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

ANNUAL COMPLIANCE REPORT, 2011	DOCKET NO. ACR2011

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-9, 12, 14, 16-18, AND 21-25
OF CHAIRMAN'S INFORMATION REQUEST NO. 4
(February 29, 2012)

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 4, issued on February 22, 2012. Responses are due today. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1

Please refer to revised response to question 1 of Chairman's Information Request No. 1. For the following discounts the Postal Service identifies the exception claimed under 39 U.S.C. 3622(e)(2)(D) as justification for the passthroughs exceeding 100 percent: 5-Digit Automation Letters, Mixed AADC Automation Cards, AADC Automation Cards, 5-Digit Automation Cards and 3-Digit Automation Flats. Please explain how this exception applies to these discounts. Please be sure to discuss the operations affected.

RESPONSE:

As shown in the following tables, the cost avoidance for the 2010 ACR (December 29, 2010) was the most recent cost avoidance information available when the Postal Service filed for its two most recent price changes, Docket Nos. R2011-2 (filed January 13, 2011) and R2012-3 (filed October 18, 2011). The cost avoidances presented in the FY2011 ACR were developed following the end of the fiscal year, and were filed with the Commission on December 29, 2011, as required by 39 USC § 3652. The FY2011 ACR compares the FY 2011 cost avoidances to the Docket No. R2011-2 discounts, because these were the discounts in effect at the end of FY 2011.[1] The resulting passthroughs are the ones that are being justified. In this respect, the ACD is an inherently backward-looking analysis. In determining whether the Postal Service is in compliance with any statutory standard, a reasoned judgment must not only evaluate the stated compliance with the standard (in this case, using computable passthroughs), but also whether the resulting relationship is reasonable, given the knowledge that the Postal Service had at the time it made associated decisions.

[1] "The Commission agrees that the year-end discounts are the more relevant discounts to be evaluated in the ACR." FY2008 Annual Compliance Determination at 59 (March 27, 2008).

Each of the passthroughs inquired about in the question is discussed below:

5-Digit Automation Letters

Docket	Date	Discount	Cost Avoidance	Passthrough
ACR2010[1]	12/29/10	2.2	2.6	84.6%
R2011-2 [2]	1/13/11	2.5	2.6	96.2%
R2012-3 [3]	10/18/11	2.4	2.6	92.3%
ACR2011 [4]	12/29/11	2.5	2.4	104.2%
R2012-3*		2.4	2.4	100%

[1] – Annual Compliance Determination March 29, 2011, Page 67, Table VII-2
[2] – FCM passthroughs.xlsx, R2011-2, PRC Workpapers, February 17, 2011
[3] – Workshare letters passthroughs.xls, PRC Workpapers, November 22, 2011
[4] – FY11.3.Worksharing Discount Table_Final.xls, USPS Workpapers, December 29, 2011
* This row compares the discount currently in effect with the ACR 2011 cost avoidance.

Prior to the filing of the FY 2011 ACR, the 5-Digit Automation Letters cost avoidance had been 2.6 cents in the last three relevant Postal Service filings (ACR2010, R2011-2, and R2012-3). With this background, an adjustment of the 5-D automation discount to 2.5 cents in April 2011 was a reasonable decision, and could have been expected to result in a passthrough of less than 100 percent. While the cost avoidance fell to 2.4 cents in the FY2011 ACR, it is not clear what immediate action could or should have been taken. Effectively, the potential inconsistency with the requirement of section 3622(e) was resolved by the prices that were to be implemented in January 2012. In some sense, as the Commission has noted in the past the "ACR is intended to provide some degree of forward-looking guidance."[2] However, the action that this guidance may have suggested had already been taken in the price change of

[2] FY2008 Annual Compliance Determination at 59 (March 27, 2008).

Docket No. R2012-3. The Postal Service's filing in this docket reduced this discount to 2.4 cents, so that it actually matches the cost avoidance that was developed for ACR2011 (even though the cost avoidance change was not known when the pricing was developed).[3]

Mixed AADC Automation Cards

Docket	Date		Discount	Cost Avoidance	Passthrough
ACR2010[1]	12/29/10		1.5	2.7	55.6%
R2011-2 [2]	1/13/11		2.5	2.7	92.6%
R2012-3 [3]	10/18/11		2.5	2.7	92.6%
ACR2011[4]	12/29/11		2.5	1.9	131.6%

[1] – Annual Compliance Determination March 29, 2011, Page 88, Table VII-3
[2] – FCM passthroughs.xlsx, R2011-2, PRC Workpapers, February 17, 2011
[3] – Workshare letters passthroughs.xls, PRC Workpapers, November 22, 2011
[4] – FY11.3.Worksharing Discount Table_Final.xls, USPS Workpapers, December 29, 2011.

The explanation for Mixed AADC Automation Cards is very similar to the earlier discussion on 5-Digit Automation Letters. Cost avoidance between Nonautomation Presort Cards and Mixed AADC Automation Cards remained at 2.7 cents until the filing of the FY2011 ACR on December 29, 2011. While the cost avoidance fell to 1.9 cents, it was not conducive to efficient postal operations to change prices as soon as the cost avoidance changes in an ACR update.

[3] Prices are set based on an evaluation of all statutory criteria. For example, the Postal Service must balance not only the workshare requirements of section 3622(e), but also the overall price cap and other nonstatutory business considerations. Efficient postal operations require an efficient management not only of the physical handling of mail, but also of the way in which the Postal Service manages price changes and its business infrastructure, including postage payment systems. In this case, the Postal Service's new pricing, implemented shortly after the FY 2011 costs avoidances became available, results in a passthrough that is 100 percent, and therefore, based on the best data available on the date of the price change, is consistent with the section 3622(e) criteria without needing justification under one of the statutory exceptions.

AADC Automation Cards

Docket	Date		Discount	Cost Avoidance	Passthrough
ACR2010[1]	12/29/10		1.0	1.1	90.9%
R2011-2 [2]	1/13/11		1.2	1.1	109.1%
R2012-3 [3]*	10/18/11		1.1	1.1	100.0%
ACR2011[4]	12/29/11		1.2	1.0	120.0%
R2012-3**			1.1	1.0	110.0%

[1] – Annual Compliance Determination March 29, 2011, Page 88, Table VII-3
[2] – FCM passthroughs.xlsx, R2011-2, PRC Workpapers, February 17, 2011
[3] – Workshare letters passthroughs.xls, PRC Workpapers, November 22, 2011
[4] – FY11.3.Worksharing Discount Table_Final.xls, USPS Workpapers, December 29, 2011
* With Proposal 9 methodology change, this avoided cost increased to 1.2 cents causing the passthrough to go down to 91.7 percent.
** This row compares the discount currently in effect with the ACR 2011 cost avoidance.

Once again, this particular cost avoidance between Mixed AADC Automation Cards and AADC Automation Cards remained at either 1.1 or 1.2 cents prior to the filing of the FY2011 ACR on December 29, 2011. The proposal in Docket No. R2012-3 was intended to reduce the passthrough to 100 percent. But later the cost avoidance decreased. Nevertheless, the recent price change has reduced the passthrough from 120 percent to 110 percent. It is not efficient for the Postal Service to change prices again, as soon as the cost avoidance is updated with the filing of a new ACR.

5-Digit Automation Cards

Docket	Date		Discount	Cost Avoidance	Passthrough
ACR2010[1]	12/29/10		1.3	1.4	92.9%
R2011-2 [2]	1/13/11		1.4	1.4	100.0%
R2012-3 [3]	10/18/11		1.4	1.4	100.0%
ACR2011[4]	12/29/11		1.4	1.2	116.7%

[1] – Annual Compliance Determination March 29, 2011, Page 88, Table VII-3
[2] – FCM passthroughs.xlsx, R2011-2, PRC Workpapers, February 17, 2011
[3] – Workshare letters passthroughs.xls, PRC Workpapers, November 22, 2011
[4] – FY11.3.Worksharing Discount Table_Final.xls, USPS Workpapers, December 29, 2011.

The cost avoidance for 5-Digit Automation Cards compared to its benchmark 3-Digit Automation Cards was 1.4 cents until the filing of the current ACR on December 29, 2011. The Postal Service believes that it is not efficient to change prices as soon as the cost avoidance changes with the filing of the latest ACR.

3-Digit Automation Flats

Docket	Date		Discount	Cost Avoidance	Passthrough
ACR2010[1]	12/29/10		6.1	5.6	108.9%
R2011-2 [2]	1/13/11		5.8	5.6	103.6%
R2012-3 [3]	10/18/11		5.6	5.6	100.0%
ACR2011[4]	12/29/11		5.8	4.3	134.9%

[1] – Annual Compliance Determination March 29, 2011, Page 88, Table VII-3
[2] – FCM passthroughs.xlsx, R2011-2, PRC Workpapers, February 17, 2011
[3] – Workshare cards and flats passthroughs.xls.xlsx, PRC Workpapers, November 22, 2011
[4] – FY11.3.Worksharing Discount Table_Final.xls, USPS Workpapers, December 29, 2011

The 3-Digit Automation Flats cost avoidance compared to its benchmark of ADC Automation Flats fell from 5.6 cents to 4.3 cents in the latest ACR filed on December 29, 2011. The Postal Service's filing of Docket No. R2012-3 reduced the discount from 5.8 cents to 5.6 cents, but did not anticipate this further reduction in cost avoidance. Once again, it is not conducive to efficient postal operations to change the price as soon as the cost avoidance changes with the filing of the latest ACR.

Question 2

Please refer to the table below for Presort Parcels volume, revenue, and attributable costs. The revenue and volume data are obtained from the RPW reports, and the attributable costs are from the CRA Model. The cost per piece is calculated by dividing attributable costs by volume. Please explain the significant differences in Presort Parcels revenue, volume and cost per piece between FY 2010 and FY 2011.

	FY 2010				FY 2011			
	RPW Revenue	RPW Volume	CRA Attributable Cost	Cost per Piece	RPW Revenue	RPW Volume	CRA Attributable Cost	Cost per Piece
First Class Presort Commercial Base Parcels					380,569,119	189,973,164		
First Class Commercial Plus Mixed ADC > 3.5 Ounces					858,564	223,561		
Total Presort Parcels	24,809,161	16,041,409	22,281,374	1.39	381,427,683	190,196,725	25368771	0.13

RESPONSE:

Each row in the table above contains revenue and volume for both First-Class Single Piece and First-Class Presort parcels, so one cannot solely use this to obtain the revenue and volume for First Class Presort parcels. The table below looks at revenue and volume at a more disaggregated level and distinguishes between First-Class Single Piece and First-Class Presort parcels. The respective Single Piece and Presort subtotals are used as the denominator to compute unit costs in other parts of the Annual Compliance Report – e.g. unit delivery costs in USPS-FY11-19. Calculating the unit costs with 16.7 million pieces as the denominator produces a total unit cost of $1.52, not the $0.13 unit cost shown in the table above.

Description	Revenue	Pieces	Single Piece/Presort
1-C SP RETAIL KEYS/ID DEVICES NONPERMIT	$160,422	68,349	FC Single-Piece
1-C SP RETAIL IPP/PARCEL NONPERMIT	$902,874,344	447,717,132	FC Single-Piece
1-C COMMERCIAL BASE MACHINABLE NONPERMIT	$147,320,704	71,152,042	FC Single-Piece
1-C COMMERCIAL BASE NON-MACHINABLE NONPERMIT	$8,807,473	4,886,176	FC Single-Piece
1-C SP/MIXED ADC PARCELS COMM BASE	$198,778,577	97,296,229	FC Single-Piece
1-C SP/MIXED ADC PRESORT PARCELS >3.5 OZ CPLUS	$774,222	199,289	FC Single-Piece
Total FC Single Piece Parcels	**$1,258,715,742**	**621,319,217**	
1-C 5-DIGIT PRESORT COMM BASE PARCELS	$2,428,831	1,557,091	FC Presort
1-C 3-DIGIT PRESORT COMM BASE PARCELS	$8,972,793	6,147,809	FC Presort
1-C ADC PRESORT COMM BASE PARCELS	$13,784,137	8,933,817	FC Presort
1-C PRESORTED COMM BASE PARCEL SURCHARGE	$476,604	4,686[1]	FC Presort
1-C 5-DIGIT PRESORT PARCELS >3.5 OZ CPLUS	$19,156	5,970	FC Presort
1-C 3-DIGIT PRESORT PARCELS >3.5 OZ CPLUS	$29,465	8,646	FC Presort
1-C ADC PRESORT PARCELS >3.5 OZ CPLUS	$34,836	9,656	FC Presort
1-C SURCHARGE PARCELS >3.5 OZ CPLUS	$885		FC Presort
Total FC Presort Parcels	**$25,746,707**	**16,662,989**	
Total First Class Parcels	**$1,284,462,449**	**637,982,206**	

[1]Revenue is included in total but not pieces as those are included in other rows

Source: FY2011 Rate Category RPW Data.

Question 3

In Response to CHIR No. 1 question 8, for NFMs and Parcels, the Postal Service states "if rate shock appears to be a risk, the Postal Service would justify the excess passthroughs under the exception in 3622(e)(2)(B)". Please identify the specific passthroughs the Postal Service wishes to justify under 3622(e)(2)(B) and provide qualitative description and/or quantitative analysis (*e.g.*, economic damage or disruption to business plans) to support use of this exception.

RESPONSE:

Updated costs during FY 2011 have resulted in significant changes in the avoided cost estimates for NFMs and Parcels, and has produced numerous instances where the current discounts exceed, in some instances substantially, 100 percent of avoided costs. The presort discounts for NDC machinable parcels (compared to Mixed NDC machinable parcels), for NDC irregular parcels (compared to Mixed NDC irregular parcels), for SCF irregular parcels (compared to NDC irregular parcels), for NDC NFMs (compared to Mixed NDC NFMs), and for SCF NFMs (compared to NDC NFMs) all exceed the newly developed estimates of avoided costs, and all might be subject to rate shock if the passthrough were immediately reduced to 100 percent or less.

The Postal Service does not intend to maintain these presort discounts permanently above avoided costs, although the large changes required to adjust some of the current discounts down to the new avoided costs may require a transition period to avoid rate shock. Nevertheless, the Postal Service will attempt to reduce or eliminate these excess presort discounts in the next general price change, to the extent it can do so without running the risk of rate shock. If rate shock appears to be a risk, the Postal Service would justify the excess passthroughs under the exception in § 3622(e)(2)(B). It would be inefficient and unduly disruptive to our business and our customers' businesses to immediately adjust prices to reflect the lower avoided costs from the newly approved methodology. The inability of customers to rely on stable prices between regularly scheduled price adjustments would significantly undermine the ability of the Postal Service to use prices to signal efficient behavior. Therefore, section 3622(e)(2)(D) is also relevant.

Question 4

In its initial comments, Valpak discusses the volatility in the delivery cost of Standard Mail Carrier Route letters. *See* Valpak Direct Marketing Systems Inc. and Valpak Dealers' Association Inc. Initial Comments at 100-101.

a. Please explain why the unit delivery costs for Carrier Route letters increased 88 percent from FY 2010 to FY 2011.

b. Please explain why the unit delivery cost for a Carrier Route letter is three times the cost of a Carrier Route Flat, and nine times the delivery cost of a High Density letter.

c. Please discuss whether modeling the unit delivery costs for Carrier Route letters will help create a more accurate and/or reliable unit delivery cost estimate for Carrier Route letters.

RESPONSE:

a. The unit delivery costs for Carrier Route letters for both FY 2010 and FY 2011 are obviously anomalous. To understand why, please note that there are two cost systems, the In-Office Cost System (IOCS) and the Carrier Cost System (CCS), responsible for assigning delivery costs to products. For Carrier Route letters, it appears both systems are assigning more delivery costs than this product incurs. A primary factor contributing to the anomalous outcome is that CCS estimates over three times as much volume of Carrier Route letters as the Revenue Pieces and Weight (RPW) system. Because city-carrier street and rural costs are distributed to products based on their respective CCS volume proportions, any volume overestimate within CCS produces higher than deserved unit delivery costs because the unit costs are computed with the much smaller RPW volumes in the denominator.

The Postal Service has discouraged the use of Carrier Route letters through its pricing structure and its volume has virtually disappeared. Customers' response to the pricing structure caused a 91 percent drop in Carrier Route letters since FY 2008.[4] Currently, the price for 5-Digit Automation letters, a lower level of sortation, is less than the price for Carrier Route letters, so there is no incentive for a mailer to utilize the Carrier Route letters rate, and that is reflected in the volume decline since FY 2008. The overestimation of the delivery costs by IOCS and CCS may largely be the result of mailers paying the 5-Digit Automation rate while retaining a Carrier Route marking on its mailpieces. Because both CCS and IOCS use a mailpiece's markings to determine product classification rather than the rate paid, retention of the Carrier Route marking on letters leads to an overestimate of Carrier Route letter volume. Another mitigating factor is that some Carrier Route letter pieces pay flat rates (which are the same as the letter rate but are distinguished in the detailed data in the RPW system) due to being "heavy" or not meeting letter automation requirements.

b. As explained in the response to part (a), the Postal Service does not believe that the unit delivery cost for a Carrier Route letter is as high as the estimate suggests. Rather, the cost disparities cited in the question arise because of the combination of the fact that Carrier Route letter volume is disappearing and a pricing structure that causes no financial penalty for mismarking the pieces.

c. The unit delivery costs for all products are calculated using a model

[4] RPW Carrier Route letter volume was approximately 1 billion in FY 2008 and just 92 million in FY 2011.

largely based on IOCS tallies and CCS volumes. This model has been used for many years and generally works well. Before changing the current delivery cost model to accommodate a product whose volume is disappearing, an alternative approach of simply not computing separate unit delivery costs for Carrier Route letters should be explored. Two facts logically support this approach. First, while the current unit delivery costs for this small product are unreliable, shifting to an alternative model may reduce the reliability of other products' reliable delivery costs. Second, over 99 percent of the RPW Carrier Route volume is flat rated and given that Carrier Route letters and Carrier Route flats pay the same rate, there may no longer be a need to report a separate unit delivery cost for Carrier Route letters.

Question 5

Please refer to USPS-FY10-NP2, Excel file Reports (Booked).xls. In worksheet tab A Pages (md), the cost coverage for Inbound Single-Piece First-Class Mail from target system countries paying UPU rates exceeds the cost coverage for inbound letter post items entered pursuant to the TNT Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators. In its request seeking approval of this agreement, the Postal Service maintained that the negotiated rates would result in an improvement over the default rates established under the UPU Acts for inbound letter post items. Please explain why the cost coverage for the TNT inbound multi-service agreement did not exceed the cost coverage for inbound letter post items at UPU target system rates, and what steps the Postal Service plans to take to improve cost coverage for letter post items entered pursuant to the agreement.

RESPONSE:

The cost coverage for the TNT inbound multi-service agreement [*Redacted*].

Please note that during FY2011, TNT N.V.'s statutory name was changed to PostNL N.V.

The Postal Service has taken the following steps to improve cost coverage for letter post items entered pursuant to the agreement. [*Redacted*]

Question 6

The following questions concern Inbound Surface Parcel Post (at non-UPU rates). Please refer to USPS-FY11-NP2, Excel file "Reports (Booked).xls," worksheet tab A-Pages (c), Table A-2. Also, please refer to worksheet tab Pivot5.

a. For FY 2011, Quarter 1, please confirm that the reporting category "Inbound Surface Parcel Post (at non-UPU rates)" consists entirely of Inbound Surface Parcels from Canada that were entered pursuant to the Canada Post—United States Postal Service Contractual Bilateral Agreement for Inbound Competitive Services (Docket Nos. MC2010-14 and CP2010-13). If not confirmed, please explain. If confirmed, please explain why the financial results for Inbound Surface Parcel Post (at non-UPU rates) is reported separately from the reporting category Canada Post—USPS Contractual Bilateral Agreement for Inbound Competitive Services in Table A-2.

b. In worksheet tab Pivot5, please confirm that line 145 reports the financial results for Xpresspost items entered during FY 2011, Quarter 1. If not confirmed, please explain and identify where such results are reported. Also, please explain whether the financial results for Inbound Surface Parcels and Expedited Parcels during FY 2011, Quarter 1, are also reported in line 145.

c. In worksheet tab Pivot5, please confirm that line 124 reports the financial results for Xpresspost items entered during FY 2011, Quarters 2-4. If not confirmed, please explain and identify where such results are reported.

RESPONSE:

a. It is confirmed that "Inbound Surface Parcel Post (at non-UPU rates)" consists entirely of Inbound Surface Parcels from Canada for FY 2011, Quarter 1. Inbound Surface Parcels from Canada were known as Expedited Parcels and on August 23, 2010, Canada ended this surface offering to the US as presented in Docket No. MC2010-33. During FY2011 Quarter 1, there were residual Expedited Parcels in the system and they were reported as "Inbound Surface Parcel Post (at non-UPU rates)". That continued the traditional ICRA treatment from previous years, and although it may have been more appropriate to include this mail as part of the Canada Post—United States Postal Service Bilateral Agreement for Inbound Competitive Services (Docket Nos. MC2010-14 and

CP2010-13), the residual pieces were left in the "Inbound Surface Parcel Post (at non-UPU rates) category in the ICRA for one quarter.

b. It is not confirmed that line 145 reports the financial results for Xpresspost items entered during FY 2011, Quarter 1. Line 145 reports Expedited Parcels for Quarter 1. Please see the response to part a. of this response for a further explanation of Expedited Parcels in Quarter 1. Total cost is shown in cell M145.

c. It is not confirmed that line 124 reports the financial results for Xpresspost items entered during FY 2011, Quarters 2-4. The amounts shown are Xpresspost amounts for the entire Fiscal Year 2011.

Question 7

The following questions concern Inbound Air Parcel Post. In Docket No. ACR2010, Library Reference USPS-FY10-NP2, Excel file Reports (Booked).xls, worksheet tab Pivot3 and the Postal Service's response to CHIR No. 2, question 3, identified a group of operators that entered Inbound Air Parcels at "non-UPU rates" during FY 2010. In Library Reference USPS-FY11-NP2, Excel file Reports (Booked).xls, worksheet tab Pivot3, the same group of operators are categorized as entering Inbound Air Parcels at "UPU rates." For FY 2011, please confirm that the operators should be categorized as entering Inbound Air Parcels at "non-UPU rates." If not confirmed, please explain the change from FY 2010 to FY 2011.

RESPONSE:

It is confirmed that the operators should be categorized as entering Inbound Air Parcels at "non-UPU rates."

Question 8

This question refers to Outbound Single-Piece First-Class Mail International to Canada (FCMI-Canada). In response to CHIR No. 1, question 37, the Postal Service explained that FY 2011 FCMI-Canada revenues did not cover booked attributable cost because of an adjustment for prior years' provisional payments. In response to CHIR No. 3, question 6(e), the Postal Service stated that there was no similar adjustment to imputed costs. Despite the lack of this adjustment, FY 2011 FCMI-Canada revenues did not cover imputed attributable costs. Please explain.

RESPONSE:

Outbound Single-Piece First Class Mail had a net contribution of [*Redacted*]. FCMI

Letters to Canada accounted for [*Redacted*].

Question 9

Please refer to Library Reference USPS-FY11-NP1, Excel file '2011 Parcel Return Service BD," worksheet "BD Total," lines 84-86, which report billing determinant data for the following categories: "PRS Paying Priority Mail Postage," "PRS Paying Parcel Select Postage," and "PRS Paying Parcel Post Postage."

a. Please provide a description of each category listed above.

b. Please provide a justification for classifying each category listed above in the Parcel Return Service billing determinants.

c. Please explain how the costs for each category listed above are attributed to Parcel Return Service.

RESPONSE:

a-b. These three categories are reported as Parcel Return Service input data from the FY 2011 Revenue, Pieces and Weight (RPW) Extract file. The source input data for the RPW Extract file is derived from *PostalOne!*.

"PRS Paying Priority Mail Postage" represents parcels with Parcel Return Service labels affixed to Priority Mail packaging products with Priority Mail class endorsements, or to other parcels with Priority Mail class endorsements. This can happen in the rare case when a customer has Priority Mail packaging at home and affixes a PRS label to it.

"PRS Paying Parcel Select Postage" and "PRS Paying Parcel Post Postage" represent PRS-labeled pieces originating from origin ZIP Codes 006-009, 967-969, and 995-999 that are picked up at a RNDC facility. See DMM 505.5.3.4 for Parcel Return Service (Parcel Post Prices), and the Price List, Notice 123, page 25, note 3.

The Postal Service expects that the PRS Paying Parcel Select Postage category may have been anomalous in FY 2011, and should be even smaller during FY 2012.

c. The costs associated with pieces paying Parcel Post and Parcel Select prices are attributed to PRS in all of the cost data systems: IOCS, CCS and TRACS. Pieces paying Priority Mail rates have conflicting endorsements – a PRS label but Priority Mail markings on the packaging. In IOCS, these pieces are all attributed to PRS. In CCS and TRACS, they may be attributed to either product. However, because the volume of pieces with these conflicting markings is so small, the impact on cost attribution is *de minimis*.

Question 12

In FY 2011, Deliveries per Work Hour of 39.9 appears not to have met the FY 2011 target of 40.4 deliveries. Comprehensive Statement at 33. Please explain why the target was not met and those plans and schedules for achieving the FY 2012 target. *See* 39 U.S.C. § 2804(d)(3).

RESPONSE:

Despite the reduction of over 34 million workhours in FY 2011 the Total Deliveries per Workhour target was not achieved. The target for FY 2011 was 40.4 deliveries per hour and the actual achievement was 39.9 deliveries per hour. The targeted increase in deliveries per hour was missed by 1.2 percent in FY 2011. One major impact, from a program perspective, was slippage in the planned deployment schedule of the Flat Sequencing System (FSS). Additionally, other than the savings expectation from FSS deployment the vast majority of the 49 million planned workhour reduction for FY 2011 was based on expected volume or workload loss. In FY 2011 there was no relief from the contractual barriers that hindered workforce flexibility. Given the largely full-time regular workforce of the Postal Service, the Postal Service was simply unable to reduce sufficient workhours at the pace necessary to achieve the FY2011 budget expectation.

For FY2012 the Total Deliveries per Workhour of 42.2 will again be difficult to achieve. The target was primarily set based on two factors. The first was the initiative savings for the Network Rationalization and Retail Access Optimization initiatives. Due to the Congressional request to delay implementing these initiatives until May, significant slippage of savings from these efforts will occur. Secondly, the FY 2012 budget was set with the expectation for large volume declines. Currently, volumes and workload are exceeding the FY 2012 budget expectation which necessitates additional workhour usage. Accordingly, the Postal Service expects that it will be difficult to make the Deliveries per Hour target for FY2012 as well.

Question 14

The Voice of the Employee (VOE) Survey is a performance indicator for achieving the Postal Service's performance goal of Improve Safety and Employee Engagement. In FY 2011, the Postal Service achieved a score of 64.7. Comprehensive Statement at 33.

a. Please provide a copy of the FY 2011 VOE Survey form.

b. Please provide the summary statistics of the employee responses to each question and explain how the score of 64.7 was calculated. Include in your response the derivation of all calculated values and cite source documents relied upon.

c. The FY 2012 target for the VOE survey index was not included because the VOE 2012 Plan was pending approval by the Postal Service Executive Leadership Team. Comprehensive Statement at 33. Has the VOE 2012 Plan been approved? If so, please provide the FY 2012 target for the VOE Survey.

RESPONSE:

a. The Voice of the Employee (VOE) survey questionnaire is provided in USPS-FY11-48, as ChIR4.Q14.VOESurvey.pdf.

b. Summary statistics for each VOE survey question are in the attachment ChIR4.Q14.xls. The VOE score is the average percent of employees responding favorably (agree/strongly agree, good/very good) to the eight questions that make up the VOE Index. These are:

Item	Text
12	I understand how the work I do impacts the service that the Postal Service provides.
13	I am confident in the ability of senior management to make the decisions necessary to ensure the future success of the Postal Service.
14	I receive information to perform my job safely.
16	Rate your immediate supervisor on communicating regularly to keep you informed.
17	Rate the quality of the service provided by your office/facility to your customers.
20	I am aware of current business conditions facing the Postal Service.
23	The Postal Service values diversity of backgrounds, talents and perspectives.
29	I feel personally responsible for helping the Postal Service succeed as a business.

c. The FY 2012 target for the VOE Survey is 64.9

Question 16

Page 16 of the Annual Report on Service Performance for Market Dominant Products states:

Service performance results are expected to improve as more customers adopt Full Service Intelligent Mail and as mailer and Postal Service issues are resolved. Additionally, new business rules for start-the-clock scan policies for standard mailing have been implemented which will improve the accuracy of service measurement. A Postal Service scan of individual containers upon entry constitutes the start the clock event, when available.

a. Please explain in detail how much of the lower than expected service performance results can be attributed to low Full Service Intelligent Mail participation?

b. How much of the lower than expected service performance results can be attributed to inconsistent start the clock data?

c. What percent of individual containers are currently scanned to obtain the start the clock event?

d. Does the Postal Service have a target for the percentage of containers that will need to be scanned in order to reach service performance goals?

e. Please provide monthly service performance scores for First-Class commercial mail from the time the rules were implemented through the end of fiscal year 2011.

RESPONSE:

a. One of the values of Full Service Intelligent Mail is the ability to use the data to diagnose and correct systemic issues impacting service performance. There has been continuous improvement of service scores as a result of the field using these diagnostics. It is difficult to quantify the actual impact on expected performance based on missing information (lack of full service participation or piece level details).

b. In regards to drop-ship Standard Mail, Start-the-Clock is determined by Fast appointment, which can be validated through an SV scan. In Q4 of FY 2011, approximately 35 percent of Fast appointments were not validated with an SV scan. Start-the-Clock for this mail was dependent on mailer Fast appointment information. It is difficult and subjective to quantify this to a specific percentage related to service performance. However, with the service diagnostic tools available to the field, they are able to identify where scan performance on containers needs improvement. Additionally, there appears to be a direct correlation to operational visibility and service improvement.

c. 65 percent of Drop-Ship mail entered with a Fast appointment is validated through an SV unload scan.

d. The Postal Service has implemented a policy for the field to perform Load and Unload scans on all container placards at Surface Visibility (SV) sites. Although it has not been quantified, this container visibility helps improve operational Work in Process and results in improved service performance.

e.

Presort First-Class Mail Letters/Cards National Scores by Month

Month	Overnight		Two-Day		Three-to-Five-Day	
	Letter Score	Letter Volume	Letter Score	Letter Volume	Letter Score	Letter Volume
Apr '11	94.5	330,344,016	86.6	213,724,160	92.5	290,473,134
May '11	96.5	286,826,040	93.6	196,157,942	94.9	241,398,700
Jun '11	97.0	314,592,708	93.4	217,087,724	94.4	231,025,492
Jul '11	89.0	702,930,200	92.2	686,871,234	94.1	1,141,066,628
Aug '11	91.8	663,905,720	92.1	657,642,996	94.3	1,147,516,950
Sep '11	92.6	690,220,980	92.5	724,499,136	93.6	1,194,561,212
Oct '11	94.5	680,519,852	92.7	763,048,204	94.3	1,346,654,222
Nov '11	96.1	618,489,564	93.0	618,348,244	93.1	1,113,593,318
Dec '11	95.9	660,978,040	93.0	728,180,316	90.5	1,301,902,270
Jan '12	96.4	716,389,136	94.1	780,917,418	93.5	1,366,506,252

Shaded scores are the FY11 scores after the business rule
changes regarding start-the-clock.
Letter Volume is origin/destination volume with each
piece counted twice.

Question 17

Service performance results for First-Class Commercial Mail were explained using the following language found on pages 10-11 of the Annual Report on Service Performance for Market Dominant Products:

"Prior to Quarter 4, we relied on mailer-provided information to start-the-clock and found it to be inconsistent. Quarter 4 saw a change to the reliance on Postal scans to start-the-clock. While there was an initial downturn in performance under the new rules, with a much larger set of mailers, service scores have improved steadily since this time…"

a. What specific mailer provided information was used to start-the-clock prior to quarter 4?

b. How was it inconsistent?

c. Please explain why there was an initial downturn in performance following the rule change.

d. Please provide monthly service performance scores for First-Class commercial mail from the time the rules were implemented through the end of fiscal year 2011.

e. What percent of individual containers are currently scanned to obtain the start the clock event?

f. Does the Postal Service have a target for the percentage of containers that will need to be scanned in order to reach service performance goals?

RESPONSE:

a. Scheduled Ship Date/Time in the mailer provided eDoc.

b. Mailer provided Scheduled Ship Date/Time could be much earlier than the point the Postal Service took possession of the mail. If the Scheduled Ship Date/Time is prior to the Critical Entry Time but the Postal Service took possession of the mail after the Critical Entry Time, it would lead to Start-the-Clock being Day 0 instead Day 1 (i.e. one day earlier than it should). This would result in inaccurate/inconsistent Start-the-Clock.

c. Beginning in Q3 of FY 2011, virtually all mailers were added back into measurement. Although the field was trained on the importance of scanning and verification, without the data in the service diagnostics tool, it was difficult to know where the issues were. As the data populated in the diagnostic tool, the field was able to react, correct systemic issues, and improve service performance.

d. This question is a duplicate of Question 16(e), responded to above.

e. Start-the-Clock for 45 percent of First-Class Mail is based on a Postal Service unload scan.

f. The Postal Service has implemented a policy for the field to perform Load and Unload scans on all container placards at Surface Visibility (SV) sites. Although it has not been quantified, this container visibility helps improve operational Work in Process and results in improved service performance.

Question 18

The Postal Service states that the new rules for start-the-clock scan policies were implemented in July 2011.

a. Please provide a copy of the rules.

b. Please explain in detail how the new rules are enforced.

RESPONSE:

a. The rules are provided in USPS-FY11-48, as ChIR4.Q18.pdf.

b. The response to this subpart is forthcoming.

Question 21

Please refer to ACR 2010, Library Reference USPS-FY10-38 – USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments. Please provide the corresponding data for FY 2011 for the file: 'CSM Question Response Counts_FY10.xls'.

RESPONSE:

The Postal Service has already provided this data in USPS-FY11-38.

Question 22

Please refer to the volume and revenue for Alternate Postage Payment Method for Greeting Cards presented in the table on page 65 of the FY 2011 ACR.

a. Please confirm that the volume in the table represents the total number of mailpieces sold or distributed by participating companies to either customers or third-party vendors. If not confirmed, please explain what this number represents.

b. Please confirm that the revenue represents both postage paid in advance based on the total number of mailpieces sold or distributed to either customers or third-party vendors and postage collected based on Intelligent Mail barcode (IMb) scans of the cards that were mailed. If not confirmed, please explain what this number represents.

RESPONSE:

a. Not confirmed. The volume in the table represents the total number of mailpieces scanned. These are greeting cards that were both sold or distributed, and then mailed.

b. Not confirmed. The revenue in the table represents the total number of mailpieces scanned times $0.48 per mailpiece. The total number of mailpieces scanned are those mailed through the postal network and whose Intelligent Mail barcode (IMb) was scanned.

Question 23

Please confirm that the Alternate Payment Method for the Greeting Cards Market Test started January 1, 2011. If not confirmed, please provide the starting date.

RESPONSE:

Confirmed.

Question 24

Please provide the date the Postal Service expects to file the first Periodic Data Report for the Alternate Payment Method for Greeting Cards Market Test?

RESPONSE:

The Postal Service expects to file the first Periodic Data Report by March 2, 2012. The report will include information on both the number of cards sold/distributed, and the number cards scanned in the mailstream.

Question 25

This is a follow-up to the Postal Service's Response to CHIR No. 3, Question 16:

a. Please provide information on the status of the development of the field guidebook for collection services.

b. Please describe the nature of any recent changes to the density tests used to evaluate collection box usage. Please describe any differences between the density tests used for different types of collection boxes, such as a time decal box versus a regular collection box.

c. Please provide information on the Postal Service's plans to replace collection boxes that are no longer physically serviceable.

d. By what means are Area Offices being asked to identify locations lacking collection boxes but where collection boxes are needed? What is the administrative process by which a new collection box is installed in a location that previously did not have a collection box? How frequently do such new installations occur?

RESPONSE:

a. It is still being finalized.

b. Box density test procedures were described in the Postal Operations Manual Chapter 3 revision published in the Postal Bulletin on June 16, 2011. The only variation is when a Saturday collection is being quantified, which requires a density test on four consecutive Saturdays.

c. These plans have not changed. When a box is no longer serviceable, it is destroyed in the recycling process and replaced from ready stock. Destruction is mandated by the Postal Inspection Service.

d. When a collection box density analysis is conducted and the average collected volume is less than 25 pieces, the Postal Service's historic response has been to remove the box and lower the number of service points in a District. Postmasters and Districts are now being asked to relocate boxes to alternate locations, focusing on retail areas that people commonly visit. Area offices do not control this process since they lack the local knowledge necessary to administration. By placing boxes where it is convenient for customers to mail, some observers claim that collection volume will grow. The novelty of this expectation and the recency of this new management approach mean that further details about process and frequency are not available at this time.