Postal Regulatory Commission
Submitted 2/23/2009 4:18:08 PM
Filing ID: 62370
Accepted 2/23/2009

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

ANNUAL COMPLIANCE REPORT, 2008	Docket No. ACR2008

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO QUESTION 9 OF COMMISSION INFORMATION REQUEST NO. 4
(February 23, 2009)

Commission Information Request No. 4 was posted on February 13, 2009. The request sought answers no later than February 20, 2009. Attached is the Postal Service's response to question 9. This response refers 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. This completes the responses to CIR No. 4.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 23, 2009

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9. Please refer to the FY 2008 Group Specific Costs found in USPS-FY08-NP10.
   (a) Please provide a copy of all surveys along with the results used to identify costs.
   (b) For each survey, please provide:
      i. The decision rules, or other criteria, used to classify Cost Segment 18 costs to a particular group of products, and
      ii. The decision rules, or other criteria, used to analyze activities that may cease with the elimination of a product group.
   (c) Please indicate:
      i. How often the Postal Service plans to conduct such surveys; and
      ii. Identify the additional cost segments the Postal Service plans to analyze for group specific costs.

RESPONSE:

a) The attached pdf file (CIR.4.Q.9.Survey.Form.pdf) shows the survey instrument as it appeared to the managers and their designated respondents. Actual survey response data, however, are provided under seal as part of USPS-FY08-NP34.

b)

i) As described in the prefaces of USPS-FY08-NP10 and USPS-FY08-33, Headquarters Administrative and Program Group Specific Costs were developed as per Commission Order No. 115 (October 10, 2008), Proposal One, pages 4-19. Particular reliance was placed on the Commission statement at page 11 of Order No. 115: "In identifying the group-specific costs that are to be used in estimating incremental costs, the Commission authorizes the Postal Service in advance to categorize an activity as group specific if it unambiguously supports only one product group."

The following steps were followed to comply with this guidance. First, using the survey data, approximately 300 administrative units/programs were identified as performing work related to one or more products or shapes of mail. Next, these survey responses were examined to determine which indicated that they were related to only market dominant products, or to only competitive products, or to just specific shapes of mail. Surveys checking First Class Mail, First Class Mail International, Periodicals, Standard Mail, Package Services Mail (Bound Printed Matter, Library Mail, Media Mail & Parcel Post) and Extra Services were designated as Market Dominant, and those checking Express Mail, Priority Mail, Parcel Select (Destination Entry, BMC and OBMC Presorted, Barcoded Intra- and Inter-BMC), Global Express Guaranteed, Express Mail International, Priority Mail International, International Priority Airmail, and International Surface Airlift were designated as Competitive. These designations were further reviewed based on additional information on the actual work done under the administrative unit or program, to verify respondent's selections of products, and thus to designate only those cases where the administrative unit or program unambiguously supported only Market Dominant or Competitive products. Administrative units/programs for which there was uncertainty were not designated as either Market Dominant or Competitive.

Because parcels are handled as both Competitive and Market Dominant products, surveys that indicated the work under the finance number was related to parcels were not designated as either. On the other hand, surveys that reported the work under the finance number was related either to letters or to

flats were further evaluated. The various letter and flat programs were reviewed to see if there was an unambiguous and exclusive connection with Market Dominant products, or whether Competitive products were supported as well.[1] Information from operations was obtained to determine that Flat Sequencing System (FSS) is planned only for Market Dominant products. In addition, operations indicated that there is no national policy to run Priority Mail on automated letter sorting equipment. Thus the small volume of Priority Mail run on automation letter equipment was discounted and letter automation equipment programs and administrative units were considered Market Dominant.

ii) No analysis or decision rules were employed explicitly to determine activities that may cease with the elimination of a product group. Rather see part i, for a description of the decision rules employed.

c)
i) This has not been determined. The original intent was that, in the absence of significant organizational changes, a survey every year would not be necessary. Instead, each finance number (both existing and new) was to be categorized as market dominant, competitive or neither, as explained in the

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[1] As indicated in the prefaces of USPS-FY08-NP10 and USPS-FY08-33, additional guidance was obtained from the Commission's discussion on Proposal Four on collection boxes at page 30 of Order No. 115, which states:

> If an activity has volume-variable and fixed costs, and the volume-variable portion must be distributed to more than one product using a distribution key, the fixed-cost portion of that activity is not suitable for treatment as product specific. If the presence of products other than First-Class single-piece letters in the blue collection boxes were *de minimus* and accidental, their presence could be overlooked in attribution analysis. Where, as here, it is the conscious policy of the Postal Service that an activity support more than one product, the cost of that activity may not be treated as an attributable product-specific cost.

Postal Service's description of Proposal One, on pages 7-8 of its August 11, 2008 Request to modify the established methodologies.

ii) Currently, there are no firm plans to examine any other cost segments. The original intent along these lines was explained in the Postal Service's notice (Sept. 5, 2008) regarding the expanded scope of Proposal One in Docket No. RM2008-2, which indicated on page 2 an intent to treat as group specific:

> … any material amount of otherwise institutional costs in any Cost Segment, if incurred under a Headquarters finance number the functions of which have been determined by the survey to be group specific. The substantial preponderance (if not the entirety) of such costs, however, will occur in Costs Segments 16, 17, 18, and 20.

Order No. 115, however, limited approval to Cost Segment 18, and the Postal Service has no current plans to expand beyond that Cost Segment.

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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