

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 2-12 OF COMMISSION INFORMATION REQUEST NO. 2
(February 6, 2009)

Commission Information Request No. 2 was posted on January 30, 2009. The request sought answers no later than February 6, 2009. Attached are the Postal Service's responses to questions 2-12. Some of the responses refer to materials which are being separately provided to the Commission under seal 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,

UNITED STATES POSTAL SERVICE

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2. The table on page 13 of the FY 2008 ACR displays the Percentage of On-Time service performance of 93.4 percent for Single-Piece First-Class Mail International Letters, as measured by the International Mail Measurement System (IMMS). The Postal Service states that the percentage represents “a composite of overnight, 2-day, and 3-day performance.” *Id.* The percentage reported also combines service performance for outbound and inbound letters.
- a. In the FY 2007 Annual Compliance Determination (FY 2007 ACD), the Commission requested that the Postal Service provide overnight, 2-day, and 3-day service performance for both outbound and inbound First-Class Mail International, separately. FY 2007 ACD at 118. Please provide the FY 2008 First-Class Mail International Letters service performance for the separations requested in the FY 2007 ACD.
- b. If the overnight, 2-day, and 3-day service performance percentage for inbound Single-Piece First-Class Mail International Letters provided in response to subpart a., above, differs from the quality of service measurement results for the link to terminal dues for inbound Letter Post reported by the UNEX monitoring system, please discuss the causes of such differences. To the extent the differences are attributed to the IMMS performance being reported on a fiscal year basis while the quality of service link performance is reported on a calendar year basis, or IMMS performance is derived from a larger number of geographic areas than the UNEX system results, please provide a comparison of service performance results under the IMMS and the UNEX system on a monthly basis for the first 3 months of FY 2008 (last 3 months of calendar year 2007) for the same (or approximately the same) geographic locations.

RESPONSE:

a)

**FY2008 National First-Class Mail International Letters Service
Performance from IMMS**

	Overnight	Two-Day	Three-Day
Inbound	94.56	90.26	89.14
Outbound	96.29	96.13	92.07

- b) The Universal Postal Union Quality Link Measurement System (QLMS) scores for Oct-Dec 2007 are provided under seal in USPS-FY08-NP30.

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The major differences between the QLMS and IMMS may be summarized as follows: First, QLMS is a purely inbound system, while IMMS is both inbound and outbound. Second, the statistical design of QLMS is based on a calendar year (January to December), while IMMS is on a postal fiscal year (October to September). Third, the QLMS results are weighted based on data on inbound mail volumes by participating countries and the population of the tested destination U.S. metropolitan areas (namely, New York, Washington, Miami, Chicago, Dallas, San Francisco and Los Angeles). By contrast, IMMS inbound results are based on the average mail volume from the ISCs to destination districts. Fourth, the number of origin countries in both systems differ as well: IMMS relies on data from a predetermined set of countries, while QLMS data results from countries participating in the system. Fifth, unlike IMMS, QLMS does not break down the on-time scores by service standards – Overnight, 2-Day or 3/5-Day. Rather, QLMS presents only one composite score. Finally, the start-the-clock event of QLMS is either the first transponder or radio frequency Identification (RFID) scan of an import test piece as it enters the U.S. at an ISC or air mail center, or the out-of-Customs scan (if the test piece has an into Customs scan). By contrast, the start-the-clock event of IMMS is the first automation scan or passage through the remote barcoding system (RBCS), whichever comes first.

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3. Please refer to USPS-FY08-1-FY 2008 Public Cost and Revenue Analysis (PCRA) Report, Excel file FY08PublicCRA.xls, worksheets Cost1 and Volume1. 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).
 - a. For market dominant Outbound Single-Piece First-Class Mail International, worksheets Cost1 and Volume1 show revenue and volume of \$746,930,918 and 420,032,766, respectively. Table 1-A shows year-to-date revenue and volume of \$746,934,368 and 420,033,807, respectively. Please reconcile these revenue and volume figures and show all calculations.
 - b. For market dominant Inbound Surface Parcel Post (at UPU Rates), worksheet Cost1 shows revenue of \$9,028,411. Table 1-A shows year-to-date revenue of \$12,435,005. Please reconcile these revenue figures and show all calculations.

RESPONSE:

- a. The difference between market dominant Outbound Single-Piece First-Class Mail International, reported by RPW on Table 1-A and the international worksheets, Cost1 and Volume1 is due to small amounts of SIRV/O data for First-Class registered letters, not having been attributed to specific countries. These amounts account for \$3,438 and 1,047 of the differences in revenue and volume. They are identified under country code 998 in the Inputs.xls workbook on the "RPW Revenue" and "RPW Volume" sheets. The remaining differences are presumably due to rounding (\$12 and 6 pieces).

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- b. The market dominant Inbound Surface Parcel Post (at UPU rates) revenue in the FY08RPWquarter4.pdf and the revenue reported in the PCRA do not reconcile because they utilize two different methodologies. The ICRA and PCRA methodology reports the inbound revenue associated with the inbound mail volume reported during a fiscal year. 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 RPW relies on the accounting methodology underlying the Revenue, Pieces and Weight report (RPW). The accounting methodology fully recognizes inbound revenue when final settlement 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 years. The ICRA estimates the costs and ultimate revenue to be received for flows within a fiscal year by imputing settlement costs and receipts and RPW reports revenue based on accruals with reconciliations as it is realized. This timing difference is the reason the ICRA methodology and the RPW methodology yield different results.

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4. Please refer to USPS-FY08-NP2, and the Excel file "Reports.xls," containing the International Cost and Revenue Analysis (ICRA), and the Excel file "FY2008_RPWextractfile_mcs.xls," containing the non-public Revenue, Pieces, and Weight (NPRPW) report. Also, please refer to USPS-FY08-NP11, and the Excel file "FY08NonPublicCRA.xls," containing the non-public Cost and Revenue Analysis (NPCRA) report.
 - a. For market dominant Outbound International Ancillary Special Services, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA.
 - b. For market dominant Inbound International Ancillary Special Services, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA.
 - c. For competitive Outbound International Expedited Services, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA and the NPCRA.
 - d. For competitive Inbound International Expedited Services, please reconcile the revenue reported in the NPRPW with the revenue reported in the ICRA and the NPCRA.
 - e. For competitive Inbound Air Parcel Post, please reconcile the revenue reported in the NPRPW with the revenue reported in the ICRA and the NPCRA.
 - f. For competitive International Priority Airmail (IPA), please reconcile the revenue reported in the NPRPW with the revenue reported in the ICRA and the NPCRA.
 - g. For competitive International Surface Airlift (ISAL), please reconcile the revenue reported in the NPRPW with the revenue reported in the ICRA and the NPCRA.
 - h. For competitive Inbound Surface Parcel Post (at non-UPU Rates), please reconcile the revenue reported in the NPRPW with the revenue reported in the ICRA and the NPCRA.
 - i. For competitive Outbound International Negotiated Service Agreements, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA.

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- j. For competitive Inbound International Negotiated Service Agreements, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA.
- k. For competitive Outbound International Ancillary Special Services, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA.
- l. For competitive Inbound International Ancillary Special Services, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA.
- m. For International Money Orders, please reconcile the volume and revenue reported in the NPRPW with the volume and revenue reported in the ICRA.
- n. For International Money Transfer Service, please reconcile the revenue reported in the NPRPW with the revenue reported in the ICRA and the NPCRA.

RESPONSE:

Response filed under seal in USPS-FY08-NP30.

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5. Please refer to USPS-FY08-NP2, and the Excel file "IBRS08 Costing.xls." The rate shown in column K for FY 2008 is the CY 2007 rate per item in SDRs from the 2007-2008 Canada Post – United States Postal Service bilateral agreement. Please explain whether the rate in column K for the months of January – September 2008 should be the CY 2008 rate per item in SDRs. If so, please provide an updated file.

RESPONSE:

Response filed under seal in USPS-FY08-NP30.

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6. Please provide all input and source spreadsheets/workbooks to the following delivery cost workbooks: CS6&7, CS10, and I-Forms (from Library Reference FY-08-32); and UDCModel, UDCInputs, and VolAdj (from Library Reference FY-08-19). Please also provide spreadsheets with both internal and external links.

RESPONSE:

Spreadsheets are provided in the Zip file CIR.2.Q.6.zip attached to this response electronically.

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7. This question refers to USPS-FY08-03, Worksharing Discount Table-FY 2008_12_28-08.xls, Worksheet "Periodicals Outside County," and the Worksheet "Periodicals Within County."
- a. Please file a revised version of USPS-FY08-3 using direct unit mail processing costs for the mail processing portion of the cost differential calculations, with links in each cell showing the formula and cells referenced for the calculations.
 - b. If the total unit costs for the mail processing portion were used to calculate the cost differential of Outside and Within County Periodicals, please provide the reasons for this change in methodology.

RESPONSE:

- a. The table provided in the response to Question 11 of CIR No. 1 makes the correction requested in part a. These corrections were referred to in the response to Question 11(e) of CIR No. 1. For clarity, a revised spreadsheet Resp.CIR2.Qu.7.9.10.11.12.xls associated with this response adds 'Worksheet Outside County' that provides cell references to the mail processing costs filed in USPS-FY08-11 and the delivery costs filed in USPS-FY08-19.
- b. The total unit costs for the mail processing portion were used in error. The error was corrected in the response to Question 11 of CIR No. 1. The spreadsheet associated with this response also corrects the error and provides the cell references to input data from both the mail processing and delivery cost models.

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8. Please confirm that the volumes reported in the Mail Characteristics Study were used to determine the weighted average mail processing and delivery costs for Basic, 3-digit, 5-digit, Non-Auto and Auto, Within County Periodicals in the FY 2007 ACR, while the billing determinants are the source of these calculations in the FY 2008 ACR.
 - a. If confirmed, please file a revised version of USPS-FY08-3 using the relevant volumes from the Mail Characteristics Study.
 - b. Please explain the reason the data source was changed to make these calculations.

RESPONSE:

Confirmed, except that the updated Mail Characteristics Study filed in USPS-FY08-14 generally relies on the billing determinants.

- a. Please see the spreadsheet Resp.CIR2.Qu8.xls associated with this response. The changes, which are limited to the spreadsheet "Periodicals Within County," are minor.
- b. The data source was changed because in the FY 2007 ACR, only two full months of billing determinants were available following the implementation of the Docket No. R2006-1 Periodicals rate structure. The Mail Characteristics Study thus was used as a proxy for the billing determinants. For the FY 2008 ACR, a full year of billing determinants is available, so using a proxy no longer makes sense.

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9. Please confirm that the benchmark in USPS-FY08-3, Worksharing Discount Table-FY 2008_12_28-08.xls, Worksheet "Periodicals Within County," cell D13 should read "High Density," rather than "CR Basic."

RESPONSE:

Confirmed. The correction has been made in the spreadsheet

Resp.CIR2.Qu.7.9.10.11.12.xls associated with this response.

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10. Please refer to the Postal Service's electronic file (CIR.2.Q.13.Within.County.xls) provided in response to CIR No. 2 in the FY 2007 ACR. Please confirm that the Worksheet "Periodicals Within County" calculated the cost differential associated with the DDU dropship discount (cell F49) as the difference in total non-transportation cost savings-DSCF, and total non-transportation cost savings-DDU, while USPS-FY08-03, Worksharing Discount Table-FY 2008_12_28-08.xls, Worksheet "Within County," appears to calculate the cost differential associated with the DDU dropship discount as total non-transportation cost savings-DDU.
- a. If confirmed, please file a revised version of USPS-FY08-03, which calculates the cost differential for the DDU dropship discount in the same manner as CIR.2.Q.13.Within.County.xls, submitted in the FY 2007 ACR.
 - b. If DDU dropship discount was calculated differently in the FY 2008 ACR (as compared to the FY 2007 ACR), please provide the reasons for this change.
 - c. If not confirmed, please explain.

RESPONSE:

Confirmed.

- a. Please see the spreadsheet Resp.CIR2.Qu.7.9.10.11.12.xls associated with this response.
- b. It was an oversight that has been corrected in the revised spreadsheet.
- c. Not applicable.

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11. This question refers to USPS-FY08-03, Worksharing Discount Table-FY 2008_12_28-08.xls, Worksheet "Periodicals Outside County." Table 1 below develops the cost differentials for Machinable Automation MADC Flats and Non-machinable Automation MADC Flats using direct mail processing piece costs from USPS-FY-11, PER OC flts.xls.

TABLE 1				
Benchmark Rate Category	Discounted Rate Category	Benchmark Rate Category Unit Cost (\$)	Discounted Rate Category Unit Cost (\$)	Cost Differential (\$)
		(1)	(2)	(1-2)
Machinable Non-automation MADC Flats	Machinable Automation MADC Flats	\$0.247	\$0.215	\$0.032
Non-machinable Non-automation MADC Flats	Non-machinable Automation MADC Flats	\$0.561	\$0.457	\$0.104

Please reconcile the cost differentials calculated in Table 1 above and the cost differentials presented in USPS-FY08-03, Worksharing Discount Table-FY 2008_12_28-08.xls, Worksheet "Periodicals Outside County," rows 29 and 31.

RESPONSE:

The cost differentials and the unit costs for both the benchmark and discounted rate categories provided in the above table are accurate. Corrections to what was filed in USPS-FY-03 have been made in the spreadsheet

Resp.CIR2.Qu.7.9.10.11.12.xls associated with this response. In the response filed earlier to Question 11 of CIR No. 1, the cost differentials match the above table, but both the discounted rate category and the benchmark rate category unit costs include the delivery cost, which is the same for both categories.

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12. This question concerns the calculation of avoidable costs supporting worksharing calculations for automation categories (Basic, 3-digit, and 5-digit) for Within County Periodicals.
- a. Please confirm that in its FY 2007 ACR filing, the Postal Service calculated the avoidable cost using the difference between the weighted average cost of non-barcoded machinable and non-machinable flats, and the weighted average cost of barcoded machinable and non-machinable flats. Please also confirm that the avoidable costs are based on direct costs rather than total (direct plus allied) cost. (See Docket No. ACR2007, USPS-FY07.3.Worksharing_Discount_Table -Revised.1.22.08.xls, Sheet: Periodicals Within County, cells F45, F46, and F47).
 - b. Please confirm that in its FY 2008 ACR filing, the Postal Service calculated the avoidable cost using the difference between the weighted average cost of non-barcoded machinable and non-machinable flats, and the cost of barcoded machinable flats. Please also confirm that the avoidable costs are based on total costs rather than direct costs. (See Docket No. ACR2008, USPS-FY08-3, File: Worksharing Discount Table-FY 2008_12_28-08.xls, Sheet: Periodicals Within County, Cells F19, F20, and F21 and corresponding links.)
 - c. Please provide a revised version of worksheets referenced in “b” above using the Postal Service’s methodology described in “a” above.
 - d. Please provide the rationale for the change in methodology, including direct cost versus total cost.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Please see the spreadsheet Resp.CIR2.Qu.7.9.10.11.12.xls associated with this response.
- d. There was no intent to change the methodology. It was an oversight that is corrected in the response to part c.

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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