

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 1-8, 10 OF COMMISSION INFORMATION REQUEST NO. 4  
(February 20, 2009)

Commission Information Request No. 4 was posted on February 13, 2009. The request sought answers no later than February 20, 2009. Attached are the Postal Service's responses to questions 1-8, and 10. Responses to additional questions will be submitted as they are developed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 20, 2009

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1. The table below shows the ECR Carrier Route Letter and Flat volume figures and their source.

<b><u>Rate Category</u></b>	<b>Volume (000s)</b>		
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
<b>ECR Carrier Route Letters</b>	1,014,236	1,014,236	909,729
<b>ECR Carrier Route Flats</b>	11,054,635	11,054,635	11,159,142

(1) UDCInputs08.xls Tab 'RPWShape' Cell C25; Tab 'RPWShape' Cell D25

(2) shp08prc.xls Tab 'Class' Cell H23; Tab 'Class' Cell I23

(3) 08 Standard BD.xls Tab 'G2-1' Cell H12+ Tab 'G4-1' Cell H12; Tab 'G2-2' Cell H12+ Tab 'G4-2' Cell H12

Please reconcile the figures in columns 1 and 2 with the figures in column 3.

**RESPONSE:**

The differences between columns (1) and (2) and column (3) are due to the respective definitions of "letters" and "flats." The volumes in columns (1) and (2) measure the volumes of letter-shape pieces and flat-shape pieces that paid ECR Carrier Route rates. The volumes presented in column (3) measure the volume of mail that paid ECR Carrier Route Letter rates and ECR Carrier Route Flat rates. The difference arises from the automation requirements that letter-shape pieces must meet to be eligible to claim ECR Carrier Route Letter rates. Letter-shape pieces that do not meet automation letter requirements are allowed to be mailed at ECR Basic Carrier Route Flats rates, and are recorded as "flats" in column (3).

In the attached Excel workbook (CIR.4.Q.1.Attach.xls), the Standard ECR Carrier Route data have been extracted from USPS-FY08-14. In these data each RPW rate element is distributed to physical shape using the processing category information provided on the mailing statements. An additional field has

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been added to indicate the Billing Determinant rate categorization of each RPW rate category. A table summarizing the shape and rate distributions is provided.

It is important to recognize that the work done in USPS-FY08-19 and USPS-FY08-26, the source for columns (1) and (2) respectively, is "costs by shape," where shape is physical shape. The costs and volumes for each CRA row included in these library references -- all market dominant First-Class, Standard, Periodicals and Package Services CRA rows -- are split by physical shape, as done in the FY07 ACR and in previous years. That said, there have been adjustments made for some parcels and flats costs, in the FY07 ACR and in previous years, where costs and volumes have been determined to be measured inconsistently – with costs being shape-based and volumes being rate-based, as described in the preface to USPS-FY08-26. So apart from the need to accommodate data inconsistencies, the goal was always to obtain costs by physical shape, rather than by rate category, which does not necessarily correspond to physical shape.

The adjustment shifting costs and volumes for High Density and Saturation letter-shaped/flats-rated pieces (the so called "D report adjustment") was done both in the CRA and in costs by shape work, but only to get the costs and volumes in the correct CRA row, not as part of the costs by shape work. This shift is only needed due to the MCS definition of the two new CRA rows for High Density and Saturation, which involve different CRA rows for letter-shaped pieces paid at letter rates vs. flats rates.

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2. The following questions concern the methodology of applying the USPS-FY08-13 Workbook 'D Report' Standard ECR High Density and Saturation Adjustment by cost segment.
- (a) Please confirm that in the Delivery cost spreadsheet USPS-FY08-19, UDCModel08.xls, High Density and Saturation Letters costs and volumes are shifted to Flats in proportion to the volume of Letters rated as Flats *by rate category*, with 4.17 percent of High Density Letter delivery costs shifted to High Density Flats and 10.27 percent of Saturation Letter delivery costs shifted to Saturation Flats.
  - (b) Please confirm that the volume of High Density and Saturation Letters and Flats adjusted for Letters rated as Flats in USPS-FY08-19, UDCModel08.xls tab '1a.DAdjustment' are taken directly from USPS-FY08-14, spreadsheet MAILCHAR08V.xls tab 'Sat and HD'.
  - (c) Please confirm that in the ECR Mail Processing spreadsheet USPS-FY08-18, FY08 ECR Unit Cost.xls, High Density and Saturation Letters costs and volumes are shifted to Flats in proportion to the amount of Letters rated as Flats *by product*, with 8.75 percent of High Density and Saturation Letter mail processing costs shifted to High Density and Saturation Flats.
  - (d) Please confirm that the volume of High Density and Saturation Letters and Flats are adjusted for Letters rated as Flats in USPS-FY08-18, spreadsheet FY08 ECR Unit Cost.xls tab 'results' by shifting 8.75 percent of High Density and Saturation Letter volumes from USPS-FY08-14, spreadsheet MAILCHAR08V.xls tab 'Standard ECR Letters' to High Density and Saturation Flats from USPS-FY08-14 Spreadsheet MAILCHAR08V.xls tab 'Standard ECR Flats'.
  - (e) The following table contains a summary of the adjustment factors described in (a)-(d).

	Percent of Volume and Cost shifted from Letters to Flats	
	Mail Processing	Delivery
ECR High Density	8.75%	4.17%
ECR Saturation	8.75%	10.27%

Please discuss the rationale for using separate adjustment factors in the attribution of Mail Processing and Delivery costs by rate category.

**RESPONSE:**

- (a) Confirmed.

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(b) Not confirmed. The the volume of High Density and Saturation Letters and Flats adusted for Letters rated as Flats in USPS-FY08-19, UDCModel08.xls tab '1a.DAdjustment' are taken directly from USPS-FY08-14, spreadsheet Shape Indicia MCS FY 2008ACRV\_col.xls tab 'Sat and HD'. This workbook is found in the RPW Shape.zip archive filed with USPS-FY08-14. The workbook MAILCHAR08V.xls contains the tab 'Standard ECR Flats' that contains similar information on the volume of Standatd Saturation Flats (physical shape). However in this sheet the distribution of pieces in pre-R2006-1 RPW categories to post-R2006-1 categories was slightly different. The tables differ in the estimate of Standard Saturation Flats (physical shape) by less than 0.0002 percent.

(c) Confirmed.

(d) Not confirmed. The High Density and Saturation Letter and High Density Flat volumes are taken from USPS-FY08-14, spreadsheet Shape Indicia MCS FY 2008ACRV\_col.xls tab 'Sat and HD'. This workbook is found in the RPW Shape.zip archive filed with USPS-FY08-14. The flats volume in the USPS-FY08-14 spreadsheet MAILCHAR08V.xls tab 'Standard ECR Flats' was not used. The tab 'Standard ECR Letters' does not appear in MAILCHAR08V.xls but was provide in response to CIR-1 Question 9 as CIR.1.Q.9.ECR.Lttrs.xls and was not used in the development of USPS-FY08-18, spreadsheet FY08 ECR Unit Cost.xls tab 'results.'

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(e) The primary rationale for the High-Density and Saturation adjustments was to align costs and volumes at the "product" level. The mail processing and delivery adjustments were then devised independently and, due to the limited time available from the identification of the underlying cost-volume mismatch issue to the Annual Compliance Report deadline, not reconciled for the differences at the "rate category" level. The Postal Service believes that the methods would have been harmonized given sufficient time, and reiterates from its reply to the Valassis comments that the use of separate adjustment factors for the mail processing component "may have some merit as well, but the impact is not large." Docket No. ACR2008, Reply Comments of the United States Postal Service (Feb. 13, 2009) at 22.

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3. Please refer to the workbook 'CARMMKLTablev1all.public' provided in response to Commission Information Request (CIR) No. 2, Question 6.
  - (a) Please define "022 STD ECR High Density/Saturation Parent no DAL".
  - (b) Please describe the method of attribution for "022 STD ECR High Density/Saturation Parent no DAL" IOCS tallies and provide electronic spreadsheets showing the calculation and the sources of the input data.

**RESPONSE:**

- (a) These are ECR High Density or ECR Saturation flat rated host pieces for which a Detached Address Label (DAL) was not located.
- (b) The costs for pieces in part (a) are attributed to the product ECR High Density and Saturation Flats & Parcels in the CRA. In USPS-FY08-19, these costs (\$810 K) were incorrectly all attributed to ECR High Density Flats. Based on the established methodology, these costs should have been attributed to ECR Saturation Flats. Attached electronically to this response is a zip file titled CIR.4.Q.3.Attach.zip. In that attached zip file are two workbooks:

CARMMKLTablev1all.public.cir4q3

CARMMKLTablev1.Casing.all.public.cir4q3

These workbooks correct this error and each contains a new tab named 'PivotTableforUDCInputs08' which shows how the data flow from the aggregate direct and indirect tallies on tab 'KL' to USPS-FY08-19 workbook UDCInputs08 tabs CARMM, CARMMCasing, and CARMMECR. These new worksheets could be used to replace the corresponding worksheets in USPS-FY08-19 workbook

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UDCInputs08 to see the quantitative impact of this error on respective unit delivery costs.

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4. Please provide the source documents and/or data underlying the DAL volumes shown in Library References FY08-32 and FY08-NP14, [I-Forms.xls], Worksheets: I-CS07 DALs and I-CS10 DALs which were hardcoded in the files submitted to the Commission. If the DAL volumes shown on the specified spreadsheets are the result of calculation(s), please provide such calculation(s) and any inputs thereto.

**RESPONSE:**

Attached electronically to this response is a zip file titled CIR.4.Q.4.Attach.zip. In that attached zip file, two SAS programs and two SAS datasets (for city and rural) are attached that when executed produce the tables located in USPS-FY08-32, Workbook I-Forms, Tabs I-CS07DALs and I-CS10DALs.

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5. Please refer to the response to Commission Information Request No. 1, Question 2(b). The preliminary quality of service measurement results for the link to terminal dues for the year-to-date during calendar year 2008 suggests improvement in the percent of on-time service performance compared to the same period last year. Please discuss the principal factors leading to the improvement in service performance.

**RESPONSE:**

The service performance results have improved. While the Postal Service does not have quantitative data that point to a particular factor or cause for the change, it is believed that the following qualitative factors have influenced the results:

- Managers of the International Service Centers (ISCs) and Managers of In-Plant Support (MIPS) at ISCs were retrained on the business rules for quality link measurement system (QLMS) and UNEX.
- Processes were implemented to improve mailflow ensuring mail was processed in accordance with the operating plan and application of business rules.
- The Postal Service gained additional experience with the query process and accordingly was better equipped to develop its query submissions to International Post Corporation's (IPC's) contractor, thereby enabling improved evaluation and correction of the preliminary data.
- Headquarters provided diagnostic data to the ISCs to identify improvement opportunities.
- Radio Frequency Identification Device (RFID) antennas at ISCs and plants were realigned according to mail flow and diagnostic results. Previously, plants were not gated; therefore, diagnostic data were not available for volume that was processed. With the gating of plants, management was better able to pinpoint potential processing delays in the import stream. Within the ISC, the changes were made to reflect actual mail flow allowing the capture of additional reads (data) and to ensure that all entrance and exits were covered for compliance.
- Communications were directed at plants on actionable performance issues.
- Management held weekly telecons with ISC managers with a focus on all performance indicators, including service.

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6. This question refers to the calculation of worksharing discounts for 3-digit and 5-digit automation letters for Within County Periodicals.
- (a) Please confirm that the discount for 3-digit automation letters should be based on the difference in rates between Basic and 3-digit automation letters found in Docket No. R2008-1, Notice of Market Dominant Price Adjustment, R08\_Price\_Charts.doc, Schedule 1305.
  - (b) Please confirm that the discount for 5-digit automation letters should be based on the difference in rates between 3-digit and 5-digit automation letters found in Docket No. R2008-1, Notice of Market Dominant Price Adjustment, R08\_Price\_Charts.doc, Schedule 1305.
  - (c) If you do not confirm (a) and/or (b), please explain.
  - (d) If you do confirm, please file a revised version of USPS-FY08-3.

**RESPONSE:**

- (a) Confirmed.
- (b) Confirmed.
- (c) Not applicable.
- (d) A revised version of USPS-FY-08-3 is attached to this response electronically as CIR.4.Q.6.Attach.xls, updating the file provided in response to questions 7, 9, 10, 11, and 12 of CIR No. 2. The changes are limited to Tab: Periodicals Within County, rows 15 and 16.

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7. USPS-FY08-NP10.doc at 3, states, in part, that Competitive Group-Specific (CGS) advertising cost “was provided by postal segment advertising personnel based on actual expenditures and is a portion of the total advertising costs shown in Cost Segment 16, component 246 of the FY 2008 Cost and Segments Report.”
  - a. Please explain what portion of advertising expenditures was determined to be specific to competitive products, and show how this percentage was derived.
  - b. Please identify the sources used for your calculations.

**RESPONSE:**

Corporate Advertising provided the advertising costs by program for FY 2008. The total provided for all programs was \$78.1 million. Three programs were identified as Competitive Group Specific, and their total costs of \$7.6 million were reported as Competitive Group Specific in USPS-FY08-NP10. Additionally, eight advertising programs were Product Specific to individual Competitive Products, and their costs were thus included in the attributable costs of those products. The Product Specific advertising costs for all Competitive Products (domestic and international) totaled \$16.8 million. Together, the Product Specific and Group Specific advertising costs for Competitive Products thus totaled \$24.4 million, or approximately 31 percent of the total costs of all advertising programs reported by Corporate Advertising.

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8. Please reconcile the different revenue amounts shown for Priority Mail in USPS-FY08-NP1, File: 08 Priority Mail BD.xls.xls, Cell O288, and USPS-FY08-NP11, File: FY08NonPublicCRA.xlsx, Sheet: Volume 3, Cell D18.

**RESPONSE:**

Essentially, the difference is that the first revenue source cited is the Competitive Product Billing Determinants, which does not include revenue from fees, while the second revenue source cited is the Nonpublic CRA, which does include revenue from fees. A more detailed response will shortly be filed under seal as part of USPS-FY08-NP34.

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10. Please provide a detailed explanation for the significant difference between advertising costs for Click N Ship and Carrier Pick Up (Cost Segment 16) between FY 2007 and FY 2008.

**RESPONSE:**

Corporate Advertising indicated that there was a major reduction in advertising for Click-N-Ship and Carrier Pickup for FY 2008, as compared to FY 2007, due to a different focus. During FY 2007, the Postal Service focused a lot of media advertising on Click-N-Ship and Carrier Pickup: TV, radio, print, and digital on-line. Much less of this was done during FY 2008. Naturally, with the substantial decline in advertising from FY07 to FY08 came a substantial decline in advertising costs.

## **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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