

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

ANNUAL COMPLIANCE REPORT, 2007

Docket No. ACR2007

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 8, 9, 11, 14, 15, 22, AND 24 OF COMMISSION
INFORMATION REQUEST NO. 1
(February 11, 2008)

Commission Information Request No. 1 was posted on January 25, 2008. The request sought answers "as soon as they are developed." Attached are the Postal Service's responses to the above questions. Some of the responses refer to materials which are being separately provided to the Commission as part of the non-public annex of materials relating to this proceeding. A separate notice regarding such materials is also being filed today. Responses to additional questions will be submitted as they are developed.

Respectfully submitted,

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8. In R2006-1, PRC-LR-9, which presented mail processing unit costs by shape, included costs for First-Class single-piece metered flats and First-Class single-piece permit imprint parcels, analyzed by MODS cost pool. The corresponding spreadsheets for the annual compliance report, in USPS-FY07-26, do not include these costs. Please provide a version of USPS-FY07-26 which includes the costs for First-Class single-piece metered flats and First-Class single-piece permit imprint parcels, analyzed by MODS cost pool.

RESPONSE:

The attached Excel file ("CIR.1.Q.8.Shape.xls.") contains the requested information. It can be used in place of the spreadsheet previously submitted for USPS-FY07-26 ("shp07prc.xls"), as it contains everything previously supplied, plus the requested additions. The requested information was inadvertently left out of the previously supplied spreadsheet.

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9. Please provide a complete set of SAS logs for the IOCS/MODS programs similar to the set that was provided in R2006-1 USPS-LR-L56. These included: mbclog.rtf; modspoolLog.rtf, and plant-bmc-po.sb_otherLog.rtf. Provide any additional logs relevant to FY 2007.

RESPONSE:

A complete set of SAS logs for all of the programs provided in USPS-FY07-7, as revised on dated January 16, 2008, is provided in the attached zip file, CIR.1.Q.9.Logs.zip. The zip file contains two .rtf files: CIR 1#9 MBC Log.rtf and CIR 1#9 Bmcs-Mods1&2-nonMods-Other.rtf. (Note: It is assumed that this question intended to refer to LR-L-55, and not LR-L-56.)

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11. The supplement to the preface [for USPS-FY07-2] also describes the determination of the “current” portion of the CSRS contribution. The description notes that the total cost of CSRS retirement was \$1.379 billion (17.4 percent of CSRS employee salaries) and that the initial contribution in the beginning of FY 2007 was almost \$55 million. Please detail the source of the total cost of CSRS retirement of \$1.379 billion and the source of the \$55 million contribution to CSRS retirement that is included in total labor costs. Please show all calculations and sources.

RESPONSE:

The estimate of the total CSRS employer contribution¹ that the Postal Service would have to make for FY 2007, if not for the PAEA, is \$1,379,702,381. This is the sum of the FY 2007 CSRS employer contributions of \$54,990,704 made before the PAEA was put into effect (pay period 21 for 2006) and the \$1,324,711,677 reduction in CSRS employer contributions due to PAEA for the balance of FY2007 (pay periods 22-26 for 2006 and pay periods 1-20 for 2007).

Effective October 14, 2006, the PAEA (P. L. 109-435) suspended the obligation of making the CSRS employer contributions, leading to a savings of \$1,324,711,677 as shown in the Table 1, the first tab in the attached Excel file, CIR.1.Q.11.Tables.xls. This table shows the basic pay (pay without overtime) for the four different employer contribution rate groups. Applying the employer contribution rate for each of these groups provides the employer contribution (required under pre-PAEA law) for each group, totaling in the savings of \$1,324,711,677. This is also reported in the Postal Services’ 2007 Annual

¹ The CSRS employer contribution is 17.4 percent of basic pay for almost all CSRS postal employees. However the contribution is higher for Dual CSRS employees (those hired between January 1, 1984 and January 1, 1987) and Law Enforcement employees as discussed below.

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Report at page 46, where it shows the savings from discontinuance of CSRS employer contributions of \$1,325 million.

The Postal Service made CSRS employer contributions of \$54,990,704 in the first pay period of FY 2007 (pay period 21 of 2006). This is detailed in Table 2, the second tab on the attached Excel file, which shows the amounts reported in the FY 2007 Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations provided in response to question 20 (filed February 1, 2008). The calculation of these amounts is done in the same way as shown in Table 1. This \$55 million contribution to CSRS retirement is also reported on page 50 of the Postal Services' 2007 Annual Report, summing the \$52 million and \$3 million shown in the table titled, "Retirement Expense".

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14. Please refer to USPS-FY07-10 and USPS-FY07-11. In the letter cost avoidance models, acceptance rates for many operations are updated using WebEOR data from FY 2007, however the accept rates for MLOCR-ISS and OSS operations are from Docket Nos. R2001-1 and R2005-1, respectively. Similarly, flats acceptance and finalization rates for many operations are updated using WebEOR data from FY 2007, but BCR and OCR accept rates are not updated (the source is identified as "Engineering Estimates"). Please provide updated acceptance rates that reflect FY 2007 operations for the remaining, non-updated operations for the letter and flat cost avoidance models.

RESPONSE:

As the Postal Service has become more efficient at collecting and aggregating information from field operations and providing access to that data in such a way and in such a timely fashion that the individual data items may be incorporated into the cost analyses, the individual data items have been incorporated into the studies. The processes used to gather, aggregate, store and retrieve the data items are part of an evolutionary development, not all parts of which have evolved at the same rate. Thus, some data inputs which previously required extensive and expensive field work to collect and update have become more readily available, but unfortunately, although all inputs on a particular page may appear to be similar in terms of their nature and the way that they are used in the analysis, the actions required to collect and report the individual data items may vary significantly.

In previous dockets, the letter and flat cost studies relied on accept rates which had been collected through special studies. These special studies sometimes required extensive resources and lengthy production periods. Before filing any cost study, inquiries are made regarding the possible availability of valid updated inputs.

In the preparation of the FY 2007 Annual Compliance Report, the Postal Service updated some automation operations accept rates by using the WebEOR data system, a data source that has only become useful for such purposes in the

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course of the past year or so. As noted, WebEOR was able to provide the accept rates for many operations but not for MLOCR-ISS or for OSS. Although attempts to obtain the MLOCR-ISS data were made earlier, our Operations Department analysts were only recently able to pull this data successfully. Thus, in USPS-FY07-10, the MLOCR-ISS accept rate of 86.47% can now be updated to 94.53% as provided by the Postal Service's Operations Department. The MLOCR-ISS/Machine Printed accept rate of 96.40% does not feed any spreadsheets in the workbook and was not updated.

No updates of the national OSS accept rates in the disaggregated forms necessary to populate the cost models are currently available from WebEOR or any other source without performing a special study. The OSS accept rates were originally obtained from data collected through a special field study. The original OSS operations accept rates were obtained by collecting End of Run (EOR) reports from 40 different facilities nationwide. Please see Docket No. R2000-1, USPS-T-24, page 6 at 18-24. Engineering and Operations have verified that routinely maintained updates to the data are not available. Special studies to obtain updates to the OSS accept rates can be performed, but the results would not be available for several months.

The accept rates for flats equipment used in USPS-FY07-11 were originally provided by USPS - Engineering who have verified that routinely maintained updates to the data in question are not available. Updates to BCR and OCR accept rates for flats machines require testing by Engineering. BCR and OCR accept rates for flats cannot be obtained through the sources that were used to update the other acceptance and finalization rates in the preparation of the Annual Compliance Report.

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15. The following files appear to be missing from USPS-FY-07-25 (Operation Specific Piggyback Factor) spreadsheet MPPGBBY07PRC.xls:

- FY07 ACR inputs to Marc Part 2.xls
- FY07 ACR inputs to Marc Part 2-Pool Costs & Eqpmt Variabilies.xls
- FY07 ACR inputs to Marc.xls

Please provide these files.

RESPONSE:

The three requested files are attached as zip file "CIR.1.Q.15.Attach.Files.zip."

In general, these files are earlier versions of spreadsheets provided in USPS-FY-07-7 and USPS-FY-07-23. In some cases, supplementary calculations have been added. Citations to these references have been added in these spreadsheets. These files contain inputs for USPS -FY-07-8 and USPS-FY-07-26, as well as for USPS-FY-07-25.

The spreadsheet FY07 "ACR inputs to Marc.xls" contains numerous sheets which provided inputs for USPS-FY-07-8. On the sheet "ldc36_rec" the names and finance numbers for the Remote Encoding Centers (RECs) have been masked.

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22. Page 4 of USPS-FY07-7 states under "III. PROGRAM DOCUMENTATION" that certain SAS programs will be provided. Please provide the programs and indicate to which input file in USPS-FY07-27 each SAS program applies. There also seems to be some mixing of mainframe and PC SAS datasets and programs. Please indicate how any PC compatibility problems can be resolved.

RESPONSE:

The SAS programs were provided in USPS-FY07-7, as revised on January 16, 2008. These programs are in the same format as they have always been provided in the past: the SAS codes were written to be run on the mainframe, using the mainframe version of the PC SAS data set filed with the Commission.

The contents for the PC SAS IOCS Data File in USPS-FY07-27 named PRCSAS07.SAS7BDAT, and the mainframe version of PRCSAS07.SAS7BDAT used to run the provided SAS programs are the same: both the PC and the mainframe versions contain the same information and the same IOCS variable names in the same format.

The SAS codes are applicable to both mainframe and PC versions with two variants:

1. SAS codes involving inequalities or relying on the sequence order of characters should be modified where relevant (based on values stored under the given variable names) from EBCDIC for mainframe to ASCII for PCs. The main features of the EBCDIC sequence are that lowercase letters are smaller than uppercase ones and uppercase letters are smaller than digits. The main feature of the ASCII sequence are that digits are smaller than uppercase letters and uppercase letters are smaller than lowercase ones. Special characters interrupt the alphabetic sequence.

For example, instead of the following code in MOD1DIR for the mainframe,

```
IF SUBSTR(POOL,1,1)>='2' THEN OUTPUT ADW.MODS;
```

the PC SAS code would look like

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```
IF SUBSTR(POOL,1,1)='2' THEN OUTPUT ADW.MODS;
```

- Both the set-up codes to execute the SAS programs as exhibited in the mainframe JCL, and the codes to read from and write to files in the SAS programs, should be modified to conform to PC conventions and to the individual PC user's options for file addresses.

Instead of some of the codes listed in JCL.rtf, the PC SAS set up could look like (based on a user's hypothetical choice of file addresses)

```
options msglevel = i symbolgen;
libname iocsdat 'c:\iocsData';*file address for
                PRCSAS07.SAS7Bdat;
libname iocsdata 'c:\iocsData\mp07prc';
libname out1     'c:\iocsData\mp07prc\mods';
libname out2     'c:\iocsData\mp07prc\nonmods';
...
%let pathIOCSProg=c:\iocsProg\mp07prc;

%include "&pathIOCSProg\mbcref.sas" / source2; run;
%include "&pathIOCSProg\mod1pool.sas" / source2; run;
%include "&pathIOCSProg\mod1dir.sas" / source2; run;
%include "&pathIOCSProg\mod2item.sas" / source2; run;
...
```

At the same time, the %INCLUDE needs to be adapted to the PC set up.

For example, instead of the following % include statement in MOD!POOL for the mainframe,

```
%INCLUDE 'XXXXXX.XXXXX.SAS(DOLWGT)' /SOURCE2;
```

the PC SAS code would look like

```
%INCLUDE "&pathIOCSProg\DOLWGT.sas" / source2;
```

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24. Data presenting regressions estimating the cubic feet per piece at different weight increments for Inter-BMC, Intra-BMC, and Parcel Select Parcel Post are presented for three cases in the table below. Parameter estimates are based on data from USPS-FY07-17, USPS-LR-L-90 (R2006-1), and USPS-LR-K-90 (R2005-1).

Inter	2007 Filing		LR-L-90		LR-K-90	
	Estimate	Std Error	Estimate	Std Error	Estimate	Std Error
Intercept	-1.95383	0.0291	-1.91792	0.03602	-1.94796	0.0266
lnlbs	0.993377	0.0316	1.00707	0.03875	0.9599	0.03692
lnlbs2	-0.05238	0.0075	-0.05443	0.00912	-0.02836	0.01108

Intra	2007 Filing		LR-L-90		LR-K-90	
	Estimate	Std Error	Estimate	Std Error	Estimate	Std Error
Intercept	-2.07031	0.0509	-1.95951	0.04792	-1.9686	0.0331
lnlbs	1.032762	0.0576	0.95256	0.05339	0.85998	0.04997
lnlbs2	-0.07357	0.0139	0.04893	0.01274	-0.01347	0.01595

Select	2007 Filing		LR-L-90		LR-K-90	
	Estimate	Std Error	Estimate	Std Error	Estimate	Std Error
Intercept	-1.87255	0.058	-1.88177	0.04964	-2.08095	0.03579
lnlbs	1.060819	0.0702	0.75364	0.06945	0.79525	0.05226
lnlbs2	-0.0753	0.0188	0.02378	0.02123	0.04982	0.01709

- a. On the assumption that one would expect to see statistically identical values for the regressors between years, please explain why this is not the case for:
 - Inter: regressor for "lnlbs2".
 - Intra: regressors for "lnlbs" and "lnlbs2".
 - Select: regressors for "lnlbs" and "lnlbs2".
- b. If the expectation of statistically identical values is incorrect, please provide a brief explanation.
- c. A comparison of the databases between 2005 and 2007 seems to indicate a difference in the sizes of the databases. Please explain whether such size difference is of any statistical significance.

	Comparison of Data Bases			
	2007 cuft	2005 cuft	2007 pcs	2005 pcs
InterTotal	40,311,987	45,106,478	76,853,604	79,512,129
IntraTotal	9,893,859	13,246,847	24,843,533	29,420,266
SelectTotal	116,915,163	153,302,317	232,760,471	268,716,579

RESPONSE:

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(a) (b) First, some of the USPS-LR-L-90 parameter estimates as presented in the charts above appear to have been incorrectly transcribed. The parameter estimate for the InterBMC Inlbs variable should be 1.00797, rather than 1.00707. In addition, the Parcel Select parameter estimates for the intercept, Inlbs, and Inlbs2 variables should be -1.78737, 0.98383, and -0.45270, respectively.

Second, a methodology change was implemented in Docket No. R2006-1. In Docket No. R2005-1, weighted least squares methods were used to develop the estimates in USPS-LR-K-90. The weighting factor was the number of pieces. In Docket No. R2006-1, weighted least squares methods were again used to develop the estimates in USPS-LR-L-90, but the weighting factor was changed to the square root of the pieces. The Docket No. R2006-1 methodology was used to develop the estimates found in USPS-FY07-17.

Third, the assumption described in part (a) would appear to be reasonable if the cubic feet per piece values were constant over time. The number of pieces and the associated cubic feet for these categories, however, appear to have changed somewhat over time. For example, it is evident that the cubic feet per piece values for machinable, nonmachinable, and oversize Parcel Post mail pieces have changed over time (please see USPS-FY07-15, page 8).

(c) Comparing the 2005 data base with the 2007 data base, it is clear that the estimated average size (cubic ft/piece) has declined for each of the three

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categories. Broadly speaking, the decline for each category is in the neighborhood of 10 percent, so the declines are not trivial. Without extensive further analysis, and perhaps even with such extensive further analysis, the Postal Service lacks any formal basis to determine whether the changes either are, or are not, "statistically significant." Nonetheless, some observations can be made. On the one hand, there were some changes in methodology that perhaps contributed to the reported declines. These changes in methodology include, for example, a different imputation of cube when dimensional data is missing. On the other hand, some portion of the observed decline may reflect an actual change in the average size of the pieces tendered by mailers. Therefore, to the extent that the purpose of this question is to attempt to determine whether the observed differences might simply be a function of essentially random differences in estimates, rather than actual differences in the true average size of mail pieces being tendered, no reliable answer is currently available, but the suspicion is that some portion of the observed difference may reflect an actual decline in average size.

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.

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