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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 9, 10, 12, 13, AND 17 OF COMMISSION INFORMATION
REQUEST NO. 2
(February 14, 2008)

Commission Information Request No. 2 was issued on February 1, 2008. The request sought answers "as soon as they are developed." Attached are the Postal Service's responses to the above questions. Responses to additional questions will be submitted as they are developed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 14, 2008

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9. The following question refers to the revised library reference USPS-LR-7, dated January 16, 2008, file M5ALLIED.sas. In the code following the comment "add back out-of-office express mail costs," please specifically cite the sources of the multiplicative factors .04 and .96 used in calculating the variable identified as PRCCOSTS. Show the derivation of all calculated values and provide copies of all source documents not previously filed in this docket.

RESPONSE:

Please refer to section 4 of the Preface to USPS-FY07-7, where the following explanation was provided for the derivation of out-of-office express mail costs:

> …The volume-variable costs are then distributed to domestic and international Express mail based on the occurrence of in-office Express mail IOCS tallies in the MODS LDC 18 Express Mail cost pool and all LDC 48 cost pools, and the nonMODS Express Mail cost pool.

IOCS Q18A07=A ('off-premises express mail pick up or delivery', see USPS-FY07-27) identifies this activity to be associated with Express Mail, which would include both the domestic and the international categories. However, IOCS does not collect subclass information when the sampled employee is off-premises as the off-premises activities cannot be observed. Consequently, a proxy distribution key was used to determine the split fraction between domestic and international Express Mail in order to distribute the volume-variable portion of the off-premises costs to subclasses. The proxy distribution key relied on the aggregated proportion of direct tally costs associated with IOCS activity codes for Domestic and International Express Mail based on their occurrence in the following cost pools (where off-premises express mail activities can be expected to occur):

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	Direct Tally Costs for Express Mail (000's)		
Cost Pools	Domestic Express Mail	International Express Mail	Total
MODS 18 Express	$ 38,566	$ 1,202	$ 39,768
MODS 48 LD48 Exp	1,010	0	1,010
MODS 48 LD48 Oth	3,708	272	3,980
MODS 48 LD48_Adm	2,121	439	2,560
MODS 48 LD48_Ssv	2,842	72	2,914
NonMODS Express	10,363	186	10,549
Total	58,610	2,171	60,781
Percent	**96%**	**4%**	**100%**

The Domestic and International Express Mail IOCS activity codes are X110 and X895, where X=1,2,3,or 4 (see USPS-FY07.27).

Note: The IOCS PC SAS file in USPS-FY07-7 identifies IOCS activity codes separately for Domestic Express Mail but not for International Express Mail. IOCS activity codes (such as X895) for specific international subclasses do not show up in the IOCS PC SAS file because they are collapsed into broader International activity codes by International US Origin and Foreign Origin, and within each of these two groups, by International Economy mail and International Air mail.

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10. In the revised Postal Service library reference USPS-FY07-7 dated January 16, 2008, file named "Preface.Part.2.USPS-FY07-7.Table.xls" is Table 1. Table 1 has hard coded values in the columns identified as: "Pool Total Costs (a)"; PRC Mail Proc Posl Costs (b)"; and "PRC Mail Proc Vol. Var. Costs (c)". Please provide a revised Table 1 with data links or formulas in place of the hard coded data. In addition, please cite all sources relied upon, show the derivation of all calculated values, and provide a copy of all source documents not previously filed in this docket.

RESPONSE:

Initially, please note that the table appearing in the Preface to which this question refers is essentially a reproduction of a Summary Table which appears in Part 1 of USPS-FY07. (The version in Part 1, however, has referencing footnotes which were omitted from the Preface version.) The sole reason that this table was reproduced in the Preface is that only the Preface is printed for inclusion in the hard copy version, and it was believed that there may be occasions (perhaps in the future, when electronic technology may have changed) in which having the summary outputs available to hard copy readers might be useful. Consequently, this response focuses not on the table in the Preface, but on the version of Table 1 appearing in Part 1 of USPS-FY07-7 which has the same hard coded data.

Please see the attached Excel file, “CIR.2.Q.10.Cost.Pool.Links.xls.” The attached file contains four additional worksheets:

1. “Cost Pool Summary Table – Links” which is a replica of “Cost Pool Summary Table” in USPS-FY07-7 part 1.xls but with the requested links.

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2. “II-1. Mods 1&2” which is a replica of the worksheet of the same name in USPS-FY07-7 part 2.xls.
3. “II-2. nonMods” which is a replica of the worksheet of the same name in USPS-FY07-7 part 2.xls.
4. “II-3. BMCs” which is a replica of the worksheet of the same name in USPS-FY07-7 part 2.xls.

The links made are as mentioned in the note in Table 1 in the original filing. The tables in part 2.xls mentioned in the note are added to the attached xls.file in order to facilitate the linkage and make it self-contained in one single file. The hard-coded numbers for these tables are from the outputs of the SAS programs M5ALLIED, N5ALLIED, and B5ALLIED, as they were in LR-L-100 (see response to CIR 2 , Question 7).

Please note that in each of the “II-2. nonMods” and “II-3. BMCs” worksheets, there is an extraneous line that should have been edited out in the original filing but had been overlooked; that line has now the comment to be ignored/deleted. Also, although the ‘pool total costs’ for the LDC 48 pools in the original table 1 are the same in the aggregate for all the LDC48 pools as in the linked table 1, they are slightly different by individual cost pool. The slight discrepancies arise because an update of the numbers for these cost pools in the original filing of USPS-FY07-7 had been overlooked.

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12. Please refer to USPS-FY-07-NP2, Excel file "Reports.xls", worksheet A-Pages, Table A-7. For inbound Surface Parcel Post, please explain why volume variable costs exceed revenues.

RESPONSE:

Please refer to the revised USPS-FY-07-NP2, Excel file "Reports.xls" filed on February 4, 2008. The revised "Reports.xls" file shows a $6,895(000) contribution for Inbound Surface Parcel Post.

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13. The Within County Periodicals mail delivery office entry discount has historically been calculated relative to SCF entry. (*See* the USPS-LR-L-126 Within County Excel workbook, tab "Discounts"). Please explain the basis for using $0.071 from page 41 of USPS-FY07-13.

RESPONSE:

A revised spreadsheet: (CIR.2.Q.13.Within County.xls) correcting this oversight is attached. Relative to previous versions of USPS-FY07-3, a new tab *Cost Per Pound* is added to this spreadsheet. This tab is from USPS-FY-07-13, spreadsheet: PER DEST ENT.xls. The cost difference is calculated from this tab and shown in the tab: *Periodicals Within County*, cell F49. Cells F49 and G49 are highlighted to indicate the cells that are changed in this revision.

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17. Please refer to USPS-FY-07-NP2, Excel file "Reports.xls" worksheet A-Pages, Table A-1. Also, please refer to USPS-LR-FY07-5, FY 2007 CRA Model, Excel file "FY07.DRept.xls". For International Mail, please reconcile the amount of $1,790,430,358 shown in the "Total Including Contingency" column of the D Report with the sum of the Grand Total for the Volume Variable and Product Specific cost columns in Table A-1.

RESPONSE:

The calculations below use the revised USPS-FY-07-NP2, filed February 4, 2008.

The total cost of international mail, as reported in the ICRA report, is $1,890,689 thousand.
This differs from the $1,790,430 thousand of total international costs reported in the FY 2007 domestic CRA report by $ 100,259. The difference is shown below:

ICRA Volume Variable Costs	**$**	**1,890,689**
In FY 2007, the ICRA expenses for international highway were $1,110 thousand.	**$**	**(1,110)**
In FY 2007, the ICRA excludes prior period adjustments of $505 thousand for International Air Transportation and $0 thousand for ISAL International Transportation.	**$**	**505**
In FY 2007, the value used in the CRA for accounts 53261,53262,53263,53264,53268, 53269, 53271, 53286, 58301 and 58302 was $533,065. The ICRA reported a cost of $628,089 thousand. The difference is due to the ICRA imputing Terminal Dues.	**$**	**(95,024)**
Direct Entry, Direct Entry Ad Mail and Letterpost In FY 2007, these settlement accounts totaled $1,527 thousand. The ICRA reported a cost of $4,840 thousand. The difference is due to the ICRA incorporating acceptance and domestic transportation costs and including letterpost.	**$**	**(3,313)**
In FY 2007, the CRA reports $67,811 thousand for V.V. cost for Special Services. The ICRA reports $69,124 thousand. The difference is due to imputing 0.5 SDR for the delivery of each registered item.	**$**	**(1,313)**
Adjusted ICRA Volume Variable Costs	**$**	**1,790,434**
CRA Volume Variable Costs	**$**	**1,790,430**
Difference:	**$**	**(4)**

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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