

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

MODIFICATION OF ANALYTIC PRINCIPLES IN PERIODIC
REPORTING

Docket No.
RM2009-10

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S
INFORMATION REQUEST NO. 2, QUESTIONS 1-8**
(September 28, 2009)

The United States Postal Service hereby provides responses to questions 1 to 8
of Chairman's Information Request No. 2, issued on September 18, 2009.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
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September 28, 2009

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1. Please refer to USPS-RM2009-10-NP1, and the Excel files Reports.xls and Reports (Booked).xls.
 - (a) Refer to the worksheet "A Pages (md)" in each Excel file. Please reconcile and explain why the number of pieces for International Business Reply Mail Service in Reports (Booked).xls is less than the number of pieces for International Business Reply Mail Service in Reports.xls.
 - (b) Refer to the worksheet "A Pages (md)" in each Excel file. Please reconcile and explain why the number of pieces for outbound international Registered Mail in Reports (Booked).xls is less than the number of pieces for outbound international Registered Mail in Reports.xls.
 - (c) Refer to the worksheet "A Pages Summary" in each Excel file. Please reconcile and explain why the number of pieces for Outbound International Expedited Services in Reports (Booked).xls is less than the number of pieces for Outbound International Expedited Services in Reports.xls.
 - (d) Refer to the worksheet "A Pages Summary" in each Excel file. Please reconcile and explain why the number of pieces for Outbound International Negotiated Services Agreement Mail in Reports (Booked).xls is greater than the number of pieces for Outbound International Negotiated Services Agreement Mail in Reports.xls.

RESPONSE

- (a) The International Business Reply (IBRS) amounts should be equal in both the Reports (Booked).xls file and the Reports.xls file. International Business Reply was inadvertently overlooked in the benchmarking efforts to reconcile the booked and imputed amounts. The IBRS amounts were small and do not change the overall approach being advocated by the current proposal.
- (b) The International Registered Mail amounts in the Reports (Booked).xls file and the Reports.xls file are equal, and it appears that the Commission may be referring to the International Certificate of Mail amounts. The Certificate of Mailing was inadvertently overlooked in the benchmarking efforts to reconcile

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the booked and imputed amounts. The Certificate of Mailing amounts were small and do not change the overall approach being advocated by the current proposal.

- (c) The difference is due to the benchmarking of ICM agreements, which shifts Outbound EMS out of the product and into the ICMs. The difference between the Reports.xls file and the Reports (Booked).xls file is reflected by the reciprocal amount on line 124 of the Pivot5 tab of the Report (Booked).xls file.
- (d) The difference is the reflection of the response to part c. of this question. The benchmarking of the ICMs generated larger amounts in the Reports (Booked).xls file.

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2. Please refer to USPS-RM2009-10-NP1, and the Excel file Reports (Booked).xls, worksheet "Revenue Reconciliation w RPW," which states the following in the note (*): "Express Mail International in [the] RPW includes revenue of \$[REDACTED] for GPD contracts, whereas, the ICRA reports this revenue under the International NSA, GPD contracts."
- (a) The figure in column "Difference" for the Total Expedited Services is less than the figure in the Column "Difference" for International NSAs. Please explain why these "difference" figures are not the same.
 - (b) Please explain why the RPW reports GPD contract revenue with Express Mail International, rather than reporting this revenue in the same manner as the ICRA—under International NSAs, GPD Contracts. Is the Postal Service planning on reporting GPD contract revenue in the same manner in both the RPW and ICRA? Please explain.

RESPONSE

- (a) The small "difference" figure is the result of the benchmarking of NSAs in the booked version. The "difference" is due to a small amount of NSA mail being reported under First Class Mail International, which should have been included in benchmarking the NSAs to booked amounts. This inadvertent omission does not change the overall approach being advocated under the current proposal.
- (b) In FY08, both RPW and the ICRA were in a transition stage of reporting NSAs. GPD contracts only existed for a portion of FY08; GPD was discontinued and the contracts no longer exist. GPD contracts were only for EMI and RPW simply continued reporting GPD with EMI until the contracts ended.

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3. Please refer to the Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three – Nineteen), July 28, 2009 (Petition), and the attached text entitled “Proposal Eighteen.” At page 3 of the attached text, in footnote 2, it states that “because of the inherent nature of the settlement process, which is where the booked/imputed differences arise, within international products, the material differences occur with inbound revenues and outbound costs, with virtually no changes in inbound costs or outbound revenues.” In general, the differences for inbound products show imputed revenues exceeding booked revenues, while the differences for outbound products show imputed expenses exceeding booked expenses. With respect to Inbound Surface Parcel Post (at UPU Rates), please explain why imputed inbound revenue is less than booked inbound revenue.

RESPONSE

The imputed revenue for Inbound Surface Parcel Post (at UPU Rates) is less than the booked inbound revenue because different methodologies are used in the calculations. As explained in the response to Docket No. ACR2008, Commission Information Request No. 2, Question 4d:

“The ICRA 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 NPRPW 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 Administration 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 imputation process is not directly related to current estimates of mail flows and thus the relationship between imputed amounts and booked amounts can vary across classes of mail.

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4. Please refer to USPS-RM2009-10-NP1, and the Excel file Reports (Booked).xls, worksheet "Cost Reconciliation w CRA." In adjusting ICRA (booked) volume-variable costs to the CRA, line 10 states: "Less ICRA Cost Segments (not identified in RPW)." A similar statement appears in line 11: "Less ICRA Domestic Transportation (not identified in RPW)."
- (a) Please confirm that the reference to the "RPW" should be the "CRA." If not confirmed, please explain.
 - (b) The adjustment amounts associated with lines 10 and 11 are the same amounts for cost segments and domestic transportation, respectively, associated with IBRS. Please explain why IBRS is the largest unexplained difference between the ICRA and the CRA.

RESPONSE

- (a) Confirmed.
- (b) Please see the response to Question 1a. of this Information Request. IBRS was inadvertently overlooked during the development of the booked version of the ICRA.

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5. Please refer to USPS-RM2009-10-NP1, the Excel file Reports (Booked).xls, and the worksheet "Cost Reconciliation w CRA." In the section CRA "D Report" Identifying Product Specific Costs, for the column headed "Product Specific Including Contingency," please explain, and show all calculations used to derive, the figure in cell H120.

RESPONSE

The hardcoded cell H120 is the difference between cells W138 (the CRA total international without CS14) and cell W146 (the ICRA total international without CS14). This accounts for any differences other than CS14 so that the reconciliation can focus on CS14. The non-CS14 difference shown in Cell H120 is the Product Specific costs for International products in the ICRA, which is shown in cell H60 of worksheet "A Pages Summary" of the Excel file Reports (Booked).xls. The details of the total shown in cell H60 appear in cells H18 through H58 of that column.

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6. Please refer to the Petition and the attached text entitled "Proposal Eleven," including Table One. At page 4 of the attached text, it states: "(The 'cushion' in the proposed alternative is \$74 million.)" Please confirm that the "cushion" in the proposed alternative is \$78.6 million $((8,381,751 - 6,535,657) - (32,136,447 * 0.055))$. If not confirmed, please explain.

RESPONSE:

Not confirmed. The figure of 32,136,447 shown in the second term of the equation is the amount of institutional costs presented in the ACD (see Table III-2, page 12). As noted in the text of the Proposal, however, and as shown in Table Two attached to the Proposal, the total institutional costs associated with the proposed alternative (and, indeed, with the original CRA), was some \$82 million more (\$32,218,768,000) than the institutional costs figure presented in the ACD. To calculate the cushion properly for the proposed alternative, it is necessary to substitute the 32,218,768 figure for the 32,136,447 figure in the equation. This calculation then generates the \$74 million "cushion" noted in the text of the proposal.

The fact that the 5.5 percent institutional "target" shifted when the ACD linked total costs to the total cost figure reported in the PMG's Annual Report is obliquely hinted at in the ACD, when one compares Row (8) of Table III-7 on page 27 of the ACD, showing a Required Institutional Cost Contribution of 1,767,505(000), with the statement on page 87 of the ACD that "the Commission estimates that competitive products must provide more than \$1.77 billion in contribution" in order to meet the 5.5 percent target. The amount shown in Table III-7 is slightly *less* than \$1.77 million, not more as stated on page 87. If, however, one calculates the target using the CRA/proposed alternative institutional cost amount of \$32,218,768,000, the resulting target is

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\$1,772,032,000, which is indeed *more* than \$1.77 billion. The approximate \$4 million increase in the target causes the resulting commensurate \$4 million decrease in the cushion.

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7. Please refer to USPS-RM2009-10-NP2, and the Word document, Prop.18.Impact.doc, which shows the same total domestic transportation cost for foreign origin Surface CP (Parcels) under both the “Present Methodology” and the “Proposed Methodology.” Also, please refer to Docket No. CP2009-36, Library Reference NP1, and the Excel file Reports.xls (herein “FY 2008 ICRA-Revised”), worksheet Pivot3, showing domestic transportation costs for foreign origin Surface Parcels from Canada, Developing Countries (DC), and Industrialized Countries (IC).
- (a) Please explain why the total domestic transportation cost for foreign origin Surface Parcels under both the Present and Proposed methodologies is less than the sum of the domestic transportation costs for foreign origin Surface Parcels from Canada, DCs, and ICs shown in the FY 2008 ICRA-Revised.
 - (b) Please explain why domestic transportation costs for PQ1 of FY 2008 are imputed from FY 2008 PQ2 – PQ4 TRACS data.

RESPONSE:

- (a) The amount shown in the Word document, Prop.18.Impact.doc is not total domestic transportation costs for foreign origin Surface CP (Parcels). Prop.18.Impact.doc excludes a number of domestic transportation cost pools: Alaska Pref, Hawaii, Air Taxi, Terminal/Van Damage, Alaska Highway, Highway Empty Equipment, Rail Empty Equipment, Inland Water and Offshore Water. Excluding these cost pools isolates the results to those resulting solely from the proposal.
- (b) PQ1 of FY2008 is imputed because the data were not collected until PQ2 of FY2008.

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8. Please refer to the Petition and the attached text entitled "Proposal Eighteen." In Proposal Eighteen, it states that "[T]he new distribution factors would be derived from data collected as part of the Transportation Cost System (TRACS)." Please show the development of each of the new distribution factors and explain why the Postal Service decided to rely on these distribution factors to distribute domestic transportation costs between foreign origin Surface Parcels from Canada (CA) and the Rest of the World (ROW).

RESPONSE

TRACS consists of four subsystems (Commercial Air, Network Air, Highway and Rail).

These are all continuous, ongoing statistical sampling systems used to produce quarterly distribution key estimates. At the mailpiece level, TRACS records such elements, as the weight of the item, the class or mail category of the item, how many pieces there are, and in the case of Foreign Origin Surface CP, the country of origin. So from the start of the sampling process these two different products can be clearly identified and delineated. There is no difference in the expansion process for CA and ROW Foreign Origin Surface CP, other than that before they made up 1 line item and now they make up 2 line items. Different TRACS modes have different cost drivers. These include cubic foot miles, cubic foot, cubic foot legs, or pounds. The individual mailpieces are expanded out to the appropriate cost driver for the specific sampled TRACS mode.

Currently, a TRACS control total for all Foreign Origin Surface CP is used for both CA and ROW. Both groups are assigned the same unit cost. For FY2008, CA Surface CP weighed 71% less than ROW Surface CP. In addition, CA Surface CP enters the United

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States through three entry points; 1) Seattle, 2) Chicago, and 3) New Jersey. ROW Surface CP only enters the United States through New Jersey. In Qtr 2 FY 2008, TRACS began collecting the country of origin for Foreign Origin Surface CP which can now be used to distribute the costs between CA and ROW Foreign Origin Surface CP. Given the characteristic differences between CA and ROW Foreign Origin Surface CP, coupled with the TRACS transportation cost drivers, the Postal Service believes that TRACS gives a more accurate cost allocation.