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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 OF COMMISSION INFORMATION REQUEST NO. 3
(February 13, 2009)

Commission Information Request No. 3 was posted on February 6, 2009. The request sought answers no later than February 13, 2009. Attached are the Postal Service's responses to questions 1-6. Some of the responses refer to materials which are being separately provided to the Commission as part of the non-public annex of materials relating to this proceeding. A separate notice regarding such materials is also being filed today.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 13, 2009

RESPONSE OF THE UNITED STATES POSTAL SERVICE
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1. Please refer to USPS-FY08-3 (revised as "Items 6 and 9 Spreadsheet (ws disc table revised).xls"). The 'Standard Mail Letters' tab does not present the avoided cost and passthrough for Automation Mixed AADC Letters. Please confirm that based on the accepted methodology the avoided cost associated with this discount is negative 0.985 cents ((6.261 + 4.068) – (6.975 + 4.339)) and that the resulting passthrough is negative 30 percent (0.3 / -0.985).

(a) If confirmed, please discuss why non-prebarcoded letters are less costly to process and deliver than barcoded letters.
(b) If not confirmed, please explain.
(c) Please address how the discount complies with the section 3622(e) of title 39.

RESPONSE:

(a) Confirmed. Although there may be several factors causing Nonauto Machinable Mixed AADC(NAMMA) letters to cost less to process than Automation Mixed AADC letters, from a modeling perspective, the cost estimates for nonautomation MAADC and automation MAADC letters differ because the mail pieces are processed through different operations that serve different purposes in the postal mail processing network.

Nonautomation MAADC pieces must be processed through the Remote Bar Code System (RBCS) so that a barcode can be applied to the mail piece. The barcode for the mail piece will either be applied directly by the Input Sub System (ISS), or an image of the mail piece will be lifted and the barcode will be applied by the Output Sub System (OSS) after the image has been processed at a Remote Encoding Center (REC). The density tables for both the outgoing ISS and outgoing OSS operations show that roughly half of the mail finalized in both operations is local mail that is sorted to the 5-digit level such that the next processing step would be the incoming secondary operation. While some

RBCS-related costs, such as those related to REC processing, were initially much higher when the system was deployed in the early 1990s, the Postal Service has implemented several programs, such as the Remote Computer Read (RCR) program, that were designed to reduce processing costs for nonbarcoded mail over time.

In contrast, automation MAADC pieces must first be processed through the outgoing secondary operation, which is used to sort the mail piece, at a minimum, to the AADC level. The density tables show that a much smaller percentage (less than 10 percent) is sorted to the 5-digit level. A high percentage of the automation MAADC mail will therefore have to be processed in one or more downstream operations before it is sorted to the 5-digit level and routed to incoming secondary operations.

(b) N/A

(c) Regarding the automation discount for letters, based on the unit mail processing and delivery costs for Mixed AADC automation letters and Mixed AADC nonautomation machinable letters, a Mixed AADC automation letter costs more than a Mixed AADC nonauto machinable letter. If these costs were used to develop an “avoided cost” for the automation (prebarcoding) discount, the differential would be a negative number. Similarly, if one were to develop a “passthrough” for this avoided cost into the automation discount, 0.3 cents, the resulting passthrough would be a negative number. The Postal Service does not

believe that a negative figure represents the true cost avoided by pre-barcoding machinable letters, if everything else is held equal. To believe that, one would have to accept that the extra steps that the Postal Service would have to take to read addresses and affix delivery point barcodes on nonbarcoded letters would not only be costless, but would somehow remove costs from the system that otherwise identical (except for barcodes) letter mail would impose. The Postal Service does not accept these would-be anomalous "avoided costs" for pricing purposes and, in its rate filing of February 10, 2009, has proposed to retain the price differential between Mixed AADC automation letters and Mixed AADC nonautomation machinable letters at the current 0.3 cent discount while it investigates these cost differencesthe Postal Service is proposing the . Because the Postal Service's cost models currently provide no usable estimate of the cost differential between the nonautomation machinable presort tiers, same discount, 0.3 cents, between automation and nonautomation machinable letters at the AADC level as well.

The Postal Service believes that it does not have a credible figure for the avoided costs of an automation barcode for purposes of determining whether the automation discount exceeds or is below avoided costs, holding everything else equal, for demonstrating compliance with section 3622(e). Nevertheless, were it to be determined that a negative avoided cost figure must be used in such a determination, the Postal Service would justify its proposed discounts under section 3622(e)(2)(D). The Postal Service believes that reducing the "discount" to a negative number so as to generate a 100 percent "passthrough" and make

the price of automation letters higher than the price of nonautomation letters would be folly and would impede the efficient operation of the Postal Service. The same logic applies here, in the context of the ACR look-back to the implict effective passthroughs for FY08.

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2. Please refer to the worksharing cost avoidance models for letters in USPS-FY08-10. For both Standard and First-Class Mail, the operation specific piggyback factor for "MLOCR" in the 'WAGE RATES – PIGGYBACK FACTORS' tab is taken from the 'A' tab of USPS-FY08-25 MPPGY08PRC.xls, whereas in the FY 2007 Annual Compliance Report (ACR) and Annual Compliance Determination (ACD), a different factor from the 'NEWOCR' tab was used. The factor used in last year's calculations incorporates costs "Adjusted to share of DIOSS OCR Replacements."

   (a) Please explain the rationale for the use of a different piggyback factor in this year's calculations.
   (b) Please present the effects of the change on avoided cost estimates using the accepted methodology, including the avoided cost of First-Class non-automation presort letters compared to the BMM benchmark.

RESPONSE:

(a) The correct operation specific piggyback factor for "MLOCR" in the 'WAGE RATES-PIGGYBACK FACTORS' tab is 1.758. This figure is taken from the 'NEWOCR' tab from USPS-FY08-25 MPPGY08PRC.xls. The different piggyback factor from the 'A' tab was inadvertently used in this year's calculation.

(b) Please see the effects of the changes on the avoided cost estimates on the attached file "CIR.3.Q.2.3c.Resp.Attach.xls".

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3. In the FY 2007 ACD letter worksharing cost avoidance models for First-Class and Standard Mail, the 'PRODUCTIVITY' sheet used a remote encoding center (REC) productivity input taken from USPS-FY07-23, RECprods2007.xls that was adjusted for overhead (in column E). This year's models also use REC productivity from the equivalent file (USPS-FY08-23, RECprods2008.xls), however unlike the 2007 models, the input used is the productivity (in column D) that is not adjusted for overhead. (*See* USPS-FY08-10).

    (a) Please confirm that this modification was not used in the flats cost models which retain the use of the "Productivity Adjusted for Overhead." (*See* USPS-FY08-11)
    (b) If not confirmed, please explain.
    (c) Please confirm that the adjusted productivity from column E should be used as the appropriate input for the cost avoidance models.
    (d) If not confirmed, please explain the rationale for the change in methodology.

RESPONSE:

(a) Confirmed.

(b) N/A

(c) Confirmed. Please see effects of the changes on the avoided cost estimates on the attached file "CIR.3.Q.2.3c.Resp.Attach.xls".

(d) Not applicable.

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4. The letter worksharing cost avoidance models for First-Class and Standard Mail utilize a productivity for Incoming CSBCS Secondary DPS (3 Pass) that has not been updated from the FY 2007 figure. *See, e.g.,* USPS-FY08-10 STD Reg Letter Costs Final.xls, 'PRODUCTIVITY' sheet. The source of this input, USPS-FY08-23, YRscrub2008.xls, lists the MODS productivity data as "N/A" for this operation. Please provide this data, or explain why the data are not available.

RESPONSE:

In FY 2008, there were 12 monthly observations in MODS for the "CSBCS Secondary DPS" operation, compared with 33 observations in FY 2007. The role of this CSBSC operation in mail processing is already small, and is evidently diminishing. Upon review of the data, it was clear that the remaining volumes and workhours were no longer being consistently recorded for the underlying operations, as the average productivity considerably exceeded the maximum throughput rate for the CSBCS equipment. It was determined that the FY 2007 productivity was the best available estimate of the true productivity in the absence of sufficient FY 2008 data. The FY 2008 data are summarized below.

TPF (000)	TPH (000)	Hours	TPF/Hour
56,463	56,239	636	88,359

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5. Please refer to the data referenced in: (1) USPS-FY08-4, File: 08 Periodicals Within County BD.xlsx, Sheet: Reports, Cells J22 and K28; and (2) USPS-FY08-1, File: FY08PublicCRA.xlsx, Sheet: Cost1, Cell D36, and Sheet: Volume1, Cell D34. The table below presents the relevant data.

FY 2008 Within County		
	Billing Determinants	**CRA**
	(1)	**(2)**
Revenues	89,378,985	89,118,523
Volumes	832,546,324	830,887,260

(a)
(b) Please reconcile the FY 2008 Within County revenues and volumes reported in columns (1) and (2), including an explanation for the differences.
(c) Please file revised version(s) of all files affected by the correction(s).

RESPONSE:

The revenue and volume data for FY2008 Periodicals Within County provided in column (2) above (labeled “CRA”) are the correct numbers. In preparing the Within County billing determinants, third quarter RPW data were not updated. Corrected Within County billing determinants are provided as an Excel file (CIR.3.Q.5.Resp.Attach.xls) attached to this response electronically. Tab “RPW Totals”, cells D7, D8 and D9, are corrected and highlighted in yellow. Those corrections produce the highlighted changes in Tabs “Adjusted Volume”, “Calculated Revenue”, and “Reports”.

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6. Please provide a table summarizing the FY 2008 Domestic Mail Billing Determinants for Market Dominant and Competitive Products. The structure of the table should be similar to the table the Postal Service provided in Docket No. ACR2007 in response to CIR No. 1, Question 25. The columns of the table should include the following items for each mail category and special service: Volume, Postage Revenue, Fees, Total Revenue (Postage Revenue plus Fees), and Revenue per Piece (Total Revenue divided by Volume). The rows of the table should include the mail categories, special services, and summations as in the response to CIR No. 1, Question 25, in Docket No. ACR2007. The Billing Determinant volume, revenue, and mail fee figures should match those of RPW.

RESPONSE:

Two tables are provided in response. The table pertaining to Market Dominant products is attached electronically to this response as an Excel file, CIR.3.Q.6.MD.Detail.Attach.xls. The counterpart table for Competitive products is filed under seal as USPS-FY09-NP33, for which a separate notice is filed today.

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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