

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 QUESTIONS 1, 6-13 OF COMMISSION INFORMATION REQUEST NO. 1
(January 21, 2009)

Commission Information Request No. 1 was posted on January 14, 2009. The request sought answers "as soon as they are developed," but no later than January 21. Attached are the Postal Service's responses to questions 1 and 6-13. Responses to additional questions will be submitted as they are developed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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January 21, 2009

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1. USPS-FY08-11, Preface.doc states that the “Outside County Model of Periodical Costs” includes a 14th modification that was not included in the Postal Service’s petition requesting the Commission to consider the methodology changes in Proposal Twelve, filed November 4, 2008. This proposed modification replaces the assumption that 40 percent of mixed ADC (MADC) sacks are L201 sacks, with the claim that data from USPS-FY08-14 (the mail characteristics study) shows that 39 percent of 5.6 million MADC sacks are L201 sacks. Please show how this percentage can be derived from USPS-FY08-14 or provide more disaggregated data in a spreadsheet similar to the Excel file entitled “Periodicals MCS 2008 Q1-Q4 YTD.xls” that shows how this calculation was derived. If neither the existing file nor a more disaggregated version allows one to make this calculation, please explain and document how it was determined that 39 percent of MADC sacks are L201 sacks.

RESPONSE:

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.

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6. Please refer to the Public Cost and Revenue Analysis (PCRA), Excel file "FY08PublicCRA.xls" and the FY 2008 Billing Determinants, Excel file "08 Special Services BD.xls". For Money Orders, please reconcile the volume and revenue of 149,124,623 and \$223,336,366, respectively, from the PCRA with the volume and revenue of 161,927,879 and \$204,788,356, respectively, from the Billing Determinants.

RESPONSE:

The volume of 161,927,879 quoted in the above request does not match the volume reported in the Billing Determinants. (Instead, it appears to be the revenue figure reported as "Total from Fees" in cell D18, rather than a volume figure.) The Billing Determinants volume of 149,124,623 matches that reported in the PCRA. The volume and revenue reported in the Billing Determinants also match the volume and revenue reported in the RPW.

The revenue difference between the PCRA and the Billing Determinants results from including the interest earned on the float as revenue in the PCRA, but not in the Billing Determinants. The interest earned on the float is not included in the Billing Determinants because that figure is not used for cap compliance calculations, and it is simpler to not have to remove the float in the cap compliance calculations.

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7. Please refer to USPS-FY08-4, Excel File "08 Special Services BD.xls", worksheet post office boxes.
- (a) Please explain the methodology used to develop the number (or volume) of post office boxes, Caller Service customers, and Reserve Number Products for FY08. Also, please explain whether the number of post office boxes for FY08 represents the number of post office boxes in use or installed (*i.e.*, total available post office boxes).
 - (b) With respect to the development of billing determinants:
 - (i) If a customer rents a post office box for 6 months and then decides to rent the box again for another 6 months during the fiscal year, please explain whether this is treated as one or two transactions in the billing determinants.
 - (ii) If a customer rents a post office box for 6 months and the box is not rented again during the fiscal year, please explain how this box rental is reflected in the billing determinants.

RESPONSE:

- a. This question stems from volumes reported in the FY08 Billing Determinants. The Postal Service records information about use (and non-use) of Post Office boxes by box size and fee group, as well as Caller Service and Reserve Number volumes. A systematic approach is used to determine the volume distribution of in-use Post Office boxes by size, across fee groups for quarters and the year. Caller Service and Reserve numbers essentially constitute additional fee groups. Annual revenues are calculated using this distribution and the fees in effect during the fiscal year. The revenues are adjusted to match RPW revenues for each quarter and the fiscal year, with volumes adjusted accordingly.
- b. A customer who uses a Post Office box for 12 months of a year would count as a customer in all four quarters of the year and as a single customer for

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the year. A six-month Post Office box customer would be counted in two of the four quarters, and as half of an annual customer in the billing determinants.

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8. USPS-FY08-1.doc states that USPS-FY08-14 is the source of the letter-shaped high density and saturation volume of 6.136 billion. Please show how this figure can be derived from USPS-FY08-14.

RESPONSE:

The estimate of the number of physical letter-shaped pieces paying high density and saturation rates is the sum of cells M30 and M31 of sheet "Letters Col" in workbook "Shape Indicia MCS FY 2008r ACRV_Col.xls" in USPS-FY08-14. This workbook is provided in the Winzip archive "RPW Shape.zip" A more detailed breakdown is provided in the "Sat and HD" sheet of the same workbook.

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9. Please provide a worksheet for Standard Mail ECR Letters similar to worksheet tab "STANDARD ECR FLATS" in the spreadsheet MAILCHAR08V.xls contained in Library Reference USPS-FY08-14.

RESPONSE:

Please see the Excel file, CIR.1.Q.9.ECR.Lttrs.xls, attached to this response electronically.

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10. Please refer to USPS-FY08-1 - FY 2008 Public Cost and Revenue Analysis (PCRA) Report, Excel file FY08PublicCRA.xls, worksheet Cost 1. Also, please refer to the Postal Service's website, <http://www.usps.com/financials/pdf/FY08RPWquarter4.pdf>, which displays Table 1-A, Mailing Services (Market Dominant Products), Revenue, Pieces, and Weight by Classes of Mail and Special Services for Quarter 4 and Year-To-Date (for FY 2008). Worksheet Cost 1 shows revenue of \$205,335,856 for Inbound Single-Piece First-Class Mail International. Table 1-A shows years-to-date revenue of \$155,781,577. Please reconcile these figures, and show all calculations.

RESPONSE:

The two amounts, \$205,335,856 and \$155,781,577 do not reconcile because they utilize two different methodologies to calculate amounts for two different purposes. The first amount, taken from Worksheet Cost 1, Inbound Single-Piece First-Class Mail International, uses the International Cost and Revenue Analysis (ICRA) methodology to impute revenue. The ICRA imputation methodology estimates the inbound revenue generated by the associated inbound mail volume and weight reported during a fiscal year. The goal is to align the fiscal year inbound revenue with the fiscal year costs caused by the associated mail volume and weight. This methodology is fully explained in the ICRA documentation presented in USPS-FY08-NP5, FY 2008 ICRA Overview/Technical Description, Part 2, Chapter 6.

The second amount, taken from FY08RPWquarter4.pdf, relies on the accounting methodology underlying the Revenue, Pieces and Weight report (RPW). The accounting methodology fully recognizes inbound revenue when final settlement

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between Postal Administrations concludes, and between the time mail volume arrives in the US and final settlement occurs, the Postal Service uses an accrual process to report estimated revenues. The final settlement oftentimes occurs during a fiscal year later than the fiscal year in which the mail volume and weight was processed, transported and delivered, resulting in revenue and costs reported in different fiscal year. This timing difference is the reason the ICRA methodology and the RPW methodology yield different results. The ICRA estimates the costs and revenue within a fiscal year and RPW reports revenue as it is realized.

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11. This question refers to Library Reference USPS-FY08-3 and to discounts for Periodicals.

- (c) The table below develops the current discounts for automated ADC letters, automated 3-digit letters, and automated 5-digit letters.

Please confirm that the rates and calculated discounts are correct.

Discounted Rate Category	Benchmark Rate Category	Discounted Rate Category Rate (\$)	Benchmark Rate (\$)	Presort Discount (\$)
		(1)	(2)	(2-1)
ADC Auto Letter	MADC Auto Letter	0.298	0.337	0.039
3-Digit Auto Letter	ADC Auto Letter	0.283	0.298	0.015
5-Digit Auto Letter	3-Digit Auto Letter	0.217	0.283	0.066

Source: Notice of Market-Dominant Price Adjustment, February 11, 2008, Appendix A, Table 1310, "Piece Rates for Bar-coded Letters."

- (d) Please reconcile the discounts calculated in the table above with the corresponding discounts shown in cells E36 and E38 in file "Worksharing Discount Table-FY 2008_12_28-08.xls".

- (e) The table below develops the current discounts for machinable automated MADC flats and non-machinable automated flats.

Please confirm that the rates and calculated discounts are correct.

Discounted Rate Category	Benchmark Rate Category	Discounted Rate Category Rate (\$)	Benchmark Rate (\$)	Presort Discount (\$)
		(1)	(2)	(2-1)
Machinable Automation MADC Flats	Machinable Non-automation MADC Flats	0.416	0.444	0.028
Non-machinable Automation MADC Flats	Non-machinable Non-automation MADC Flats	0.519	0.550	0.031

Source: Notice of Market-Dominant Price Adjustment, February 11, 2008, Appendix A, Table 1310, "Piece Rates (per addressed piece)."

- (f) Please reconcile the discounts calculated in the table above with the corresponding discounts shown in cells E29 and E31 in file "Worksharing Discount Table-FY 2008_12_28-08.xls".

- (g) If the Postal Service determines that revisions must be made to any of the worksharing categories shown above, please provide a revised Excel file "Worksharing Discount Table-FY 2008_12_28-08.xls".

RESPONSE:

- (a) Confirmed.

- (b) Cells E36 to E38 in the file "Worksharing Discount Table-FY

2008_12_28-08.xls" were based on an erroneous calculation.

Correcting this error produces the same presort discounts as provided

in part (a). Please see the response to part (e).

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(c) Confirmed.

(d) Cells E29 and E31 in the file "Worksharing Discount Table-FY 2008_12_28-08.xls" were inadvertently not updated. Updating the cells produces the same automation discounts as provided in the last column of part (c). Please see the response to part (e).

(e) In addition to the revisions described in parts (b) and (d), revisions were made to reflect the results in the filed version of USPS-FY08-11, use the appropriate delivery costs, and update cells F29 and F31. The revision to Excel file "Worksharing Discount Table-FY 2008_12_28-08.xls" is attached as Excel file "Worksharing Discount Table-FY 2008_CIR1_Qu11.xls".

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12. The FY 2008 Annual Compliance Report includes a summary of the Customer Satisfaction with Mailing Services FY 2008 Annual Report. See FY 2008 ACR at 15.

- (h) Please provide similar summary tables that separately report residential and business customer ratings.
- (i) Please provide by "mailing service" the individual ratings for excellent, very good, and good by residential and by business customer.
- (j) Please separately provide the total number of surveys conducted and responses received from residential and business customers.

RESPONSE:

a. Customer Satisfaction with Mailing Services by Survey

Mailing Services	Residential and Small Business % Rated E/VG/G	National and Premier Account % Rated E/VG/G	Combined Ratings (Average)
First-Class Mail	91.7%	96.4%	94.1%
Standard Mail	79.3%	92.0%	85.7%
Periodicals	89.4%	88.7%	89.1%
Single-Piece Parcel Post	90.3%	93.9%	92.1%
Media Mail	92.3%	93.7%	93.0%
Bound Printed Matter	91.8%	91.8%	91.8%

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Single-Piece International	85.9%	94.4%	90.2%
Library Mail	92.7%	96.0%	94.4%

b. – c. See tables on following pages.

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Commercial Survey Results

Overall Performance of USPS Market Dominant Products FY2008 M10 YTD CSM						
Overall Performance	% Excellent / Very Good / Good	% EXCELLENT	% VERY GOOD	%GOOD		
First-Class Mail	96.4%	30.6	41.7	24.0		
Standard Mail	92.0%	21.6	38.5	31.9		
Periodical Mail	88.7%	15.8	33.9	39.0		
Single Piece Parcel Post	93.9%	20.8	37.5	35.6		
Media Mail	93.7%	19.8	34.9	39.1		
Bound Printed Matter	91.8%	18.0	33.2	40.6		
Library Mail	96.0%	23.8	37.1	35.1		
First-Class Mail International	94.4%	18.8	38.3	37.2		

Note that E/VG/G percentage is computed from the base survey data, not as a sum of the Excellent, Very Good, and Good estimates. Due to rounding, there will be slight differences.

Total Responses Received: 13,363

Total Survey Invitations Distributed: 39,369

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Residential/ Distribution of Satisfaction Ratings

Product Type			Good	Very Good	Excellent Top Box	Ex/VG Top 2 Boxes	Ex/VG/G Top 3 Boxes
First-Class Mail			31.9%	39.9%	19.9%	59.8%	91.7%
Standard Mail			41.7%	26.8%	10.8%	37.6%	79.3%
Periodicals			41.5%	34.8%	13.1%	47.9%	89.4%
Single-Piece Parcel Post			38.3%	36.8%	15.2%	52.0%	90.3%
Media Mail			38.2%	36.2%	17.9%	54.1%	92.3%
Bound Printed Matter			50.8%	30.0%	11.0%	41.0%	91.8%
Single-Piece International			37.2%	32.1%	16.6%	48.7%	85.9%
Library Mail			44.8%	36.0%	11.9%	47.9%	92.7%

The total number of surveys for residential customers was 1,995. Gallup conducted a survey of 3000 Gallup Panel Members. The Panel sample is representative of the US population, so the results obtained are projectable to the entire US.

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13. Library Reference USPS-LR-FY08-38 provides two sample surveys that are conducted via the Internet. The first is the Delivery Opinion survey that appears to only survey small businesses. The second is the Field Survey that targets National and Premier business accounts. There does not appear to be a copy of a survey used for gathering residential customers' opinions. Please provide a copy of all FY 2008 residential surveys conducted by or on behalf of the Postal Service. If there are no residential surveys, please explain the omission and indicate when the Postal Service plans to begin soliciting the opinions of its residential customers.

RESPONSE:

A copy of the Residential Survey is attached to this response electronically as CIR.1.Q.13.Res.Survey.pdf.

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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