

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

ANNUAL COMPLIANCE REPORT, 2009

Docket No. ACR2009

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-24
OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(February 2, 2010)

Chairman's Information Request No. 1 was issued on January 22, 2010. Responses were requested by February 1, 2010. Attached are the Postal Service's responses to Questions 1-24. One of the responses 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. Each request is stated verbatim, and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 2, 2010

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1. Please refer to the discussion of worksharing discounts in the Annual Compliance Report at 58-73. For each Standard Mail, Periodicals, and Package Services discount that exceeds avoided costs, the Postal Service explains its position that one or more of the exceptions in § 3622(e) applies. For First-Class Mail discounts that exceed avoided costs (Auto Mixed AADC Letters, Auto AADC Letters, Auto 3-Digit Cards, Auto 5-Digit Cards, and Auto ADC Flats), no such exceptions are identified. Please explain whether the Postal Service believes that some or all of these discounts are covered by exceptions in § 3622(e), and if so, for each discount for which a § 3622(e) exception is claimed, identify the exception and explain how it applies to the discount.

RESPONSE:

As the Postal Service stated in its 2009 Annual Compliance Report (ACR), “The issues of the BMM benchmark and whether inter-product cost avoidances comply with the limitations of U.S.C. § 3622(e) are subjects of Docket No. RM2009-3.” (2009 ACR at 62) Following is a table of the relevant passthroughs from the 2009 ACR:

Table 1

FCM Letters Barcoding & Presorting	Benchmark	Discount	Avoided Cost	Passthrough
Mixed AADC	BMM	0.058	0.046	126.1%
AADC	Mixed AADC	0.022	0.020	110.0%
FCM Cards				
3-Digit	AADC Cards	0.002	0.001	200.0%
5-Digit	3-Digit Cards	0.013	0.012	108.3%
FCM Flats				
ADC	Mixed ADC	0.122	0.045	271.1%

Source: USPS-FY09-3

The Postal Service does not believe that inter-product passthroughs are subject to the 100 percent requirement in section 3622(e). While this matter remains under consideration by the Postal Regulatory Commission, in the 2009 ACR, as required by

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the Commission, the Postal Service provided the data necessary to calculate this passthrough and what the passthrough would have been under this scenario.

In First-Class Mail, the Automation Mixed AADC Letters passthrough compared to the Bulk Metered Mail (BMM) benchmark as reported in the 2009 ACR is 126.1 percent. This is derived as follows: the cost avoidance between BMM and Mixed AADC Automation Letters is 4.6 cents, and the discount from Single-Piece 1-ounce price is 5.8 cents. If the Postal Service is required to provide a justification for this passthrough, the most logical exception would be section 3622(e)(2)(D). In the Initial Comments of the Postal Service filed on May 26, 2009 (Docket No. RM2009-3 at 21-28), the Postal Service discusses the practical difficulties of attempting to comply with the price cap and the penny rounding constraint, while simultaneously adhering rigidly to a 100 percent passthrough of cost avoidance between BMM and Mixed AADC Automation Letters. Pricing with these constraints is a definite impediment to the efficient operation of the Postal Service, especially in these challenging economic times.

The Postal Service would like reiterate its position that relying on narrow cost avoidances between BMM and Mixed AADC Letters to determine the initial price for Automation Letters overlooks the reality of differences between these products. The inherent characteristics of the two products such as origin/destination densities, address quality, uniformity of pieces (less jams and higher throughputs), containerization, labeling for air transportation etc., should be considered in the pricing of these two products.

The next three passthroughs that exceed 100 percent are for Automation AADC Letters (110 percent), Automation 3-Digit Cards (200 percent), and 5-Digit Automation

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Cards (108.3 percent). To put the question about passthroughs in the ACR into context, all of these passthroughs were deemed to be in compliance by the Postal Regulatory Commission in Docket No. R2009-2, given the cost information available at that time. The subsequent ACR filing looks at existing prices and discounts (which, when implemented, were based on the previous year's cost models and studies) and compares them with cost avoidances derived from newly updated cost models. The Postal Service commented on this particular issue in its 2009 ACR filing.

Furthermore, in evaluating passthroughs for the 2009 ACR, the Postal Service notes that changes in costs between FY 2008 and FY 2009 result in some passthroughs increasing and some decreasing. In fact, some discounts now have passthroughs below 100 percent when the passthroughs estimated for the May price change (Docket No. R2009-2) were 100 percent, and some discounts now have passthroughs greater than 100 percent. Overall, any evaluation of the statutory appropriateness of passthroughs needs to be made in the context not only of the calculated cost avoidance, but also considering all of the statutory criteria, such as the objective that prices be predictable and stable. An increase or decrease in a passthrough based on the cost avoidance calculated for a given fiscal year does not in itself trigger the requirement for an immediate price change. Rather, it is an indication that a specific discount / cost avoidance relationship needs to be fully re-evaluated in the context of all of the statutory criteria. This re-evaluation will be undertaken by the Postal Service when it prepares its next price adjustment, and will then be reviewed by the Commission. This is consistent with the fact that section 3622(e) must, for reasons discussed previously by the Postal Service in its response to CIR No. 1 in Docket No. R2008-1, be applied over the long-term, as a principle that should guide pricing over a series of price adjustments. This comprehensive, long-term approach is especially critical given the fragility of the current business environment and the desirability of maintaining and encouraging mail usage. (2009 Annual Compliance Report at 60 - 61)

Once again, the Postal Service believes that the exception relating to section 3622(e)(2)(D) is applicable in this case. In addition, the Postal Service notes that for 3-Digit and 5-Digit First-Class Mail Cards, the amount that the discounts exceeds the cost avoided is 0.01 cents. Given the traditional rounding constraints (to the nearest tenth of

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a cent), and the possibility that even small changes could result in a cost avoidance “rounding up” rather than down (or vice versa), a requirement that the passthrough always equal 100 percent would place an excessive reliance on a mechanical exercise, rather than the exercise of reasonable judgment in the construction and evaluation of prices and price relationships. Postal Service operations would be impeded considerably if prices were adjusted with every single update of cost models and subsequent changes in cost avoidances for various products.

The last passthrough of cost avoidance that exceeds 100 percent using the Mixed ADC benchmark is for ADC Automation Flats. The passthrough of this cost avoidance was 145 percent in Docket No. R2009-2. The following justification was provided by the Postal Service on page 30 of its Notice of Price Adjustment/Market Dominant Products filed on February 10, 2009.

Use of a 100 percent passthrough would lead to significantly higher price increases for automation flats. Therefore, in light of the need to mitigate the price increase, the passthrough exceeds 100 percent, pursuant to section 3622(e)(2)(B). Future price adjustments will be more reflective of the new cost information.

Using FY09 data, this passthrough has just about doubled to 271 percent due to the reduction in the cost avoidance, but the section 3622(e)(2)(B) exception would still apply. Putting things in perspective, Automation Flats comprise a small proportion of overall First-Class Mail revenue. In FY2009 Automation Flats revenue was only 1.5 percent of the overall First-Class Mail revenue. The cost avoidances presented in the 2009 ACR will be considered in future price changes along with other factors.

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2. Please confirm that USPS-FY09-11, File: PerOCflts.xls, Sheet: BUNDLE DATA, Cell M18 should have a value of 100 percent and not 1 percent.
- (a) If you do confirm, please file a revised version of PerOCflts.xls.
 - (b) If you do not confirm, please explain.

RESPONSE:

Confirmed. Note that the value in cell M18 is extraneous to the cost calculations in the model and has no dependents. The correction has been made in the revised version of PerOCflts.xls provided with the response to ChIR No. 1, question 8 (attached as Chir.1.Q.8.Rev.2.01.10.Periodicals.zip); however, the cost estimates for pieces, bundles and containers do not change as a result of this correction.

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3. Please explain the reason USPS-FY09-11, File: PerOCflts.xls Sheet: BUNDLE DATA, Cell K38, references the coverage of an originating APPS bundle sort, while the accepted model uses the average of destinating coverage for APPS and SPBS / LIPS operations. Please file a revised version of PerOCflts.xls if the current methodology remains appropriate.

RESPONSE:

Cell K38 of the BUNDLE DATA sheet in both USPS-FY09-11, File PerOCflts.xls and USPS-FY08-11, File PerOCflts.xls is a measure of the probability that an Area Distribution Center (ADC) bundle in/on an ADC container will receive a bundle sort on the APPS. In Order No. 170 (January 12, 2009), the Commission approved Modification 6 (Docket No. RM2009-1) which assumes that 100 percent of bundle sorting activity at ADCs occurs on mechanized equipment. This modification was made to acknowledge the fact that, because of Periodicals containerization requirements, no bundle sorting occurs at a facility that is not either an ADC or a destinating facility. However this assumption did not distinguish between the SPBS/LIPS and APPS coverages as required in the model. In USPS-FY08-11, the destinating coverage factors were used to generate an estimate of the SPBS/LIPS and APPS coverage factors separately.

In Proposal Twenty-five (Docket No. RM2010-4) the Postal Service provides updated coverage factors for both bundle and piece distribution. In this update the destinating factors are constructed to measure the machine coverage at destinating Sectional Center Facilities (SCFs), and the originating factors are constructed to measure the machine coverage at ADCs. As such, the updated coverage factors provide an explicit measure of the SPBS/LIPS and APPS coverages, and the

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distribution function embedded in cell K38 is no longer needed. The Commission approved Proposal Twenty-five in Order No. 399 (January 27, 2010). Since the current methodology in USPS-FY09-11 complies with the Commission-approved methodology, no revision is necessary.

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4. Please explain the reason USPS-FY08-11, File: PerOCflts.xls, Sheet: Productivities, Cell B16, the variability of REC Keying is 100 percent, while in USPS-FY09-11, File: PerOCflts.xls, Sheet: Cell B16, it is 95 percent. Please explain which variability figure is correct, and file a revised version of PerOCflts.xls if the correct variability of REC keying is 100 percent.

RESPONSE:

The Volume Variability figure filed in USPS-FY09-11 (95.90 percent) is correct, and is linked to USPS-FY09-7, File: USPS-FY09-7 Part1.xls, Sheet: Cost Pool Summary Table1- links, Cell G31. The Postal Service acknowledges that the link used in USPS-FY09-11, File: Per OC flts.xls, Sheet Productivities, Cell: B16 shows a different cell reference than the one filed in USPS-FY09-7 due to the use of a preliminary file that was later changed before filing. This link is corrected in the revised version of PerOCflts.xls provided with the response to ChIR No. 1, question 8 (attached as Chir.1.Q.8.Rev.2.01.10.Periodicals.zip).

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5. The values in USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cells C8, C9, C10, and C11 are equal to the allied productivity factors found in Cells L43, L44, L31 and L32, respectively.
- (a) Please explain why the same calculations were not made in the Postal Service's 2008 filing.
 - (b) Please explain whether this change constitutes a change in methodology.
 - (c) Please file a revised version of PerOCflts.xls if the current methodology remains appropriate.

RESPONSE:

(a) When ACR2008 was filed, Proposal Twelve (Docket No. RM2009-1) was pending approval by the Commission, prompting the need for toggle switches which used the current (at the time) methodology when "off" or proposed methodology when "on". The Commission approved Proposal Twelve in Order No. 170 (January 12, 2009). For ACR2009, the toggle switches for Proposal Twelve were removed and calculations were made in the appropriate cells and sheets for all approved modifications. For this reason, the calculations in the ACR2008 models are different than in the ACR2009 models. The values in cells L43, L44, L31, and L32 use Modification 11 (Proposal Twelve, Docket No. RM2009-1) to make Rejects and Single-piece sort adjustments on APPS and SBS/LIPS productivities taken from USPS-FY09-23. Values in cells C8, C9, C10, and C11 are used to calculate marginal productivities in cells E8, E9, E10, and E11, respectively. Those cells are extraneous and have no dependents, while cells L43, L44, L31, and L32 are used to calculate the marginal productivities in cells I43, I44, I31, and I32, respectively. The methodology for those cells has not changed from USPS-FY08-11.

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(b) No revision is necessary as the methodology for inputs used in the cost analysis has not changed from 2008ACR.

(c) N/A

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6. Please refer to values in two files: (a) USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cells C12, C13, C14, and C15; and (b) USPS-FY08-11, File: Per OC flts.xls, Sheet: Productivities, Cells C12, C13, C14, and C15. The values referred to in each file list the Facility Study undertaken in Docket No. RM2009-1 as the source, yet only the ACR 2009 file explicitly shows that the productivity factor is calculated as bundles sorted per hour divided by an overhead factor.
- (a) Please explain whether the productivity values for these cells in the ACR 2008 version are also the bundles sorted per hour divided by an overhead factor.
 - (b) If you do confirm, please provide the overhead factors and identify their sources.
 - (c) If you do not confirm, please explain how the raw productivity values from the Facility Study were altered to arrive at the values in USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cells C12, C13, C14, and C15. Please also identify the source of the values that modified the Facility Study productivities.

RESPONSE:

(a & b) Confirmed. The values in cells C12 through C15 were preliminary productivity numbers calculated for the purpose of the Periodicals Technical Conferences with the Commission, Industry, and the Postal Service, prior to the formal approval-seeking Proposal process in place now. The numbers were calculated using the productivities calculated from field studies (filed in USPS-FY08-14) divided by a preliminary Overhead factor from USPS-FY07-7. In USPS-FY08-11, File: PerOCflts.xls, Sheet: Productivities, Cells C12, C13, C14, and C15 are only valid if the corresponding toggle switches in Sheet: ACR 2008 Modifications, Cells D37 and D38 are turned "off". In Order No. 170 (January 12, 2009), the Commission approved Modification 2, invalidating the need to turn the switches "off". The Overhead factors used to calculate the productivity, when the switches are turned "on", is provided in USPS-FY08-7_part7.xls, Sheet: VII-3a.ovhead factors-MODS1&2, Cell G75 and Sheet: VII-3b.OVhead Factrs-NonMODS, Cell G10.

(c) N/A.

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7. Please confirm that the MODS Productivity value for RECs Keying in USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Cell C16 is from a source other than the one used in ACR 2008.
- (a) If you confirm, please explain whether this constitutes a change in methodology.
 - (b) If you confirm, please explain why this source is an improvement over the previous source.

RESPONSE:

Not confirmed. The REC flats productivities in USPS-FY09-11 in each First-Class Mail, Periodicals, and Standard Mail cost model, Sheet: Productivities, Cell C16 are derived from USPS-FY09-23, File: RECprods2009.xls, Sheet: prodcalc, Cell E10. In ACR2008, the REC productivities were provided in USPS-FY08-23, File: RECprod2008.xls, sheet: RECProds, Cell E9. This is the same source as in ACR 2009. The Postal Service acknowledges that cell C16 was linked to the corresponding sheet and cell of the FCM Prsrt flts.xls file which was linked to USPS-FY09-23. The link is corrected in the revised version of PerOCflts.xls provided with the response to ChIR No. 1, question 8 (attached as Chir.1.Q.8.Rev.2.01.10.Periodicals.zip). No Productivity or cost numbers changed as a result of this correction.

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8. Please confirm that the value for bundles per container in Docket No. RM2009-1, File: Facility.xls, Sheet: Bundles Per Container, Cell: K27 is 97.88, and is the value that should be used in USPS-FY09-11, File: PerOCflts.xls, Sheet: CONVERSIONS, Cell: B18.
- (a) If you do confirm, please file a revised version of PerOCflts.xls.
 - (b) If you do not confirm, please explain.

RESPONSE:

Confirmed. An erroneous conversion figure (97.58) was used in the ACR2009 model and has been corrected in the revised version filed with this response. The revised figure (97.88) causes a 0.04 percent change in the piece and container costs and 0.006 percent to 0.12 percent change in the bundle costs for Periodicals.

As requested, a revised version of PerOCflts.xls is attached electronically to this response in the zip file entitled Chir.1.Q.8.Rev.2.01.10.Periodicals.zip. The Postal Service also notes that the revised version contains a corrected reference in USPS-FY09-11, File: PER OC Flts rev02.01.10.xls, Sheet: ACR 2008 Modifications, Cell O110. This cell previously referred to a non-public folder USPS-FY09-NP18 part 3, File: FY09 ACR inputs to Marc Part2.xls, Sheet: MODS1&2 Costs by shape 12_06_09, cell C30, for the data element – IOCS MP Costs by Shape (Flats Share of Mechanized Flats Costs). The calculations for this cell have been displayed in the revised Periodicals model file, Sheet: ACR 2008 Modifications, Cell O117 using USPS-FY09-NP18 data. However, the data element (in cell O110) can also be calculated using USPS-FY09-7 part3.xls as calculated in cell O123, Sheet: ACR 2008 Modifications, in the revised file. The revised file has a different cell reference than in cell O110, but no change has been made to the cost calculations as a result of displaying the calculations. The slight

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difference in the data between cell O117 (from USPS-FY09-NP18) and cell O123 (from USPS-FY09-7) is due to inclusion of Competitive products data in USPS-FY09-NP18. Data from cell O117 have been used for cost estimation in the model.

The revised file corrects those links that were identified as problematic, without any change in data, unless specified. The Postal Service has made diligent efforts in providing sources, footnotes, documentation, and links to enable the Commission and intervenors to trace the precedents and dependents of data. However, in some instances the owner of the files changed the contents of the files prior to filing, causing the links in dependent files to break.

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9. Please confirm that USPS-FY09-7__Excel_Workbooks, File: USPS-FY09-7 part6.xls, Sheet: 8 MP Cost Pool Variabilities, is the source of the data found at USPS-FY09-11, File: PerOCflts.xls, Sheet: Productivities, Column "M," which contains allied volume variability factors.
- (a) If you do confirm, please file a revised version of PerOCflts.xls.
 - (b) If you do not confirm, please identify the source of data for this worksheet, and file an electronic copy of it, if it has not already been filed with the Commission.

RESPONSE:

Not confirmed. The source of the MP Cost Pool Volume Variabilities is filed in USPS-FY09-7, File: USPS-FY09-7 part1.xls, Sheet: Cost Pool Summary Table1- links, Column: "G". The Postal Service acknowledges that the links in USPS-FY09-11 show different cell references from USPS-FY09-7 due to the use of a preliminary file that was later changed before filing. These links are corrected in the revised version of PerOCflts.xls provided with the response to ChIR No. 1, question 8 (attached as Chir.1.Q.8.Rev.2.01.10.Periodicals.zip).

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10. This question is directed to the method of calculating the avoided prebarcoding costs of Within County, Basic Automation Periodical Flats.
- (a) Please confirm that the current method of calculating the Within County avoided prebarcoding cost of a Basic Automation Periodical Flat is to calculate the difference between the unit mail processing cost of a Basic Non-Barcoded and Barcoded Periodical Flat.¹ The unit delivery costs of both are the same, namely, the unit delivery cost of a Regular Standard Flat, so they cancel each other out.²
 - (b) Please also confirm that the method of calculating the avoided prebarcoding cost of a Basic Automation Periodical Flat proposed in USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, Sheet: Periodicals Within County, Cell F19, is the difference between the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable, ADC Periodical Flat (which reproduces the current method), and the unit mail processing cost of a Barcoded Machinable ADC Periodical Flat (which does not reproduce the current method because there is no non-machinable component). Please refer to Table 1 below, which shows the spreadsheet calculations of the two methods, and highlights the different methods they use to estimate cost automation cost avoidances.
 - (c) If you do confirm "a," please file a version of Within County automation cost avoidances using the current methodology.
 - (d) If you do confirm "a" and "b," please provide a rationale for the proposed change in method of estimating Within County prebarcoding automation cost avoidances.

¹ Where the unit mail processing cost of a Basic Non-Barcoded Periodical Flat is calculated as the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable Periodical ADC Flat, and the unit mail processing cost of a Basic Barcoded Periodical Flat is calculated as the volume-weighted average unit mail processing cost of a Barcoded Non-Machinable and Machinable Periodical ADC Flat.

² See Responses of the United States Postal Service to Questions 9, 10, 12, 13, and 17 of Commission Information Request No. 2, February 14, 2008, Question 13, Within.County.xls, Sheet: Periodicals Within County, Cell F45; and PRC-ACR2008-LR5 – FY 2008 Periodicals, File: PRC_Periodicals_WS_ACR08.xlsx, Sheet: Within County, Cells H5-H10 (Docket No. ACR2007, Response to CIR No. 2).

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Table 1

Within County Periodicals, Avoided Cost Calculations							
		Unit Mail Processing Costs ¹		Mail Volume ²		Current v. Proposed Methods	
		Machinable	Nonmachinable	Machinable	Nonmachinable	Current Method ³	Proposed Method ⁴
		C1	C2	C3	C4	C5	C6
	Barcoded						
L1	AADC Non-Auto	0.212	0.413	14,955,516	12,344,073	L1: (C1 C3+C2C4)/(C3+C4)	L1: (C1C3+C2C4)/(C3+C4)
L2	3-Digit NonAuto	0.186	0.376	61,132,089	34,610,085	L2: (C1 C3+C2C4)/(C3+C4)	L2: (C1C3+C2C4)/(C3+C4)
L3	5-Digit NonAuto	0.097	0.160	103,785,351	38,970,998	L3: (C1 C3+C2C4)/(C3+C4)	L3: (C1C3+C2C4)/(C3+C4)
	NonBarcoded						
L4	AADC Auto	0.236	0.467	66,566,601	5,044,024	L4: (C1 C3+C2C4)/(C3+C4)	L1C1
L5	3-Digit Auto	0.208	0.422	664,096,005	33,981,360	L5: (C1 C3+C2C4)/(C3+C4)	L2C1
L6	5-Digit Auto	0.107	0.167	1,960,181,726	5,855,940	L6: (C1 C3+C2C4)/(C3+C4)	L3C1
				Basic Prebarcoding Discount		L1C5 - L4C5	L1C6 - L4C6
				3-Digit Prebarcoding Discount		L2C5 - L5C5	L2C6 - L5C6
				5-Digit Prebarcoding Discount		L3C5 - L6C5	L3C6 - L6C6
1	Source: USPS-FY09-11, PER OC Flts.xls, Tab: SUMMARY						
2	Worksharing_Discount_Table-FY_2009_12_29_09.xls.xlsx, Worksheet WC, Cells: J8, J9, J14, J15, J20, J21						
3	Resp.CIR2.Qu.7.9.10.11.12.xls, Sheet: Periodicals Within County, 2/6/2009						
4	USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, Sheet: Periodicals Within County						

RESPONSE:

- (a) Confirmed.
- (b) Confirmed. Please note that the headings in Table 1 on page 6 of the Information Request, reproduced above as it appeared in the question, are incorrect. The Barcoded and NonBarcoded headings should be switched.
- (c) A version of Within County automation cost avoidances using the current methodology is filed electronically with this response. See cells F19 and G19 in worksheet Periodicals Within County, in the attached Excel file entitled ChIR.1.Q.10.Workshare.Discount.Tables.2.1.10.xls.
- (d) The change in methodology described in part (b) was unintentional.

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11. This question is directed to the method of calculating the avoided prebarcoding costs of Within County 3-Digit Automation Periodical Flats.
- (a) Please confirm that the current method of calculating Within County avoided prebarcoding cost of a 3-Digit Automation Periodical Flat is to calculate the difference between the unit mail processing cost of a 3-Digit Non-Barcoded and Barcoded Periodical Flat.³ The unit delivery costs of both are the same, so they cancel each other out.⁴
 - (b) Please also confirm that the method of calculating the avoided prebarcoding cost of a 3-Digit Automation Periodical Flat proposed in USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, Sheet: Periodicals Within County, Cell F20, is the difference between the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable, 3-Digit Periodical Flat (which reproduces the current method), and the unit mail processing cost of a Barcoded Machinable 3-Digit Periodical Flat (which does not reproduce the current method because there is no non-machinable component).
 - (c) If you do confirm "a," please file a version of Within County automation cost avoidances using the current methodology.
 - (d) If you do confirm "a" and "b," please provide a rationale for the proposed change in method of estimating Within County prebarcoding automation cost avoidances.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) A version of Within County automation cost avoidances using the current methodology is filed electronically with the response to Question 10. See cells F20 and G20 in worksheet Periodicals Within County in the attached Excel file entitled ChIR.1.Q.10.Workshare.Discount.Tables.2.1.10.xls.

³ Where the unit mail processing cost of a 3-Digit Non-Barcoded Periodical Flat is calculated as the volume weighted average of the unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable, 3-Digit Periodical Flat, and the unit mail processing cost of a 3-Digit Barcoded Periodical Flat is calculated as the volume weighted average unit mail processing cost of a Barcoded, Non-Machinable and Machinable, 3-Digit Periodical Flat.

⁴ See Docket No. ACR2007, Response to CIR No. 2, Within.County.xls, Sheet: Periodicals Within County, Cell F46; and PRC-ACR2008-LR5 – FY 2008 Periodicals, File: PRC_Periodicals_WS_ACR08.xlsx, Sheet: Within County, Cells H6-H11.

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(d) The change in methodology described in part (b) was unintentional.

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12. This question is directed to the method of calculating the avoided prebarcoding costs of Within County, 5-Digit Automation Periodical Flats.
- (a) Please confirm that the current method of calculating Within County avoided prebarcoding cost of a 5-Digit Automation Periodical Flat is to calculate the difference between the unit mail processing cost of a Non-Barcoded and Barcoded 5-Digit Periodical Flat.⁵ The unit delivery costs of both are the same, so they cancel each other out.⁶
 - (b) Please also confirm that the method of calculating the avoided prebarcoding cost of a 5-Digit Automation Periodical Flat proposed in USPS-FY09-3 - FY 2009, File: Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, Sheet: Periodicals Within County, Cell F21, is the difference between the volume-weighted average unit mail processing cost of a Non-Barcoded, Non-Machinable and Machinable 5-Digit Periodical Flat (which reproduces the current method), and the unit mail processing cost of a Barcoded Machinable 5-Digit Periodical Flat (which does not reproduce the current method because there is no non-machinable component).
 - (c) If you do confirm "a," please file a version of Within County automation cost avoidances using the current methodology.
 - (d) If you do confirm "a and "b," please provide a rationale for the proposed change in method of estimating Within County prebarcoding automation cost avoidances.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) A version of Within County automation cost avoidances using the current methodology is filed electronically with the response to Question 10. See cells F21 and G21 in worksheet Periodicals Within County in the attached Excel file entitled ChIR.1.Q.10.Workshare.Discount.Tables.2.1.10.xls.
- (d) The change in methodology described in part (b) was unintentional.

⁵ Where the unit mail processing cost of a 5-Digit Non-Barcoded Flat is calculated as the volume-weighted average of the unit mail processing cost of a Non-Barcoded, NonMachinable and Machinable, 5-Digit Flat; and the unit mail processing cost of a 5-Digit Barcoded Flat is calculated as the volume-weighted average unit mail processing cost of a Barcoded, Non-Machinable and Machinable, 5-Digit Flat.

⁶ See Docket No. ACR2007, Response to CIR No. 2, Within.County.xls, Sheet: Periodicals Within County, Cell F47; and PRC-ACR2008-LR5 – FY 2008 Periodicals, File: PRC_Periodicals_WS_ACR08.xlsx, Sheet: Within County, Cells H7-H12.

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13. The following questions refer to the passthrough calculation for High Density Flats.
- (a) Please confirm that the cost avoidance for High Density Flats is 4.0 cents (unit cost for Basic Flat—14.2 cents minus unit cost of High Density Flat—10.1 cents).
 - (b) If you do confirm “a,” please confirm that the resulting passthrough is 108 percent.
 - (c) If you do confirm “b,” please provide a justification for the above 100 percent passthrough using one of the exceptions under § 3622(e)(2).

RESPONSE:

(a) Not confirmed. The cost avoidance for High Density Flats is 5.5 cents (unit cost for Basic Flat – 15.7 cents minus unit cost of High Density Flat – 10.1 cents—see the avoided cost calculations below) as originally reported in USPS-FY09-3. The Postal Service is unable to confirm the figure of 14.2 cents for the unit cost of Basic Flats as stated in the question.

Avoided cost calculation:

$$\begin{aligned} \text{Avoided Cost for HD Flats} &= (\text{Mail Processing Cost of Basic Flats} + \text{Delivery Cost of Basic Flats}) - (\text{Mail Processing Cost of HD Flats} + \text{Delivery Cost of HD Flats}) \\ &= (0.05122 + 0.10556) - (0.02722 + 0.07413) \\ &= 0.15678 - 0.10135 \\ &= 0.05543 \end{aligned}$$

The source of the mail processing costs is USPS-FY09-18, FY09 ECR Unit Costs.xls, Table 1. The source of the delivery costs is USPS-FY09-19, UDCmodel09.xls, Table 1.

- (b) Not confirmed. Please see the response to part (a).
- (c) Please see the response to part (b).

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14. Regarding the passthrough calculation for High Density Flats:
- (a) Please provide quarterly billing determinants for FY 2009 for all Market dominant products excluding First-Class Mail.
 - (b) Please split 3rd quarter billing determinants into two periods (pre- and post-rate change).
 - (c) Please reconcile the quarterly billing determinants with the annual billing determinants.

RESPONSE:

The Postal Service understands that the preamble to this question regarding High Density Flats is inapplicable.

a.-c. The requested materials were intended to be filed with USPS-FY09-4, in a subfolder discussed in the Preface and entitled "Supplemental Data." Unfortunately, that subfolder was inadvertently omitted in the compilation process of the CD-ROM component of USPS-FY09-4. It is provided now as an electronic attachment to this pleading, titled as ChIR.1.Q.14.QBDs.zip. No reconciliation is necessary between these quarterly billing determinants and the annual billing determinants filed in USPS-FY09-4.

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15. Please confirm that the formula in USPS-FY09-15 Excel file: BPM MP.xlsx, tab: Productivities, cell: D35 should be “=488.81663694823/D47”. If not confirmed, please explain.

RESPONSE:

Not confirmed. The 488.817 incoming secondary parcel sorting productivity figure was estimated using data collected during a 2008 delivery unit (DU) study, and was used in the FY08 ACR. After the FY08 ACR had been submitted, however, it was noticed that the productivity figure had been estimated incorrectly, because it did not account for employee breaks, the time required to clock in and out, and other miscellaneous tasks. A revised productivity figure of 350.967 was submitted as part of Proposal 14 in Docket No. RM2009-10, which the Commission subsequently approved in Order No. 339 (Nov. 13, 2009). In the instant proceeding, this revised productivity figure has been relied upon in the Standard non-flat machinable (NFM) / parcel mail processing cost model (USPS-FY09-12), the Bound Printed Matter mail processing cost model (USPS-FY09-15), the Media Mail / Library Mail mail processing cost model (USPS-FY09-15), and the Parcel Select / Parcel Return Service (PRS) mail processing cost model (USPS-FY09-NP16).

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16. Please confirm the value in USPS-FY09-15 Excel file: BPM MP.xlsx, tab: "Flat-Parcel", cell: D6 and USPS-FY09-32, is 43,855, which matches Excel file: CS06&7-P.xls, tab: "Outputs to CRA", cell: F36. If not confirmed, please explain.

RESPONSE:

Not confirmed. The value in USPS-FY09-15 Excel File: BPM MP.xls tab "Flat-Parcel", cell D6, is \$42,986, which is correct and which equals the corresponding value in the non-public version of the B workpapers, USPS-FY09-NP14 Excel file: CS06&7.xls, tab "Outputs to CRA", cell F36. It does not equal the value in the corresponding cell in the public version of the B workpapers in USPS-FY09-32. The discrepancies between corresponding public and non-public values in USPS-FY09-32 Excel file: CS06&7-P.xls, tab "Outputs to CRA", and USPS-FY09-NP14 Excel file CS06&7.xls, tab "Outputs to CRA" are caused by formula errors in the public version, USPS-FY09-32 Excel file CS06&7.xls, tab "7.09" cells D55, E55, F55, G55, H55, D59, E59, F59, G59, and H59. The corrections to the formulas presented in the following Table 1 resolve the discrepancies between the public and non-public versions of CS06&7.xls. The corrected public version CS06&7-P.xls is attached to this response electronically as ChIR.1.Q.16.CS06&7-P.2.1.20.xls.

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Table 1

USPS-FY09-32 Excel file CS06&7-P.xls, tab "7.09"		
Cell	Current Formula	Corrected Formula
D55	SUM(D46:D54)	SUM(D43:D54)
E55	SUM(E46:E54)	SUM(E43:E54)
F55	SUM(F46:F54)	SUM(F43:F54)
G55	SUM(G46:G54)	SUM(G43:G54)
H55	SUM(H46:H54)	SUM(H43:H54)
D59	D41+D57	D41+D57+D58
E59	E41+E57	E41+E57+E58
F59	F41+F57	F41+F57+F58
G59	G41+G57	G41+G57+G58
H59	H41+H57	H41+H57+H58

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17. Regarding USPS-FY09-15, Excel file: BPM MP.xlsx, tab: "Volume Data":
- (a) Please confirm that columns [6] and [7] should be updated to reflect FY 2009 billing determinants. If so, please provide updated spreadsheets.
 - (b) Provide specific references for data in column [9].

RESPONSE:

Given that the Bound Printed Matter mail processing cost model referenced above does not contain a "Volume Data" tab, it is assumed that this question actually pertains to the Media Mail / Library Mail mail processing cost model.

- (a) Confirmed. Column [6] contains the correct figures. Column [7], however, does not contain the correct figures. The correct column [7] figures are as follows:

5-Digit Presort (Media)	521,589
Basic Presort (Media)	17,677,083
5-Digit Presort (Library)	238,233
Basic Presort (Library)	522,819

A revised model is attached to this response electronically as ChIR.1.Q.17.MEDIA MAIL MP REV1 2-1-10.xls.

- (b) The FY 2009 Special Weights Report is the source for the column [9] data.

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18. There are several instances in USPS-FY09-15 and USPS-FY09-16 where the Bound Printed Matter and Media Mail models reference the former Single-Piece Parcel Post split between Intra-BMC and Inter-BMC. Because the Single-Piece Parcel Post distinction between Intra-BMC and Inter-BMC no longer exists, the models now use the FY 2008 Intra-BMC/Inter-BMC volume split as a proxy. Please explain the rationale for using the FY 2008 disaggregation, and if this methodology will continue in the future models.

RESPONSE:

FY 2008 data were used as proxies because no other data were available. This methodology and the availability of alternative cost model input data will be evaluated in the coming months. It should be pointed out that the network distribution center (NDC) activation process, which will have an impact on these subclasses of mail, is not yet completed. It is therefore possible that proxies may have to be relied upon until this process is completed.

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19. Please provide FY 2009 Inbound International Surface Parcel Post (at UPU rates) billing determinants.

RESPONSE:

The Postal Service does not have the ability to report revenue by weight tier for Inbound Surface Parcel Post.

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20. Please refer to USPS-FY09-28, Excel file "Confirm2009.xls."
- (a) In cell E3, please confirm that the date "11/17/2008" is accurate. If the date is accurate, please explain the significance of the date. If the date is inaccurate, please provide the correct date and explain its significance.
 - (b) For FY 2009, the fixed costs for the Confirm Service increased by \$1,669,855, from \$1,067,495 to \$2,737,350. Please discuss the causes of the increase in fixed cost. Specifically, please address the cost increase of \$1,509,252, from \$1,065,187 to \$2,574,439, in Account No. 52411 "MISD Charge Back." (See lines 45 and 47). In addition, please provide a detailed description of the cost element as well as any underlining financial workpapers.

RESPONSE:

(a) The costing information is for FY2009, as stated in the title of the spreadsheet which is the subject of this question. The date in question is 11/17/2009, and the "2008" was merely a typo. This is the date the data were pulled from the USPS accounting system.

(b) The \$1,669,855 increase in the fixed costs is mainly attributed to information technology spending. Specifically, the increase of \$1,509,252 was contractor costs for an IT hardware upgrade (coding) and application development, so that Confirm could provide Full Service IMb data, and use updated technology.

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21. Please refer to the FY 2009 Annual Compliance Report at 52-53, and Table 5, Special Services Mail Volume, Revenue and Cost by Product. Also, please refer to USPS-FY09-28, Excel file "Correction of MailingLists2009.xlsx." For Address List Services, please provide the source document(s) for the unit revenue and unit cost figures of \$0.373 and \$0.368, respectively.

RESPONSE:

Unit revenue figure:

The average revenue presented in Table 5 of the ACR was derived using an incorrect volume. Using the volume reported in "Correction of MailingLists2009.xlsx." (shown in the table below used to calculate unit costs), the correct average revenue is \$0.357.

Unit cost figure:

There are four services under Address List Services:

- ZIP Coding of Mailing Lists
- Correction of Mailing Lists
- Carrier Sequencing of Address Cards
- Address Changes for Election Boards

Because of the process similarity, the "Correction of Mailing Lists" study is used to develop Address Changes for Election Boards costs. Also, because of the process similarity, the "ZIP Coding of Mailing Lists" study is used to develop Carrier Sequencing of Address Cards costs.

The detailed calculations are as follows. The unit cost figure of \$0.3682 is total costs divided by billing determinant volume.

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Address List Services

	FY2009 BD Volume	Unit Cost	Total Costs
ZIP Coding of Mailing Lists	14	\$ 85.03	\$ 1,190.46
Correction of Mailing Lists	59,814	\$ 0.36	\$ 21,274.88
Carrier Sequencing of Address Cards	-	\$ 85.03	\$ -
Address Changes for Election Boards	35,265	\$ 0.36	\$ 12,543.20
Grand Total	95,093		\$ 35,008.54
			\$ 0.3682

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22. Please refer to the Public Cost and Revenue Analysis (PCRA), Excel file "FY09PublicCRA.xls" and the FY 2009 Billing Determinants, Excel file "09 Special Services BD.xls."
- (a) For COD, please reconcile the revenue and volume of \$7,564,147 and 1,015,205, respectively, from the PCRA with the revenue and volume of \$7,630,363 and 1,064,692, respectively, from the billing determinants.
 - (b) For Change of Address Authentication Service, please reconcile the revenue of \$9,082,000 from the PCRA with the revenue of \$9,158,692 from the billing determinants.
 - (c) For Confirm Service, please reconcile the revenue of \$2,384,350 from the PCRA with the revenue of \$2,441,100 from the billing determinants.
 - (d) For Caller Service, please reconcile the revenue of \$94,821,754 from the PCRA with the revenue of \$97,609,696 (Caller Service: \$94,188,147 + Reserve Number: \$3,421,549) from the billing determinants.
 - (e) For PO Boxes, please reconcile the revenue of \$817,075,478 from the PCRA with the revenue of \$806,688,384 from the billing determinants.

RESPONSE:

(a) The PCRA correctly reflects the total number of COD transactions (1,015,205). The Billing Determinants total volume figure includes that same total number of COD transactions, but adds to that the number of Notice of Nondelivery transactions (49,487). For CRA purposes, it makes sense to focus simply on the total number of COD transactions, while for Billing Determinant purposes, it is also necessary to identify separately the number of Notices of Nondelivery, in order to be able to account for total COD revenue. The PCRA total revenue (\$7,564,147) is the correct revenue. The difference in the revenue figures resulted from an error in the calculation of the "Revenues from fees" entry (Cell C23) in the COD Billing Determinants. Instead of \$4,513,795, that entry should be \$4,447,579, and, with that substitution, the Billing Determinant revenue matches the PCRA revenue.

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(b) To meet the deadline for the filing Billing Determinants for a quarter 40 days after the close of that quarter, it was necessary to use preliminary data for the Billing Determinants for the fourth quarter of FY 2009. Those preliminary data were then inadvertently used for the annual Billing Determinants as well. The correct revenue is \$9,082,000, as reported in the PCRA.

(c) Neither figure is correct. The Confirm revenue for both the billing determinants and the PCRA should be \$2,352,100.

(d) The PO Box billing determinants were prepared differently this year than last year. Last year, volumes were gathered systematically and then multiplied by rates to get revenues. Before reporting these, the revenues were adjusted to equal RPW revenues exactly, and then the volumes were adjusted to match the revenue adjustments. This year, volumes were not adjusted; also, the differences between calculated revenues and RPW Revenues were reported as Rate Adjustment Factors. These changes were made to improve the methodology's transparency, thus providing a clearer picture of any disconnects between reported volumes and revenues. Knowledge of these changes helps illustrate the differences between the PCRA and billing determinant calculated revenues cited in this question. Table 22(d) below demonstrates these changes:

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Table 22(d) - PO Box Billing Determinants FY2009 v FY2008

	FY2009 PO Boxes Billing Determinants		
	<u>PO Boxes</u>	<u>Caller Service</u>	<u>Total</u>
Calculated Revenue	806,688,304	97,609,696	904,298,000
RPW Value	817,075,478	94,821,754	911,897,232
Rate Adjustment Factor	1.012876317	0.971437858	1.00840346

	FY2008 PO Boxes Billing Determinants		
	<u>PO Boxes</u>	<u>Caller Service</u>	<u>Total</u>
Calculated Revenue	798,243,472	98,412,997	896,656,469
RPW Value	798,243,472	98,412,997	896,656,469
Rate Adjustment Factor	1.00	1.00	1.00

The Caller Service revenue in the PCRA comes directly from the RPW Revenue. The revenue numbers cited from the billing determinants in this question are the calculated revenues, not RPW revenues. The FY2009 PO Box billing determinants provide both calculated and RPW revenues. Calculated revenues are the volumes of each rate cell multiplied by the applicable prices. The RPW Revenue, along with the Rate Adjustment Factor needed to arrive at RPW revenue, is provided with the PO Box billing determinants. But the RPW revenue and Rate Adjustment Factors were provided for PO Boxes and Caller Service *combined*. If the billing determinants had instead broken out the RPW revenue between PO Boxes and Caller Service, it would have shown revenues of \$817,075,478 for PO Boxes and \$94,821,754 for Caller Service. Instead, the combined number of \$911,897,232 is shown, which matches the revenue number provided in the PCRA.

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This explains the difference between PCRA and billing determinant Caller Service revenues, but does not explain why calculated Caller Service revenue is different from RPW revenue. Volume information for calculated revenue is taken once every quarter, but the RPW revenues are based on the timing of the customers' 6-month or 12-month payments for PO Boxes and Caller Service. This difference is irrelevant for customers who use the service continually for years, but new and exiting customers cause variance. Calculated revenues based on snap-shot volumes and rates cannot be expected to match RPW revenues exactly. But they are reasonably close. Collectively, the FY2009 Rate Adjustment Factor for PO Boxes and Caller Service was less than 1 percent – 1.00840346.

(e). Derivation of the PCRA revenue is shown in the response to part (d). The response to 22(d) applies to PO Boxes in the same manner as it applies to Caller Service. The billing determinant revenue of \$806,688,384 results from the multiplication of rates by box volumes. Of the \$911,897, 232 in PO Box and Caller Service RPW Revenues reported in the billing determinants, \$817,075,478 is for PO Boxes.

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23. Please refer to USPS-FY09-1, Excel file "FY09PublicCRA.xlsx," and the Word file "FY09PublicCRAnotes.doc," which contains Notes to the PCRA. PCRA Note 2, Definitions, explains that "Other Domestic Ancillary Services" includes

identifiable costs for the following domestic services: Return Receipts, Signature Confirmation, Certificate of Mailing, Merchandise Return Service, Merchandise Return Receipt, Restricted Delivery, Business Reply, Address Correction Services, Bulk Parcel Return Service, Parcel Airlift, Shipper Paid Forwarding, Premium Stamped Stationary, Premium Stamped Cards, and that portion of delivery confirmation not transferred to Priority Mail and Parcel Select Mail.

The PCRA lists the total revenue and volume for "Other Domestic Ancillary Services" as \$751,479,542 and 1,301,738,567, respectively. Please provide the revenue and volume for each of the services included in "Other Domestic Ancillary Services" identified in PCRA Note 2 that sum to the total revenue and total volume for "Other Domestic Ancillary Services." If necessary, reconcile the revenues and volumes provided with those listed in the billing determinants.

RESPONSE:

The following table shows the revenue and volume for the products in the category "Other Domestic Ancillary Services" in the PCRA. These revenues and volumes are the same as reported in the billing determinants. Please note that USPS-generated mail ancillary services have volumes reported in the billing determinants, but they have no revenue.

	REVENUE	VOLUME
DELIVERY CONFIRMATION	166,105,380	1,062,932,230
RETURN RECEIPTS	535,153,968	218,096,336
RETURN RECEIPT FOR MERCHANDISE	7,988,271	2,174,287
RESTRICTED DELIVERY	9,313,211	2,121,610
SIGNATURE CONFIRMATION	32,918,712	16,414,104
	751,479,542	1,301,738,567

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24. In Docket No. ACR2008, the Postal Service submitted the non-public Excel file "FY2008_RPWextractfile_MCS." (See USPS-FY08-NP2 FY2008 International Cost and Revenue Analysis (ICRA) report (Hard Copy & Excel), Supporting Files, RPW Report.) This file includes the non-public version of the RPW report, and consists of the following three worksheet tabs containing comprehensive mail category revenue, pieces, and weight data for FY 2008: "Summary Category RPW Data," "Rate Category RPW Data," and "Selected Intl." Please provide an Excel file featuring the aforementioned worksheet tabs that contain the same comprehensive mail category data from the RPW updated for FY 2009.

RESPONSE:

The requested non-public material has been filed under seal as USPS-FY09-NP30.

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.

Eric P. Koetting

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