

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

ANNUAL COMPLIANCE REPORT, 2008

Docket No. ACR2008

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO COMMISSION ORDER NO. 169
(January 21, 2009)

On January 12, 2009, the Commission issued Order No. 169, identifying apparent methodological changes in the some of the supporting materials, and directing presentation of additional information and materials by January 21, 2009. The Postal Service hereby provides its responses. Each item is stated verbatim, and followed by a response. Please note that the Postal Service filed a

request for modification of a portion of Order No. 169 on January 16, 2009.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. The development of CRA costs for (1) Standard High Density and Saturation Letters and (2) Standard High Density and Saturation Flats and Parcels incorporates a new adjustment to account for High Density and Saturation Letters that fail to meet machinability and barcoding requirements and are consequently rated for postage as Flats. The adjustment shifts some costs identified as Letter costs to Flats and Parcels. See USPS-FY08-1.doc. The accepted method used in Docket No. ACR2007-1 kept the volumes, attributable costs, and revenues of all letter-shaped ECR High Density and Saturation mail together whether or not the letters were ineligible for the letter rate. Because letter-shaped mail generally incurs lower per-piece costs than flat-shaped mail, the accepted approach may be seen as preferable to the proposed method which adds the cost of these letter-shaped mailpieces to the cost of flat-shaped mail, and thus may not reflect the per-piece cost of flats. In addition to justifying the proposed modification, please include a discussion of why the proposed approach is preferable to the method accepted in Docket No. ACR2007-1.

RESPONSE:

The explanation of why an adjustment is necessary to realign reported costs with the products by which those costs were generated is set forth in the Preface to USPS-FY08-1, and explained in greater detail in the Request of the United States Postal Service for Modification of Order No. 169 (January 16, 2009). Stated most simply, because letter-shaped High Density and Saturation pieces which pay flats rates are, by definition, excluded from the Letter product, their costs must likewise be excluded from the costs reported for the Letter product. These circumstances, however, give rise to the additional question of what is the best available adjustment.

The adjustment explained in USPS-FY08-1 is admittedly simple, in that it relies on the relative volumes of letter-shaped Standard High Density and Saturation pieces that letter-rated versus flats-rated. In FY08 there were 6.136 billion such letter-shaped pieces, while Standard High Density and Saturation Letters includes only 5.599 billion of these pieces (or 91.2 percent). The rest, 537 million letter-shaped pieces paid at flats rates, are part of Standard High Density and Saturation Flats and Parcels. As a result, the following adjustment was made. The volume variable costs reported for Standard High Density and Saturation Letters in the CRA were adjusted to reflect only 91.2 percent of the volume variable costs shown in the Cost Segments and Components Report for that product. The rest of the costs shown in the Cost Segments and Components Report for Standard High Density and Saturation Letters were, in the CRA, shifted to the Standard High Density and Saturation Flats and Parcels costs.

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One potential alternative approach was briefly considered and rejected. That was to attempt to use IOCS and all our data systems to separately identify letter-rated vs. flat-rated pieces among the letter shaped Standard High Density and Saturation. However, without explicit markings on the pieces to indicate letter or flats-ratings, the only distinction between such pieces is whether pieces satisfy letter automation requirements. Trying to use IOCS data to split letter costs into automation vs. non-automation components had previously been abandoned as unreliable. After being attempted in cases prior to Docket No. R2006-1, it was dropped in Docket No. R2006-1. See PRC Opinion and Recommended Decision, R2006-1, page 147, [5159], which states: "The Commission accepts the use of a single CRA cost estimate that combines the costs of non-automation and automation presort." The arguments in favor of that approach were presented in the Postal Service's Initial Brief in Docket No. R2006-1 at page 184:

The models combine the automation and nonautomation cost because of the issues discussed in the response to in Docket No. R2005-1 to POIR No.1, Question 1(a) (May 9, 2005). See also Docket No. R2006-1, USPS-T22 at 5-6.

Those references explained why the IOCS is not a reliable source for splitting letter costs into automation and non-automation. The same issues which proved so vexing in that context would need to be resolved in order to attempt to use tally information in the current situation to guide any cost adjustment. This left the simplistic adjustment based on relative volume as the best available option. The impact of that adjustment was shown in the attachment to the Request of the United States Postal Service for Modification of Order No. 169 (January 16, 2009).

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2. In USPS-FY08-16, the calculation of Intra-BMC transportation legs is modified to “de-link the market dominant analysis from the competitive analysis.” This change was not included in Proposal 13 (approved by the Commission on December 23, 2008), which isolated mail processing and transportation costs for single-piece Parcel Post.

RESPONSE:

In USPS-FY08-16, the Postal Service indicated that the estimated Destination Delivery Unit (DDU) transportation legs was removed from the formula used to calculate Intra-BMC transportation legs in order to fully separate the market dominant analysis from the competitive analysis. In addition, the Postal Service stated that this modification had an insignificant impact on the results.

In Order 169, the Commission requested that the Postal Service file a revised USPS-FY08-16 model in which the estimated number of DDU legs is incorporated into the formula used to calculate Intra-BMC transportation legs. The revised model is contained in the Excel workbook 'Parcel Post SP Trans Order 169.xls' and is identical in form to that filed in Proposal 13 on November 19, 2008. Given that a Parcel Select transportation cost model has not yet been filed at the Commission, the DDU transportation legs estimate from Docket No. ACR2007, USPS-FY07-16 (0.176) has been used as a proxy. If the number of DDU transportation legs contained in cell D25 in the 'Other Inputs' worksheet on page 13 of the revised model is set to zero, the cost model results are identical to those filed in USPS-FY08-16. The revised model, Parcel Post SP Trans Order 169.xls, is attached to this response electronically.

Table 1 below measures the impact this change has on the Parcel Post single-piece transportation cost per cubic foot estimates.

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**TABLE 1:
Parcel Post Single-Piece Transportation Cost Impact**

Category	USPS-FY08-16 Cost / Cu. Ft.	Order 169 Cost / Cu. Ft.	Percent Change
Inter-BMC Zone			
1-2	\$6.6962	\$6.6950	-0.02%
3	\$6.9293	\$6.9281	-0.02%
4	\$7.3307	\$7.3294	-0.02%
5	\$7.9689	\$7.9676	-0.02%
6	\$8.6152	\$8.6140	-0.01%
7	\$9.3742	\$9.3730	-0.01%
8	\$10.7022	\$10.7010	-0.01%
Intra-BMC Zone			
Local	\$3.3391	\$3.3422	0.09%
1-2	\$6.3051	\$6.3104	0.09%
3	\$6.3051	\$6.3104	0.09%
4	\$6.3051	\$6.3104	0.09%
5	\$6.3051	\$6.3104	0.09%

The removal of the DDU transportation legs estimate from the Parcel Post single-piece transportation cost model has a relatively small impact on the cost per cubic foot estimates. Most of the numbers are identical when rounded to the nearest cent.

This fiscal year is the first year the Parcel Post single-piece, Parcel Select, and Parcel Return Service estimates are being separately estimated and reported by the Cost and Revenue Analysis (CRA) report and underlying data systems. Given that the first category is a market dominant category and the second and third categories are competitive categories, it seems illogical to have the single-piece cost study rely on data contained in the Parcel Select cost study. Given that this modification has such little impact on the cost study results, the Postal Service believes the DDU transportation legs estimate should be removed from the Parcel Post single-piece transportation cost model. It should be noted that this modification moves costs from the single-piece Inter-BMC category to the single-piece Intra-BMC category and does not move any costs to the competitive categories.

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3. An adjustment has been added to the CRA Model that reallocates the costs of Special Handling, a subset of the Ancillary Services product, to the products of the host pieces. See USPS-FY08-31 Preface.doc at 2. In addition to justifying the proposed modification, please include a discussion of why the proposed approach is preferable to an alternate approach of shifting Special Handling revenues from the host pieces to the Ancillary Services product.

RESPONSE:

To “reverse” the reallocation of Special Handling costs from host products to Ancillary Services in an entirely comprehensive fashion, it would be necessary to recode the affected IOCS tallies, and then redo a major portion of the ACR process, including rerunning IOCS programs, Mail Processing programs, B Workpapers, CRA Model, etc. Given the very limited number of IOCS tallies involved, out of a total of approximately 700,000 tallies, undertaking such an exercise does not seem warranted. In FY 08, there were 3 Special Handling IOCS tallies associated with Clerks and Mailhandlers. These tallies resulted in about \$150,000 of C/S3 mail processing costs (before premium adjustment), and about \$79,000 window service costs (as input into W/S 3.2 of the B Workpapers). The products of the host pieces identified with Special Handling include First Class, Single Piece, Letter-shaped, Media & Library mail, and one of the Competitive Mail and Services. Moving the mail processing costs back to Ancillary Services would produce a decrease in C/S 3 mail processing costs of about 1/100th of 1 percent for Competitive Mail and Services, and a much smaller percentage decrease for First Class, Single Piece, Letter-shaped mail. Moving the Window Service costs back to Ancillary Services would cause a decrease of about 6/10th of 1 percent for Media/Library Mail at the Window Services. The impact would be negligible for the other CRA categories in C/S 3. The impact (in percentage terms) would be even less if the costing were to include all cost segments. (Last year, the FY07 CRA showed total attributable costs for Special Handling of \$0.7 million. The FY07 mail processing and window service numbers behind that total, comparable to this year’s \$150,000 and \$79,000, were \$92,000 and \$233,000, respectively. This comparison shows that, if attempts were made to recreate the FY08 CRA with Special Handling as separate line item, the total would likely be in the same ballpark as the FY07 cost estimate.)

In general, Special Handling is a category that poses several challenges to accurate reporting. First, the exact contours of the operations which constitute Special Handling are not entirely clear. In other words, for those very few types of mail that tend to get Special Handling, the line demarcating “special” handling from “normal” handling is difficult to define. Under such circumstances, the costs of the special service are difficult to disentangle from the costs of the host service. Second, this is compounded in the case of Special Handling because

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incidences of that special service are so rare, relative to the full universe of postal operations. Costs based on massive random sampling systems for such a small service are likely to exhibit considerable variation from year to year. All of these types of factors compel the conclusion that attempting to present the costs of Special Handling as a separate reporting category is unlikely to produce satisfactory results. Therefore, rolling whatever costs can be identified with Special Handling in with a broader set of costs makes sense. The broader set of costs could be those of the host piece, or simply the costs of "Other Ancillary Services." The Postal Service chose the host piece option because it matches the way the revenues are reported in RPW, and thus allows avoidance of the burden of pulling the Special Handling revenues out of RPW host product revenues in order to develop the CRA. Probably the more important point to be made, however, is that presentation of a separate estimate of Special Handling costs in the CRA implies a level of precision that does not appear to be warranted, when options are available to roll those costs in with broader reporting categories.

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4. The Detached Address Label (DAL) adjustment, performed in PRC-LR-11 in the 2007 ACD, is modified and relocated to the “B workpapers” in LR-FY08-31 and LR-FY08-NP-14. The old DAL adjustment (workbook UDCmodel07 tab 10.DALs) moved costs from ECR Saturation Letters to ECR Saturation Flats. The new DAL adjustment in workbook “CS6&7” tab”7.0.10” shifts both ECR High Density and Saturation Letter costs to both ECR High Density and Saturation Flats. See USPS-FY08-19.

RESPONSE:

As shown below, the Detached Address Label (DAL) adjustment for delivery costs performed as part of 2008 Annual Compliance Report (ACR) was relocated to the B Workpapers, but did not change the established methodology used in PRC-ACR2007-LR7. Specifically, although the new product rows from which DAL cost are transferred from and transferred to are, respectively, ECR High Density and Saturation Letters, and ECR High Density and Saturation Flats, the only costs involved in the transfer are those relating to Saturation letters and flats. Thus, contrary to the apparent suggestion in the question, just as in previous versions of the DAL adjustment, no High Density costs are affected by the current DAL adjustment, despite its new location in the B Workpapers, and despite the fact that the row in which the adjusted costs appear is labeled ECR High Density and Saturation Flats.

Background

The DAL adjustment shifts city letter route street (segment 7) and rural (segment 10) attributable costs from ECR Saturation letters to ECR Saturation flats. Transferring these delivery costs incurred by DALs is necessary because the Carrier Cost Systems (CCS), both city and rural, record DALs as letter shaped pieces. Shifting city in-office (segment 6) DAL costs is not necessary because the In-Office Cost System (IOCS) assigns DAL tallies to their host piece. The Postal Service first proposed this adjustment in Docket No. R2005-1 as part of library reference USPS-LR-K-67. It was accepted by the Commission and incorporated into PRC-LR-7. The same methodology was used in the 2007 Annual Compliance Determination (ACD) in PRC-ACR2007-LR7.

Methodology

The current methodology computes the cost for each ECR Saturation DAL as it does for all other letters. After separate city letter route street and rural ECR Saturation DAL costs are calculated, those costs are shifted from ECR Saturation letters to ECR Saturation flats. In short, DAL costs are computed by treating them as letters and then the total DAL costs are shifted to flats.

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Prior to FY2008, this adjustment was done subsequent to the Cost and Revenue Analysis Report (CRA) in Delivery Cost Model (USPS-FY07-19). In the FY2008 ACR, however, the DAL adjustment was moved “forward” from the delivery model into USPS-FY08-NP14 (“B-Workpapers – CS06&7, CS10). It was necessary to move the adjustment forward because of the different breakout of products in the FY08 PCRA (USPS-FY08-1) as compared with FY07. The DAL adjustment was relocated to “earlier” in the process so that the disaggregated costs from the delivery model would sum to product costs (applicable rows in the Cost Segments 6, 7 & 10 of the B-Workpapers-USPS-FY08-NP14). The following discussion illustrates the location of the adjustment in USPS-FY08-NP14, and shows that it utilizes the established methodology from PRC-ACR2007-LR7.

City Street DAL Costs

The city street letter route DAL delivery activities (7.1) costs are computed by 1) finding volume by cost pool and 2) multiplying the corresponding volume by the appropriate unit cost per city delivered piece on letter routes.

The city DAL volume is located in **USPS-FY08-NP14** workbook **CS06&7** worksheet **7.010**. The appropriate cost pools for ECR Saturation Letters is Regular Delivery of Letters (this includes DPS) and Sequenced (these are pieces which are not cased and taken directly to the street). The city DAL letter volume is 349.2 M (cell F10+cell G10) and the DAL sequenced volume is 109.8 M (cell H12). As is consistent with the established methodology, this is an estimate of the volume of ECR Saturation Letters that are DALs. No other rate category is included in these DAL estimates.

The relevant unit costs per city delivered piece are also located in worksheet **7.0.10**. The unit cost for letters is \$0.020 (cell E10) and for sequenced letters is \$0.015 (cell E12).

Multiplying the city DAL volumes by the appropriate unit costs results in \$6.85 M (cell I10) in DAL letter costs and \$1.64 M (cell I12) in DAL sequenced costs. In sum, the DAL delivery activities (7.1) costs are \$8.5 M (cells I10+I12). This is the amount that is shifted from ECR High Density and Saturation letters to ECR High Density and Saturation flats. The adjusted ECR High Density and Saturation letter cost is \$73.0 M (cell J14) and the adjusted ECR High Density and Saturation flat and flat cost is \$165.8 M (cell J15).

Rural DAL Costs

The rural DAL costs are computed by 1) finding ECR Saturation DAL volume by compensation category and 2) multiplying the volume by the applicable unit cost per delivered rural piece.

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The rural DAL ECR Saturation volume is located in **USPS-FY08-NP14** workbook **CS10** worksheet **10.3**. The rural DAL volume by compensation category is the following: DPS volume is 10.8 M (cell F9); Other Letter volume is 70.5 M (cell F11), and Boxholder volume is 61.2 M (cell F12). The pertinent unit costs per rural delivered piece are also located in worksheet **10.3**. The unit costs are \$0.018, \$0.054, and \$0.041 for compensation categories DPS, Other Letters, and Boxholders respectively.

Multiplying the rural DAL volumes by the appropriate unit costs results in \$6.0 M (cell H14) in DAL costs on Evaluated Routes and \$0.5 M (cell I14) in DAL costs on Other Routes. In sum, the DAL adjustment shifts \$6.5 M of rural ECR Saturation Letter costs from ECR High Density and Saturation Letters to ECR High Density and Saturation Flats.

USPS-FY08-19

The purpose of USPS-FY08-19 is to disaggregate delivery costs from the product level to the rate category level. USPS-FY08-19 disaggregates ECR High Density and Saturation letter delivery costs, for example, into delivery costs for ECR High Density letters and ECR Saturation letters. The same separation is done for ECR High Density and Saturation flats.

The city Delivery Activity (7.1) letter route cost for ECR High Density and Saturation letters is \$73.0 M. (**USPS-FY08-NP14**, workbook **CS06&7**, worksheet **'7.06'**, cell W22). After the pertinent Special Purpose Route (SPR) ECR High Density Saturation letter cost is added, the total city Delivery Activity (7.1) cost for ECR High Density and Saturation letters is \$73.3 M (**USPS-FY08-NP14**, workbook **CS06&7**, worksheet **'Outputs to CRA'**, cell F22). The established methodology only shifts DAL costs on city letter routes. City SPR costs are not adjusted. The corresponding rural cost is \$63.4 M (**USPS-FY08-NP14**, workbook **CS10**, worksheet **'Outputs to CRA'**, cell G22).

USPS-FY08-19 disaggregates these costs. The city Delivery Activity (7.1) letter costs are \$18.2 M and \$55.1 M (**USPS-FY08-19**, workbook **UDCModel08**, worksheet **'11SummaryBY'**, cells H91 and H92) for High Density and Saturation respectively. The corresponding rural letter costs are \$13.8 M and \$49.7 M (cells K91 and K92). The letter route portion of the city cost is computed by taking the CCCS volume multiplied by the unit letter cost per delivered piece. The city letter route High Density letter volume is 922.7 M (**USPS-FY08-19**, workbook **UDCInputs08**, worksheet **7.0.8**, cell E37) and the unit cost is \$0.02 (**USPS-FY08-NP14**, workbook **CS06&7**, worksheet **7.0.10**, cell E10). Multiplying these two figures equals \$18.1 M in letter route costs. After SPR costs are added the total city Delivery Activity (7.1) letter costs are \$18.2 M (**USPS-FY08-19**, workbook **UDCModel08**, worksheet **'11SummaryBY'**, cell H91). A similar process is done to compute the rural High Density letter cost which equals \$13.8 M. For both city and rural, the High Density letter costs are computed by

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multiplying unadjusted CCS volumes by the appropriate unit costs. Therefore, the DAL adjustment only affects the ECR Saturation letter and flat rate categories.

The DAL adjustment shifts the DAL costs from ECR Saturation letters to ECR Saturation flats. The DAL costs are shown in **USPS-FY08-19**, workbook **UDCModel08**, worksheet **'11SummaryBY'**, row 116. For city Delivery Activity (7.1) \$8.5 M (cell H116) and for rural \$6.5 M (cell K116) is shifted from ECR Saturation letters to ECR Saturation flats. Those figures in cells H116 and K116 correspond to the amounts calculated in the "B Workpapers" (**USPS-FY08-NP14**).

Conclusion

In the FY08 ACR, the DAL adjustment utilized the established methodology (shifting city street and rural ECR Saturation DAL costs from letters to flats) from the 2007 ACD and relocated the mechanics of the adjustment from the delivery model (USPS-FY08-19) to the "B-Workpapers" (USPS-FY08-NP14). This was done to insure that the sum of disaggregated delivery costs from USPS-FY08-19 equal the corresponding product costs from the PCRA (USPS-FY08-1).

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5. The First-Class and Standard letter and card presort cost models incorporate the results of a new special study of density. The study introduces three changes to the accepted methodology. First, density percentages for the outgoing primary, outgoing secondary, and incoming Managed Mail Program (MMP) operations are measured separately for First-Class and Standard Mail, instead of the combined density percentages developed in the accepted approach. Second, percentages for outgoing and incoming "ISS refeeds" are added. Finally, the assumption that the next operation was an MMP operation for any sort plan label denoting an automated area distribution center (AADC) finalization level is modified based on a review of Area Summary Listing reports for each AADC. See USPS-FY08-10.doc at 1-6. Note that the use of electronic end-of-run (EOR) reports instead of manual EOR reports is not considered a deviation from the accepted methodology, assuming the only difference with respect to the needed data is format or medium.

RESPONSE:

Order 169, Item 5 addresses an updated density study which was filed as a supplement to the letter cost models in USPS-FY08-10. In USPS-FY08-10, the Postal Service described and documented an electronic field study in which the cards / letters density tables and input sub system (ISS) / output sub system (OSS) acceptance rates have been replaced with the most up-to-date information available. The updated study replaced the existing density study originally presented in Docket No. R2000-1, USPS-T-24, Workpaper 1.

In Order 169, the Commission requested that the Postal Service file revised USPS-FY08-10 cost models that rely upon the accepted Commission methodology of its most recent Annual Compliance Determination (ACD). The Commission requested three specific changes to the models as filed in the ACR. The first request is to combine the density percentages for First-Class Mail and Standard Mail for outgoing primary, outgoing secondary and incoming managed mail program (MMP) operations. The second request is to remove the percentages for outgoing and incoming "ISS refeed" from the models. The third request, regarding the replacement of the previous assumption that the next operation was an MMP operation for sort plan labels denoting an AADC finalization level, is discussed below.

A revised USPS-FY08-10 reflecting the first two changes requested by Order 169 is contained in the Excel workbooks 'USPS-FY08-10 FCM letters costs order 169 Final.xls', 'USPS-FY08-10 STD Reg Letter costs order 169 Final.xls' and 'USPS-FY08-29 De-linking FCM Model order169 Final.xls'. These spreadsheets have been attached electronically to this response.

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Our rationale for incorporating the density data disaggregated by First-Class Mail and Standard Mail was that our visibility into the data was enhanced by the Postal Service implementing a standardized sort plan naming convention such that one could now determine what class of mail was processed using a given sort plan. In the past, the sort plans were not named so as to permit separation of sort plans by class of mail. Therefore, the combined data for First-Class Mail and Standard Mail was used in both the letter cost models for First-Class Mail and Standard Mail, with the result being that neither model was using information specific to its class of mail. With the new standardized sort plan naming convention, we were able to estimate some parts of the density table by class and also to determine exactly what facilities relied on an MMP operation. This new visibility into the data permitted the First-Class Mail letter cost model to be more uniquely and accurately associated with First-Class Mail data, and similarly for the Standard Mail letter cost model. However, in keeping with the request in Order 169, the models being filed in response to the Commission's request rely on density data for First-Class Mail and Standard mail combined.

In the density data analyzed for the FY 2008 ACR, the percentages for outgoing and incoming "ISS refeeds" were added to the tables. In order to accommodate these new data, the cost models contained in USPS-FY08-10 had to be modified from their FY 2007 design. In each mail flow model spreadsheet, cells G18 (outgoing ISS) and G51 (incoming ISS) were modified so that the initial mail volumes flowing through these operations were multiplied by the value of one plus the appropriate percentage from the density table. These minor adjustments were incorporated to accommodate the additional information about refeeds now available, and to permit the mailflow models and resulting cost estimates to more accurately reflect the possibilities of the mail flows. However, in keeping with the request of Order 169, to reverse the effects of the change for purposes of this exercise, the ISS refeed percentages were set to zero in the accompanying Excel spreadsheets.

The third change identified in the question above relates to the replacement of the previous assumption that, for any sort plan label denoting an automated area distribution center (AADC) finalization level, the next operation was an MMP operation. The Postal Service submits that, in this instance, our proposed change is necessary and reflective of operational reality. In fact, the accuracy of the data collection effort was enhanced by technological changes which have occurred since the previous study was conducted. The fact that webEOR data are now available on the intranet resulted in improved data "visibility." For example, many AADC plants only process incoming mail for the service area of that plant and do not need to maintain separate MMP sort plans. In the 2008 study, the April 2008 Area Summary Listing reports for each AADC were reviewed to determine which plants actually maintained both MMP sort plans and incoming SCF / incoming

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primary sort plans. If plants maintained both sort plans, they were placed on an MMP list. Whenever the bin label for a given sort plan indicated that the finalization level was for an AADC that was on the MMP list, the next operation code for the MMP operation was entered in the appropriate cell. Otherwise, the next operation code for the incoming SCF / incoming primary operations was entered in the appropriate cell. To summarize, the lack of data availability meant that the previous assumption, while necessary, did not accurately reflect operational reality; the new web-based data source permitted the development of the appropriate mapping; and it is not feasible to “reverse” the third change identified in the question.

The tables below thus show the results from the attached spreadsheets of removing only the first two changes identified by the question. The Postal Service, however, views the results from the models as initially filed as superior to the results shown below, because all of the changes discussed herein represent beneficial enhancements to the letter costs models by incorporating up-to-date data and more accurate reflections of operations.

III. Letters and Cards Results

FIRST CLASS MAIL RATE CATEGORY	Mail Processing	Total
	Total Unit Cost (CENTS)	Mail Processing and Delivery Worksharing Related Unit Cost Savings (CENTS)
Letters		
Nonautomation Presort Letters	7.794	5.235
Automation Mixed AADC Letters	8.388	4.526
Automation AADC Letters	6.483	6.689
Automation 3-Digit Presort Letters	6.198	6.993
Automation 5-Digit Presort Letters	3.966	9.429
Automation 5-Digit Presort Letters (CSBCS/Manual Sites)	4.501	n/a
Cards:		
Nonautomation Presort Cards	7.543	
Automation MAADC Presort Cards	4.508	2.806
Automation AADC Presort Cards	3.537	3.997
Automation 3-Digit Presort Cards	3.393	4.158
Automation 5-Digit Presort Cards	2.254	5.471
Automation 5-Digit Presort Cards (CSBCS/Man.)	2.527	n/a
STANDARD MAIL LETTERS	TOTAL MAIL PROCESSING	
RATE CATEGORY	UNIT COST	

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	(CENTS)
Nonautomation MADC / MAADC Presort Letters	7.194
Nonautomation ADC / AADC Presort Letters	6.586
Nonautomation 3-Digit Presort Letters	29.654
Nonautomation 5-Digit Presort Letters	17.949
Automation MAADC Presort Letters	6.975
Automation AADC Presort Letters	5.606
Automation 3-Digit Presort Letters	5.401
Automation 5-Digit Presort Letters	3.794

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6. The Postal Service's analysis of First-Class Mail worksharing discounts does not follow the established method of using a bulk metered mail (BMM) benchmark for automation Mixed AADC and nonautomation presort letters. See USPS-FY08-3 and ACR at 50-51. The accepted method appears in Tables VII-B-2 and VII-B-3 in the 2007 ACD.

RESPONSE:

An alternate version of the Worksharing Discounts Table filed in USPS-FY08-3 in response to Order No. 169 is attached electronically as Items 6 and 9 Spreadsheet.xls. It reflects changes to the measured cost differentials pursuant to Order from the Commission, including the effect of alternative versions filed in response to other items in Order No. 169. The alternative costs and the resulting passthroughs are highlighted in the revised Worksharing Discounts Table.

The attached spreadsheet also contains an addendum, "Order 169 Addendum," that shows the First-Class Mail cost and price differences and their percentage relationships requested by the Commission in Order No. 169, Item 6, and the cost and price differences and their percentage relationships for the former ECR pricing categories requested by the Commission in Order No. 169, Item 9.

The Postal Service did not include a bulk metered mail (BMM) benchmark for automation Mixed AADC and nonautomation presort letters because it does not consider cost differences between categories in different products as worksharing. See ACR at 50-51. The Postal Service is mindful of the relationship between single-piece and presort prices as it develops the new prices under the price cap; however, given the existence of a price cap at the class level, management's discretion regarding the price of First-Class Mail stamp, and the impact of the integer constraint, there is no guarantee that the price relationship will not change from one pricing cycle to another pricing cycle, regardless of the measured cost differences.

Nevertheless, the Postal Service is aware that the Commission and other interested parties may want to look at the cost and price differences between Single-Piece and Presort; therefore it has no objection to providing these data as long as they are provided as a supplement to the Worksharing Discounts Table. As stated earlier, the Postal Service is mindful of this relationship, but wants to be sure that these cost differences are not used as worksharing cost avoidances, especially since they cross product lines.

The Postal Service did not include the (former) ECR cost and price differences and passthroughs in either the FY 2007 ACR or the FY 2008 ACR because it believes that the PAEA quite clearly excluded address density from the list of

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items that constitute worksharing.¹ The Postal Service observed that the Commission included cost and price differences for the former ECR pricing categories (now separated into three different products that do not correspond exactly to the former density tiers of ECR that the Commission used in its Annual Compliance Determination (ACD) Table VII-D-4) in its ACD report. But the Postal Service continues to object to the labeling of these cost differences as “presort cost differentials” in the ACD (FY 2008 ACD at 96). The address density differences between the Basic, High Density and Saturation categories of the former ECR subclasses are clearly not presort differences, for no amount of mailer presorting or other advance mailer preparation can convert a mailing that qualifies only for Carrier Route (formerly Basic ECR) pricing into one that qualifies for High Density or Saturation pricing. Similarly, no amount of mailer presorting or other advance preparation can convert a mailing that qualifies for High Density, but not Saturation, pricing into one that qualifies for Saturation pricing. Simply put, these are three different groups of mail that typically follow different mail processing paths and that are typically used for different purposes by different types of mailers. The Postal Service believes that these three categories of mail serve three different market segments—though in some cases these markets are related, and in some cases, perhaps, these markets may overlap slightly.

The Postal Service believes that the statute is clear and that Congress did not intend address-density differences, such as those between former Basic, High Density and Saturation ECR, to be treated as worksharing.

Nevertheless, the Postal Service is aware that the Commission and other parties may take an interest in looking at the cost and price differences between the products and pricing categories that formerly constituted ECR, so it has no objection to providing these data as long as they are available as a supplement to the Worksharing Discounts Table. The Postal Service does not believe that cost differences should be ignored, but wants to be sure that these cost differences are not misconstrued as worksharing cost avoidances, especially since they do not meet the definition of worksharing in the statute.

¹ Title 39 section 3622(e)(1) defines worksharing activities as “presorting, prebarcoding, handling or transportation of mail” that the Postal Service would otherwise perform.

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7. The Postal Service employs two new field analyses to calculate worksharing cost avoidances for Media and Library Mail and Bound Printed Matter. See USPSFY08- 15, methodology section. First, a productivity estimate for manually moving containers from the dock to the parcel sorting area was developed. Second, the time required for a Primary Parcel Sorting Machine clerk to key a 5-digit ZIP Code was estimated. These estimates are then used to calculate the manual sorting productivity and barcode savings, respectively.

RESPONSE:

Item 7 addresses two issues related to USPS-FY08-15. The first issue concerns an updated productivity estimate for manually moving a container from a delivery unit dock to the incoming secondary parcel sorting area. The second issue concerns an updated productivity estimate for Primary Parcel Sorting Machine (PPSM) keying tasks.

In USPS-FY08-15, the Postal Service described a productivity estimate that was developed to reflect the time required to manually move rolling stock containers from a delivery unit dock to the incoming secondary parcel sorting area. This estimate was developed using the Methods Time Measurement (MTM) MTM-4M software and was based on the distance measurements obtained in a delivery unit field study conducted last summer. The updated productivity estimate replaced a productivity estimate that had been relied upon in the parcel cost models filed in previous dockets. That estimate had been set to equal four times the cross docking productivity estimate.

In Order 169, the Commission requested that the Postal Service file revised Bound Printed Matter and Media Mail - Library Mail mail processing cost models incorporating the container movement productivity estimate used in past dockets. The USPS-FY08-15 Parcel Post single-piece mail processing cost model was not mentioned in Order 169, but was also developed using the updated productivity value. Parcel Post single-piece, Bound Printed Matter, and Media Mail - Library Mail mail processing cost models revised in compliance with Order 169 are contained in the Excel workbooks 'Parcel Post SP MP Order 169.xls', 'BPM MP Order 169.xls', and 'Media Mail MP Order 169.xls', respectively. While the Commission did not specifically mention the incoming secondary parcel sorting estimate in Order 169, which was also updated as described in USPS-FY08-15, the productivity estimate that had been relied upon for the past several dockets was also incorporated into the models presented here in response to Order 169.

Table 1 below measures the impact these changes have on the mail processing cost estimates. The new productivity estimates have a relatively small impact on

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the cost estimates. However, given that the updated productivity estimates have been developed using data collected in a recent delivery unit field study, the Postal Service believes the updated productivity estimates should be relied upon in the USPS-FY08-15 mail processing cost models.

In USPS-FY08-15, the Postal Service also described how barcode savings estimates were incorporated into the Bound Printed Matter and Media Mail - Library Mail mail processing cost models for the first time. It was necessary to include barcode savings estimates in these models because, in the FY 2007 ACR and previous rate cases, the barcode savings were referenced to the Parcel Post mail processing cost model. However, with the division of Parcel Post into market dominant Parcel Post single-piece and competitive Parcel Select and Parcel Return Service, the only Parcel Post model presented in the market dominant portion of the ACR is the model for Parcel Post single-piece, and Parcel Post single-piece mail is not eligible for a barcode discount. The barcode savings analysis was therefore deleted from the Parcel Post single-piece cost model, as described in Proposal 13, leaving no easily accessible source to which the Bound Printed Matter and Media Mail – Library Mail mail processing models could refer.

In previous dockets, the barcode savings cost estimate from the Parcel Post cost model was used to support the Bound Printed Matter and Media Mail - Library Mail discounts. The analysis in the Parcel Post cost model relied upon older PSM productivity values and assumed that the difference between an older PPSM value where 100 percent keying was required and an older Secondary Parcel Sorting Machine (SPSM) value before those machines were retrofitted with the Singulation Scan Induction Unit (SSIU) was solely due to the time required for a clerk to key the 5-digit ZIP Code. The productivity estimates in the USPS-FY08-15 Bound Printed Matter and Media Mail - Library Mail mail processing cost models relied upon an updated productivity estimate that reflected the time required for a PPSM clerk to key a 5-digit ZIP Code. This estimate was also developed using the MTM-4M software.

In Order 169, the Commission requested that the Postal Service file revised Bound Printed Matter and Media Mail - Library Mail mail processing cost models that rely on the previous methodology. Revised Bound Printed Matter and Media Mail - Library Mail mail processing cost models are contained in the Excel workbooks 'BPM MP Order 169.xls' and 'Media Mail MP Order 169.xls', respectively. It should be noted that the Parcel Post single-piece CRA proportional adjustment factor was used as a proxy for Bound Printed Matter in calculating the barcode savings, given that a proportional CRA adjustment factor has not historically been calculated in the Bound Printed Matter analysis.

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Table 2 below measures the impact this change has on the barcode savings estimates. It should be noted that the USPS-FY08-15 methodology, unlike the USPS-FY07-15 methodology, did not include label costs or rely on CRA adjustment factors. Label cost estimates were not included because the estimates developed in the past were virtually zero. CRA adjustment factors were not incorporated into the analysis because a factor is not developed for Bound Printed Matter and the Media Mail - Library Mail factor is relatively close to one. Despite the fact that these two elements were not included in the USPS-FY08-15 analysis, the estimates that have been developed in the Order 169 models are lower than those calculated in the USPS-FY08-15 models. Given that the updated productivity estimate is based on more recent field observation and more closely isolates the time required to key a 5-digit ZIP Code, the Postal Service believes that the updated barcode savings estimates should be relied upon in the USPS-FY08-15 Bound Printed Matter and Media Mail - Library Mail cost models.

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TABLE 1: Impact of Updated Productivity Estimates

Category	USPS-FY08-15 Estimate	Order 169 Estimate	Percent Change
Parcel Post			
Inter-BMC Machinable Cost	\$2.948	\$2.950	0.08%
Inter-BMC NMO Cost	\$4.862	\$4.851	-0.23%
Inter-BMC Oversize Cost	\$18.139	\$18.055	-0.46%
Inter-BMC Aggregate Cost	\$3.469	\$3.467	-0.04%
Intra-BMC Machinable Cost	\$2.576	\$2.581	0.19%
Intra-BMC NMO Cost	\$3.501	\$3.499	-0.05%
Intra-BMC Oversize Cost	\$14.323	\$14.265	-0.41%
Intra-BMC Aggregate Cost	\$2.729	\$2.732	0.14%
Bound Printed Matter			
DBMC Cost Savings	\$0.193	\$0.193	0.00%
DSCF Cost Savings	\$0.424	\$0.424	0.01%
DDU Cost Savings	\$0.178	\$0.178	0.00%
Carrier Route Presort Cost Savings	\$0.098	\$0.113	14.64%
Parcels / Flats Cost Differential	\$0.124	\$0.124	0.00%
Media Mail - Library Mail			
Inter-BMC Single-Piece Machinable Cost	\$1.617	\$1.615	-0.08%
Inter-BMC Single-Piece NMO > 20 lbs Cost	\$10.564	\$10.489	-0.70%
Inter-BMC Single-Piece NMO Flats / IPPs Cost	\$1.934	\$1.932	-0.12%
Intra-BMC Single-Piece Machinable Cost	\$1.311	\$1.314	0.21%
Intra-BMC Single-Piece NMO > 20 lbs Cost	\$8.070	\$8.022	-0.59%
Intra-BMC Single-Piece NMO Flats / IPPs Cost	\$1.729	\$1.729	0.05%
Aggregate Single-Piece Cost	\$1.664	\$1.663	-0.05%
Basic Machinable Cost	\$1.246	\$1.249	0.29%
Basic 3-Digit NMO > 20 lbs Cost	\$5.674	\$5.640	-0.61%
Basic BMC NMO > 20 lbs Cost	\$6.786	\$6.742	-0.64%
Basic 3-Digit Flats / IPP Cost	\$1.105	\$1.111	0.58%
Basic ADC Flats / IPP Cost	\$1.551	\$1.553	0.13%
Aggregate Basic Cost	\$1.273	\$1.277	0.28%
5-Digit Sack Cost	\$1.012	\$1.019	0.76%
5-Digit Pallet Cost	\$4.992	\$4.946	-0.93%
Aggregate 5-Digit Cost	\$1.029	\$1.037	0.73%
Basic Presort Cost Difference	\$0.391	\$0.386	-1.14%
5-Digit Presort Cost Difference	\$0.634	\$0.626	-1.32%

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TABLE 2: Impact of Updated Barcode Savings Estimate

Cost Model	USPS-FY08-15 Estimate	Order 169 Estimate	Percent Change
Bound Printed Matter	\$0.036	\$0.029	-21.66%
Media Mail - Library Mail	\$0.037	\$0.030	-17.61%

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8. USPS-FY08-11 Preface.doc states that the "Outside County Model of Periodical Costs" includes a modification that was not included in Proposal Twelve (filed November 4, 2008), which dealt with Periodicals costing. This proposed modification replaces the assumption that 40 percent of mixed area distribution center (MADC) sacks are L201 sacks, with a 39 percent figure cited to USPSFY08- 14 (the mail characteristics study).

RESPONSE:

The CONTAINER LEVEL field of the Mail.dat CSM file separately identifies L201 and L009 mixed ADC containers. This field is used to develop separate estimates of the two mixed ADC container types in USPS-FY08-14. The estimates used to derive the parameter of 39 percent of MADC sacks can be found in the worksheet "Periodicals MCS 2008 Q1-Q4 YTD.xls" on sheet "Adj Pivot," cells G21 and G22. The L201 percentage is calculated as $G21/(G21 + G22)$. The sheet "Adj Pivot" is a simple pivot table that summarizes the billing determinant controlled Periodicals MCS data on the "Pdata" sheet – columns AZ – BP. In column BA, the L201 sacks are coded as O-MADC and the L009 sacks are coded as MADC.

These estimates were not included as a methodology change in Proposal 12 because we believed that the estimates constituted an extraction of disaggregated information from an approved methodology rather than a change in methodology. Nonetheless, as requested, a file in which the toggle switch associated with the identified change has been turned "off" is attached to this response electronically as **PER OC flts -- Order 169.xls**. This modification causes a change in the CRA Adjust factor in the 6th decimal place which causes all cost cells in the "Summary" sheet to change by -0.0008 percent, and cell AJ14 to change by 0.4207 percent.

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9. The Postal Service's analysis of Standard Mail worksharing discounts does not present the established method of estimating cost avoidances between (1) Basic and High Density, and (2) High Density and Saturation for letters, flats, and parcels. See USPS-FY08-3 and ACR at 50-51. The accepted method appears in Table VII-D-4 in the 2007 ACD.

RESPONSE:

Please see the response to question 6 above, and the spreadsheet referenced therein.

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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