and 1,015,205, respectively, from the PCRA with the revenue and volume of \$7,630,363 and 1,064,692, respectively, from the billing determinants.
 - (b) For Change of Address Authentication Service, please reconcile the revenue of \$9,082,000 from the PCRA with the revenue of \$9,158,692 from the billing determinants.
 - (c) For Confirm Service, please reconcile the revenue of \$2,384,350 from the PCRA with the revenue of \$2,441,100 from the billing determinants.
 - (d) For Caller Service, please reconcile the revenue of \$94,821,754 from the PCRA with the revenue of \$97,609,696 (Caller Service: \$94,188,147 + Reserve Number: \$3,421,549) from the billing determinants.
 - (e) For PO Boxes, please reconcile the revenue of \$817,075,478 from the PCRA with the revenue of \$806,688,384 from the billing determinants.

23. Please refer to USPS-FY09-1, Excel file "FY09PublicCRA.xlsx," and the Word file "FY09PublicCRAnotes.doc," which contains Notes to the PCRA. PCRA Note 2, Definitions, explains that "Other Domestic Ancillary Services" includes

identifiable costs for the following domestic services: Return Receipts, Signature Confirmation, Certificate of Mailing, Merchandise Return Service, Merchandise Return Receipt, Restricted Delivery, Business Reply, Address Correction Services, Bulk Parcel Return Service, Parcel Airlift, Shipper Paid Forwarding, Premium Stamped Stationary, Premium Stamped Cards, and that portion of delivery confirmation not transferred to Priority Mail and Parcel Select Mail.

The PCRA lists the total revenue and volume for “Other Domestic Ancillary Services” as \$751,479,542 and 1,301,738,567, respectively. Please provide the revenue and volume for each of the services included in “Other Domestic Ancillary Services” identified in PCRA Note 2 that sum to the total revenue and total volume for “Other Domestic Ancillary Services.” If necessary, reconcile the revenues and volumes provided with those listed in the billing determinants.

24. In Docket No. ACR2008, the Postal Service submitted the non-public Excel file “FY2008_RPWextractfile_MCS.” (See USPS-FY08-NP2 FY2008 International Cost and Revenue Analysis (ICRA) report (Hard Copy & Excel), Supporting Files, RPW Report.) This file includes the non-public version of the RPW report, and consists of the following three worksheet tabs containing comprehensive mail category revenue, pieces, and weight data for FY 2008: “Summary Category RPW Data,” “Rate Category RPW Data,” and “Selected Intl.” Please provide an Excel file featuring the aforementioned worksheet tabs that contain the same comprehensive mail category data from the RPW updated for FY 2009.

By the Chairman.

Ruth Y. Goldway