

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

ANNUAL COMPLIANCE REVIEW, 2012

Docket No. ACR2012

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-13 OF CHAIRMAN'S INFORMATION REQUEST NO. 3

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 3, issued on January 11, 2013. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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January 22, 2013

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Question 1

The Postal Service identifies the exception claimed under 39 U.S.C. 3622(e)(2)(B) as justification for the passthroughs in excess of 100 percent of avoided costs for Mixed AADC Automation Cards, Automation ADC Flats and 5-Digit Automation Flats. Please provide qualitative description and/or quantitative analysis (e.g., economic damage or disruption to business plans) to support the use of this exception.

RESPONSE:

The Postal Service's response to Question 4 below describes the complications that arise from a purely retrospective review of compliance with section 3622(e), and explains why such compliance can only be treated as a fluid matter. In any case, going forward, if the Postal Service were to immediately change the workshare discounts listed in Question 1 to match their respective cost avoidances, price increases of the following magnitudes would have to take effect immediately:

Workshare Category	Price Increase
Mixed AADC Automation Cards	5.9 percent
Automation ADC Flats	8.6 percent
5-Digit Automation Flats*	23.8 percent

* This is the result of both ADC Automation Flats and 5-Digit Automation Flats passthroughs being at 100 percent.

Making the above price increase to Mixed AADC Automation Cards would also necessitate the following price increases for the other Automation Cards prices:

Workshare Category	Price Increase
AADC Automation Cards	5.7 percent
3-Digit Automation Cards	6.2 percent
5-Digit Automation Cards	7.4 percent

Additionally, the increase for Automation ADC Flats above would lead to larger increases for 3-Digit and 5-Digit Automation Flats:

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Workshare Category	Price Increase
3-Digit Automation Flats	11.1 percent
5-Digit Automation Flats	12.5 percent

In the Postal Service's business judgment, implementing the price increases contained in the tables above would cause rate shock.

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Question 2

The Postal Service identifies the exception claimed under 39 U.S.C. 3622(e)(2)(D) as justification for the passthroughs in excess of 100 percent of avoided costs for Mixed AADC Automation Letters and 5-Digit Automation Flats. Please explain how this exception applies to these discounts and identify the operations affected.

RESPONSE:

Subsection (e)(2)(D) of section 3622 provides an exception from the general requirement that a workshare discount not exceed avoided costs if “reduction or elimination of the discount would impede the efficient operation of the Postal Service.” The question implies an interpretation of section 3622(e)(2)(D) whereby the exception could be invoked only with reference to specific, discrete operations, such as the flats sequencing operation, delivery point sequencing operation, and so on. The Postal Service interprets “efficient operation” as used in section 3622(e)(2)(D) to encompass both discrete operations and more generally the efficient management of postal business as a whole.

As explained at pages 10-13 of the FY 2012 Annual Compliance Report, in the last few years there have been large swings in the cost avoidances for Mixed AADC Automation Letters and 5-Digit Automation Flats, and chasing these cost avoidances via the discounts – by, for example, raising the discount significantly one year, lowering it significantly the next year, then raising it again the next year, and so on – would impede the efficient operation of the Postal Service, because the mixed price signals would cause large year-to-year fluctuations in the amounts of volume sorted to the presort levels associated with the discounts and could possibly even drive portions of the presort market out of business, thus harming the Postal Service in the long run.

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Question 3

Please refer to Library Reference USPS-FY12-3 - FY 2012, Excel file "FY12.3.Worksharing Discount Table_Final.xls," worksheet tab FCM Flats, cells F10 and F11. Please confirm that these cell values should be 0.056 and 0.174, respectively.

RESPONSE:

Confirmed.

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Question 4

The Postal Service states that the exception in 39 U.S.C. § 3622(e)(2)(B) applies to the excess passthroughs for Nonautomation ADC Nonmachinable Letters, Nonautomation 3-digit Nonmachinable Letters, Nonautomation 5-digit Nonmachinable Letters, Nonautomation 5-digit Flats, NDC Irregular Parcels, NDC Marketing Parcels, and SCF Marketing Parcels. 2012 ACR at 20-24. Please provide qualitative description and/or quantitative analysis (e.g., economic damage or disruption to business plans) to support use of this exception.

RESPONSE:

It is not clear which discounts the Commission is analyzing in this docket for compliance with section 3622(e). If the Commission is analyzing the discounts that were implemented in Docket No. R2012-3 and were in effect for most of the FY 2012, then the discounts for Nonautomation ADC Nonmachinable Letters, Nonautomation 3-digit Nonmachinable Letters, Nonautomation 5-digit Nonmachinable Letters, and Nonautomation 5-digit Flats are in compliance with section 3622(e) without resort to any statutory exceptions, because when they were approved, they matched their respective cost avoidances, based on the latest cost data available at the time. Based on the more up-to-date cost avoidance data presented in the FY 2012 Annual Compliance Report, the discounts do not match their respective cost avoidances, but the Postal Service can hardly be expected to match discounts to cost avoidances that are not available at the time that the discounts are set.

Because of these complications, compliance with section 3622(e) should be treated as a fluid matter. That is the approach that the Postal Service has taken in the Annual Compliance Report, including in its justifications for passthroughs that, based on the latest available data, are above 100 percent. In any case, going forward, if the

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Postal Service were to immediately adjust the discounts listed in the question to match their respective cost avoidances, price increases of the following magnitudes would have to take effect immediately:

Workshare Category	Price Increase
Nonautomation ADC Nonmachinable Letters	8.3 percent
Nonautomation 3-digit Nonmachinable Letters	6.8 percent
Nonautomation 5-digit Nonmachinable Letters	8.0 percent
Nonautomation 5-digit Flats	18.9 percent
NDC Irregular Parcels	14 percent
NDC Marketing Parcels	6.6 percent
SCF Marketing Parcels	19.8 percent

In the Postal Service's business judgment, implementing the above price increases would cause rate shock.

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Question 5

The table below shows the increased unit costs for Carrier Route from FY 2010 to FY 2012. Please discuss the reasons behind the increased unit costs and any plans the Postal Service has to mitigate these increases in the future.

Fiscal Year	Unit Cost (cents)	Percent Increase
FY 2010	16.5	
FY 2011	17.7	7.2%
FY 2012	18.9	6.8%

RESPONSE:

The sources of the overall increase of 2.32 cents per piece, between FY 2010 and FY 2012, can be seen by comparing unit costs by function (processing, delivery, transportation) over the three years, as shown below.¹

Attributable Costs for Carrier Route, FY 2010, FY2011 and FY2012 (Cents per Piece)						
Fiscal Year	Total Unit Cost	Mail Processing	Delivery	VSD	Contract Transportation	Other
FY2010	16.54	4.45	10.98	0.19	0.59	0.33
FY2011	17.59	5.18	11.28	0.20	0.58	0.35
FY2012	18.87	6.60	10.92	0.26	0.66	0.42
FY12-FY10	2.32	2.15	(0.06)	0.07	0.07	0.09

The bulk of the change has occurred in mail processing, which accounts for 2.15 cents of the increase. An examination of mail processing costs by cost pool shows that the bulk of this rise is due to FSS sorting. Specifically, FY 2012 FSS sorting cost per piece for Carrier Route is 1.84 cents,² while the amount for FY 2010 is likely fairly small.³

Delivery costs (both city and rural carrier) have declined by 0.06 cents per piece.

¹ Costs for each function include labor costs and indirect (or piggyback) costs for supervisor, equipment and facility-related, administrative and service-wide benefits costs. The calculation is shown in ChIR3.Q5.xls, attached to this response.

² See USPS-FY12-26.

³ There weren't any FSS cost pools for FY 2010, as FSS costs were included in the AFSM 100 cost pool. FSS workhours in FY 2010 were less than 10 percent of the FY 2012 FSS workhours. See USPS-FY10-7, part 1, USPS-FY10-8 and USPS-FY10-26.

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Included in this overall change in delivery cost per piece is a decline of 0.49 cents per piece for cost segment 6 in-office city carrier labor costs between FY 2010 and FY 2012, despite a 5.9 percent rise in city carrier cost per workhour.⁴ This likely reflects the benefits of FSS sorting. Increases in VSD, Contract Transportation and "Other" also contributed a total of 0.23 cents to the increase in unit costs between FY 2010 and FY 2012.

The Postal Service's plans on mitigating these increases are the same as discussed in the Postal Service's response to Question 1(a) of Chairman's Information Request No. 1.

⁴ See ChIR3.Q5.xls for these calculations and citations.

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Question 6

Please provide the Periodicals' publication database for FY 2012.

RESPONSE:

While there is no existing database by that name or of that description, the Postal Service has developed a database for this response. It is filed under seal in USPS-FY12-NP33.

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Question 7

The following table refers to Library Reference USPS-FY12-4, the FY2012 Market Dominant Billing Determinants, filename "FY 2012 Special Services.xls," and to USPS-FY12-42, the Public FY 2012 Revenue, Pieces and Weight Report (RPW), filename "FY2012_RPWsummaryreport-public.xls." Please explain the difference in revenue for Stamped Envelopes and Cards in these two spreadsheets and provide the correct figures.

Special Services	Billing Determinants (000)	RPW (000)	Difference (000)
Envelopes & Cards		\$18,701.949	
Envelopes	\$16,853.372		
Cards	\$2,119.408		
Total Env. & Cd	\$18,972.780	\$18,701.949	\$270.831

RESPONSE:

The difference is caused by two separate issues. First, there was an error in the Billing Determinants whereby revenue from Plain Stamped Envelopes was overstated by \$10,792.61. Second, the revenue reported in the RPW did not include \$281,624 from shipping fees for the stamped envelopes.

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Question 8

The following table refers to Library Reference USPS-FY12-4, the FY2012 Market Dominant Billing Determinants, filename "FY 2012 Special Services.xls," and to USPS-FY12-42, the Public FY 2012 Revenue, Pieces and Weight Report (RPW), filename "FY2012_RPWsummaryreport-public.xls." Please explain the differences in volume in these two spreadsheets and provide the correct figures.

Special Services	Billing Determinants (000)	RPW (000)	Difference (000)
Collect on Delivery	726.070	702.552	23.518
Insurance	29,546,733		
Express Mail Ins.	561.798		
Total Insurance	30,108.531	30,115,142	(6.611)
Registered Mail	2,267.492	2,415.040	(147.548)
Return Receipts	169,077.949	169,900.029	(822.080)

RESPONSE:

Collect on Delivery: The difference is from the inclusion of the Notice of Non-delivery volume in the Billing Determinants.

Insurance: The difference is in Express Mail Insurance. The RPW includes some volume for insurance less than \$100 even though Express Mail includes insurance at no fee of \$100 for both customer-purchased Express Mail and for USPS-used Express Mail (6,856 and 2 respectively). The Billing Determinants include USPS-used Express Mail Insurance volume when the insurance level is above \$100 (245 transactions).

Registered Mail: The Billing Determinants did not reflect the 147,548 registered transactions to APO/FPO destinations.

Return Receipts: The difference is the result of RPW including 1,290,932 hold for pickup transactions as Return Receipt and not including the 468,852 return receipts

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used by the Postal Service.

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Question 9

The following table refers to Library Reference USPS-FY12-4, the FY 2012 Market Dominant Billing Determinants, filename "FY 2012 Special Services.xls," and to USPS-FY12-42, the Public FY 2012 Revenue, Pieces and Weight Report (RPW), filename "FY2012_RPWsummaryreport-public.xls." Please explain the difference in the revenue figures for "Total Other Domestic Ancillary Services" and provide the correct figures.

Special Services	Billing Determinants (000)	RPW (000)	Difference (000)
Signature Confirmation	\$60,351.820		
Return Receipts	\$9,167.602		
Total Other Domestic Ancillary Services	\$69,519.422	\$69,621.508	\$102.086

RESPONSE:

The Postal Service assumes that the Commission intended to refer to Restricted Delivery instead of Return Receipts in the table above. The remaining \$102,886 is from Package Intercept.

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Question 10

The following refers to Library Reference USPS-FY12-42, the Public FY 2012 Revenue, Pieces and Weight Report (RPW), filename "FY2012_RPWsummaryreport-public.xls." Please show the derivation of what is identified as revenue for "Other Domestic Special Services" – \$109,253,896 and identify the Special Services it includes.

RESPONSE:

Other Domestic Special Services consists of the following products (the revenue for each product is also provide).

CALLER SERVICE FEES	92,490,305
ADDRESS INFORMATION SYSTEMS (AIS) VIEWER	88,182
ADDRESS ELEMENT CORRECTION (AEC) II	597,186
ADDRESS SEQUENCING SERVICE	7,659
CARRIER ROUTE FILE	18,281
CITY STATE FILE	382,382
DELIVERY STATISTICS FILE	65,528
ENHANCED LINE OF TRAVEL (ELOT) FILE	38,484
FIVE-DIGIT ZIP FILE	42,308
Z4 CHANGE (ZIP 4) FILE	22,800
ZIP + 4 FILE	382,496
ZIP MOVE FILE	7,706
COMPUTERIZED DELIVERY SEQUENCE (CDS)	2,279,048
DELIVERY TYPE FILE	0
DMM LABELING LIST	6,730
DPV FILE	357,000
DELIVERY SEQUENCE FILE (DSF2) GENERATION 2	1,560,000
RESIDENTIAL DELIVERY INDICATOR (RDI)	85,595
CASS (CODING ACCURACY SUPPORT SYSTEM)	5,700
MASS (MULTILINE ACCURACY SUPPORT SYSTEM)	212,400
BARCODE CERTIFICATION	0
OFFICIAL NATIONAL ZONE CHARTS	5,085
FASTFORWARD (MLOCR)	24,470
LACS (LOCATABLE ADDRESS CONVERSION SYSTEM) LINK	12,440
NCOA (NATIONAL CHANGE OF ADDRESS) AND ANK	9,516,999

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(ADDRESSEE NOT KNOWN) LINK

MOVE UPDATE 99 PERCENT ACCURACY METHOD

145,112

CUSTOMIZED POSTAGE

900,000

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Question 11

In the FY 2011 Annual Compliance Determination the Commission noted that Stamp Fulfillment Services had a cost coverage of 59.7 percent, and in the FY 2012 Annual Compliance Report the Postal Service indicates that the cost coverage is 59.3 percent. Please describe the steps the Postal Service is taking to increase the cost coverage for Stamp Fulfillment Services.

RESPONSE:

As noted in the FY 2012 Annual Compliance Report, at page 32, the Postal Service significantly increased the price of Stamp Fulfillment Services in January 2012, but the cost coverage unfortunately has not improved. The Postal Service will continue to attempt to move the cost coverage toward 100 percent through price adjustments, as appropriate based on future circumstances. At the same time, the Postal Service questions the value of fully covering costs for Stamp Fulfillment Services, when keeping its fees reasonably low encourages centralized ordering of stamps (including many that are used for philatelic purposes rather than to purchase postal services), thereby reducing retail purchases of stamps.

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Question 12

In the FY 2012 Annual Compliance Report at 46, Philatelic Sales FY 2012 financial data are reported as follows:

- a. Revenue - \$10,647,495;
- b. Expense - \$6,523,854; and
- c. Net Income - \$10,600,000.

Please reconcile the revenue, expense, and net income estimates.

RESPONSE:

The revenue and expense lines are correct. The correct net income is \$4,123,641.

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Question 13

Please refer to the Preface to Library Reference USPS-FY12-NP27, which displays FY 2012 Nonpostal Services financial data.

- a. Some competitive Nonpostal Services report a cost of \$0 or NA. For each such instance, please explain why the costs are either \$0 or "not available."
- b. For some market dominant and competitive Nonpostal Services, the Postal Service does not identify volume estimates. For each such instance, please explain why volume estimates are not provided.

RESPONSE:

- a. Advertising involves placing on the USPS website an icon that links to the website of an Affiliate. There may be IT costs associated with placing such icons to the website, but it is impossible to measure such costs. The costs are likely minimal.

In regard to Photocopying Service, photocopying machines are maintained by contractors, and the amount received by such contractors is reported as a "revenue offset" in the USPS accounts. Therefore, the term "Revenue Offset" is used in USPS-FY12-NP27, while the expense line is left as \$0. The Revenue Offset is subtracted from the Revenue to produce Net Income, just as if the Revenue Offset were an expense.

Training Facilities and Related Services revenue is received from contractors who cover all expenses and then subtract those expenses before transferring the revenue to the Postal Service. The revenue is therefore reported as "Net Revenue" and the Expense line is left as \$0.

- b. Alliances with the Private Sector (e.g. MoverSource) generate revenue predominantly from advertising. Advertising revenue is determined by such factors as

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the size on ad, its position, placement, etc. There is no consistent aspect that could be used to measure volume in any meaningful way.

Advertising, described in the response to part (a) above, generates revenue in the form of a percentage of the revenue generated by an affiliate through its link on the Postal Service website, without regard to the number of clicks on that link. Therefore there is no meaningful volume measurement.

Licensing of Intellectual Property Other than OLRP generates revenue in the form of royalties paid for the use of Postal Service intellectual property. Royalties vary from contract to contract based on, for example, the particular intellectual property used, the length of use, etc. There is no consistent aspect that could be used to measure volume in any meaningful way.

In regard to Training Facilities and Related Services, the facilities made available by the Postal Service for non-government training vary from contract to contract, and the number of training sessions is not a factor in these contracts. Therefore there is no consistent aspect that could be used to measure volume in any meaningful way.

Electronic Postmark is no longer operating, so there is no volume.