

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 1-25 OF CHAIRMAN'S INFORMATION REQUEST NO. 2
(February 2, 2010)

Chairman's Information Request No. 2 was issued on January 22, 2010.

Responses were requested by February 2, 2010. Attached are the Postal Service's responses to Questions 1-25. 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. Each request is stated verbatim, and followed by the response.

With regard to Question 14, the Postal Service questions whether the subject matter raised has any bearing on the Commission's responsibilities under section 3653, because the data reported are not used for service performance metrics. Rather, those data are used for eligibility for terminal dues payments, which are not within the scope

of the annual compliance determination.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German
Managing Counsel, Legal Policy &
Ratemaking

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Anthony F. Alverno
Chief Counsel, Global Business

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
February 2, 2010

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

1. Please disaggregate the FY 2009 Non-Presort, BMC Presort, and OBMC Presort Parcel Select billing determinants by quarter to reflect the Inter-BMC and Intra-BMC rate structure that was in place from October 1, 2008 to May 10, 2009.

RESPONSE:

Parcel Select billing determinants are not available for all four quarters in FY 2009 (the Postal Service only began supplying quarterly billing determinants to the Postal Regulatory Commission in the third quarter). However, what is available is filed under seal as part of USPS-FY09-NP31 (in the Excel file labeled as "ChIR.2.Q.1.Parcel Select.09.BDs.xls"), including two billing-determinants disaggregations to represent the October 1, 2008 - May 10, 2009 period: October 1, 2008 - January 17, 2009 and January 18, 2009 - May 10, 2009.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

2. Please provide billing determinants for the Express Mail Sunday Delivery price category.

RESPONSE:

The billing determinants for Express Mail Sunday/Holiday Delivery are provided under seal as part of USPS-FY09-NP31 for Express Mail Retail and Express Mail Commercial Base for FY 2009. The relevant file in NP31 is labeled as ChIR.2.Q.2,Express.Sunday.BDs.xls, and provides the billing determinants for FY 2009 for Express Mail Retail and Express Mail Commercial Base on Tab A. Tab B provides an aggregation of billing determinants for FY 2009 Express Mail Retail and Express Mail Commercial Base. Finally, in FY 2009, the data systems did not report Express Mail Commercial Plus usage for Express Mail Sunday/Holiday Delivery service, since manifest mailers do not separately pay for this service.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

3. Please provide an explanation of the "PRS Paying Priority Mail Postage" adjustment made in Library Reference USPS-FY09-NP1, Excel file "2009 Parcel Return Service BD.xls".

RESPONSE:

There are a few Priority Mail parcels that are returned via Parcel Return Service. These parcels are included in the RPW totals and are pulled out of the billing determinant analysis and priced at the Priority Mail piece postage rate. For clarity, and to tie with source RPW data, they are shown as Priority Mail pieces as an adjustment to the bottom-line total.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

4. Please provide the "Special Weight Report" referenced in Library Reference USPS-FY09-NP1, Excel file "2009 Priority Mail BD.xls".

RESPONSE:

A responsive Excel file (ChIR.2.Q.4.SPECWGT_FY2009.xls) is provided under seal as part of USPS-FY09-NP31. The first tab contains the Priority Mail "Special Weight Report" for the period October 1, 2008 - January 17, 2009. The second tab contains the Priority Mail "Special Weight Report" for the period January 18, 2009 - September 30, 2009. The third tab contains the Priority Mail "Special Weight Report" for the entire Fiscal Year 2009.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

5. For the Parcel Select Volume and Loyalty Incentives that have been in place since May 2008, please provide data detailing refunds and discounts awarded to mailers.

RESPONSE:

A response is filed under seal as part of USPS-FY09-NP31.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

6. In LR-FY09-NP27, File "Support_Express_FY09.xls," tab "Inputs," cell B69 contains the sources for calculating cell C21. The formula in cell C21 is: $C4 - (C6 + C8 + C15 + C17 + C48)$.
- (a) Please confirm that C19 should be subtracted from C4 to match the formula stated in cell B69. If not confirmed, please explain.
 - (b) If subpart A is confirmed, please update Support_Express_FY09.xls and all files that use that spreadsheet as an input.

RESPONSE:

a.-b. Confirmed. However, a corresponding change must also be made in all of the workbooks that depend on this spreadsheet, so that the formulas in sheets "NSA Express Summary", cell B12 does not subtract B11. "SupportExpress_FY09.xls" has been revised slightly to improve clarity. Updated files are provided under seal in USPS-FY09-NP31 in a zip file labeled as ChIR.2.Q.6t13.Resp.zip.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

7. In LR-FY09-NP27, File "Support_Express_FY09.xls," tab "Inputs," please confirm that the source of cell C19 is LR-FY09-NP29 sheet "RealTB09NP.xls," tab "seg 16," cell K197. If not confirmed, please explain and identify the source of cell C19.

RESPONSE:

Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

8. Please identify the Library Reference, File Name, Tab Name, and cell number of the source for cell E47 in the LR-FY09-NP27 file "SupportPriority_FY09.xls," tab "Inputs". If the source file has not been provided in this case, please submit it.

RESPONSE:

The source is USPS-FY09-NP11, file "FY09NonPublicCRA.xls", sheet "Cost3", cell D19.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

9. Please identify the Library Reference, File Name, Tab Name, and cell number of the source for cell E30 in the LR-FY09-NP27 file "SupportPriority_FY09.xls," tab "Inputs". If the source file has not been provided in this case, please submit it.

RESPONSE:

The source is USPS-FY09-NP13, file "FY09.IRpt.xls", sheet "CS16", cell S55.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

10. In LR-FY09-NP27 File "SupportPriority_FY09," tab "Inputs," please confirm that the source of cell E28 is LR-FY09-NP29, sheet "RealTB09NP.xls," tab "seg 16," cell K198. If not confirmed, please explain and identify the source of cell E28.

RESPONSE:

Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

11. In LR-FY09-NP27, file "SupportPriority_FY09.xls," tab "Inputs," cell E32 contains the formula: $E4 - (E7 + E19 + E24 + E26 + E58)$.
- (a) Please confirm that E28 and E30 should also be subtracted from E4 in the calculation of E32.
 - (b) If you do not confirm, please explain.

RESPONSE:

a.-b. Confirmed. However, a corresponding change must also be made in all of the workbooks that depend on this spreadsheet, so that the formulas in sheets "NSA Priority Summary", cell B13 do not subtract B11 and B12. Additional lines have been added to the file "SupportPriority_FY09.xls", sheet "Inputs" to improve clarity. Updated files are provided under seal in USPS-FY09-NP31 in a zip file labeled as ChIR.2.Q.6t13.Resp.zip.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

12. The following questions concern LR-FY09-NP27, file "NSACostRevenueSummaryFY09.xls," and the underlying partner profiles.
- (a) Please confirm that no information for the following contracts is contained in LR-FY09-NP27:
- CP2008-7
 - CP2008-14
 - CP2008-15
 - CP2009-1
 - CP2009-9
 - CP2009-12
 - CP2009-15
 - CP2009-16
 - CP2009-22
 - CP2009-28
 - CP2009-41
 - CP2009-57
 - CP2009-58
 - CP2009-62
 - CP2009-64
- (b) For each contract under which mail was sent in FY09, please update "NSACostRevenueSummaryFY09.xls" and underlying partner profile files to reflect FY09 volumes, weights, revenues, and costs.

RESPONSE:

- a) Confirmed.
- b) Updated files are provided under seal in USPS-FY09-NP31 in a zip file labeled as ChIR.2.Q.6t13.Resp.zip.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

13. In LR-FY09-NP27, file "NSACostRevenueSummaryFY09.xls":
- (a) Please identify the source of the volume data in column D. If such source information has not been provided in this case, please submit this information.
 - (b) Please identify the source of the weight data in column E. If such source information has not been provided in this case, please submit this information.
 - (c) Please identify the source of the revenue data in column C. If such source information has not been provided in this case, please submit this information.
 - (d) Please confirm the volume, revenue, weight and cost data for each partner profile contained in LR-FY09-27 do not match the corresponding information by contract in file "NSACostRevenueSummaryFY09.xls." Please explain.
 - (e) If part "d" is confirmed, update and provide the partner profile data for FY09 and link all data to the file "NSACostRevenueSummaryFY09.xls".

RESPONSE:

a-c) The source of columns D, E and C are the billing determinants for NSAs in USPS-FY09-NP1, sheet "NSAs", columns E, G and C respectively

| | |
|-----------------------|-------------------------------------|
| Express | "2009 Express Mail BD.xls" |
| Priority | "2009 Priority Mail BD.xls" |
| Parcel Select | "2009 Parcel Select BD.xls" |
| Parcel Return Service | "2009 Parcel Return Service BD.xls" |

Note that data for Express Mail reported in USPS-FY09-NP27 in the Excel file "NSACostRevenueSummary.xls" were from a preliminary version of "2009 Express Mail BD.xls". The final Express data filed in USPS-FY09-NP1 are used in the updated file provided in USPS-FY09-NP31 with this response.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

d-e) Confirmed that for some partners, volume data by weight increment and zone was not available in FY09. In these cases, the partner profile reported in USPS-FY09-NP27 does not exactly match the total revenue, pieces and weight reported in USPS-FY09-NP1, but the cost per piece is adjusted in the manner described in the preface to USPS-FY09-NP27, section I.C., retaining the same cost coverage.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

14. The following questions pertain to the quality of service link to terminal dues.

(a) For CY 2008, please provide the final monthly and annual quality of service measurement results for the link to terminal dues that were provided to the Postal Service by the International Post Corporation or its contractor.

(b) For Quarter 4 of CY 2009, please provide the monthly quality of service measurement results for the link to terminal dues that were provided to the Postal Service by the International Post Corporation or its contractor.

(c) For each quarter (*i.e.*, Quarters 1, 2, and 3, covering the period January – October 2009) of CY 2009, and for CY 2009 Year-to-Date, please provide the preliminary monthly quality of service measurement results for the link to terminal dues that were provided to the Postal Service by the International Post Corporation or its contractor.

(d) Please confirm that the Postal Service is submitting queries to the International Post Corporation or its contractor concerning questionable test items and panelists. If confirmed, please identify the number and subject matter of such inquiries. If those queries are resolved in favor of the Postal Service, please provide the expected change in the performance scores and the impact on revenue.

RESPONSE

- a) Responsive data is provided under seal in USPS-FY09-NP-31, in the file entitled ChIR.2.Q.14Resp.pdf.

- b) Responsive data is provided under seal in USPS-FY09-NP-31 in the file entitled ChIR.2.Q.14Resp.pdf. Please note that data provided by the IPC are provided on a monthly rather than quarterly basis, and weighting of the results is annualized. The Postal Service does not attempt to convert IPC data on a quarterly basis. Hence, the Postal Service is furnishing responsive data, to include the preliminary monthly quality of service measurement results for Quarter 4 of CY2009. We note, moreover, that the test piece format changed during CY2009, from letters only, to letters and flats. The normal practice is for the IPC to release annualized data by

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

March of the following year in time for the spring session of the Postal Operations Council. Monthly data for December 2009 would also not be finalized until that time.

c) Responsive data is provided under seal in USPS-FY09-NP-31 in the file entitled ChIR.2.Q.14Resp.pdf. Please note that data provided by the IPC are provided on a monthly rather than quarterly basis, and weighting of the results is annualized. The Postal Service does not attempt to convert IPC data on a quarterly basis. Hence, the Postal Service is furnishing responsive data, to include the preliminary monthly quality of service measurement results for Quarters 1, 2, and 3 of CY2009, and for CY2009 Year-to-Date. We note, moreover, that the test piece format changed during CY2009, from letters only, to letters and flats. The normal practice is for the IPC to release annualized data by March of the following year in time for the spring session of the Postal Operations Council. Monthly data for December 2009 would also not be finalized until that time.

d) Confirmed; the USPS does submit queries to Research International concerning questionable test items and panelists. Precise information on the number of inquiries filed in CY2009 is not available because many records relating to inquiries were archived. Based on available records, however, the Postal Service estimates that this past year, roughly [REDACTED] of its queries were successful. The subject matter of each inquiry relates to inconsistencies detected by Postal Service analysts in reviewing the data. The most common example of inquiry subject matter consists of a request to confirm that the panelist was available to receive an item on the specified date. Another example of an inquiry

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

subject matter consists of a fact pattern whereby the recipient has an unusually high rate of rejection, for instance on Mondays and Saturdays. Research International conducts further analysis and responds by indicating whether the panelist's response can be validated. The Postal Service has not undertaken to estimate the effect on revenues associated with the queries it has submitted for CY09 and does not have all of the information to do so without assistance from the IPC. Generation of responsive data would take considerable effort.

Specifically, the Postal Service would have to undertake the following to generate these data for CY 2009:

- Acquire an understanding from IPC on the methodology by which the CY 2009 quality link measurement system (QLMS) results for mail exchanged between industrialized countries were generated. Note that in CY 2009, both letters and flats were tested, while in CY 2008 only letters were tested.
- Obtain the methodology used by IPC to address the issue of how to calculate the correct annualized test result for the year, where only letters were tested during the first half of CY 2009 and where both letters and flats were tested from the middle to the end of CY 2009.
- Obtain the data inputs from IPC used in these calculations, to include the country to US weights and country to US destination city weights for CY 2009.
- Write new SAS programs that will calculate the CY 2009 scores correctly, calculating the correct scores for flats and letters separately and correctly calculating the combined score using the new methodology.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

- Obtain from IPC or its contractor information about the rejected QLMS data, and provide the data in the same format as those that were accepted.
- Perform additional analysis on rejected QLMS pieces and merge them with the accepted QLMS pieces into a single input data set, and then feed these data into the SAS programs to generate comparative scores.
- For CY 2009, obtain the number of rejected pieces and then enter data into the new 2009 SAS computer programs.
- Compare the SAS output results using (a) data with accepted pieces only, and (b) data with both accepted and rejected pieces.

An unredacted version of this response is provided under seal in USPS-FY09-NP31.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

15. Please provide attributable costs for inbound international mail products separated among Canada, Target Countries, and Transition Countries. In the past, the Postal Service has conducted a special IOCS tally study for the purpose of separating IOCS-related attributable costs among Canada, Target Countries, and Transition Countries. See the Postal Service response to Docket No. ACR2008, Commission Information Request No. 1, January 22, 2009, Question 3. Please provide the requested attributable cost separation using the special IOCS tally study. Also, please provide supporting workpapers in electronic format.

RESPONSE:

Please see USPS-FY09-NP9, ICRA09_ib_bycgrp_v. Target and Transition countries are synonymous with Industrialized and Developing countries, respectively.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

16. The following question concerns inbound international mail. For FY 2009, please provide the number of cubic feet separately for inbound Air LC/AO, Surface LC/AO, Surface Parcel Post, Air Parcel Post, and Express Mail Service (EMS) from Canada and the rest of the world (separated by ICs and DCs, if possible).

RESPONSE:

Cubic feet figures are provided under seal in response to this question in the Excel file "ChIR.2.Q.16. ICRA FY09 Inbound Cubic Feet.xls" as part of USPS-FY09-NP31. The cubic feet figures provided are a rough approximation, because census cubic feet data are not available. The cubic feet estimates were derived by applying census weight to composite densities developed from Transportation Cost System (TRACS) FY2009 Highway sampling data. The census weight was available at the country/product level, while the TRACS densities were available at the product/shape level. The density factors used are not country specific, or country/shape specific. Therefore, the density factors used are the same for each product group. The one exception is Surface Parcel Post. Surface Parcel Post from Canada (CA) and Rest of World (ROW) are separate line items reported in the ICRA by TRACS. The density factors are slightly different based upon the mail mix of flat and parcel shapes found in the Surface Parcel Post sampling data for CA and ROW. Also, the highest density CVs are for Surface and Air Parcel Post, at 12.9 percent and 8.9 percent, respectively. The Excel file "ChIR.2.Q.16.ICRA FY09 Inbound Cubic Feet.xls" in FY09-NP31 includes the cubic feet estimates and the underlying calculations.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

17. Please refer to USPS-FY09-NP2, Excel file "Reports (Booked).xls", worksheet APages (md), Table A-1, and worksheet A-Pages (c), Table A-2. Also, please refer to the Postal Service's FY 2009 Annual Compliance Report (ACR).

(a) For inbound Single-Piece First-Class Mail International at non-UPU rates from Target System Countries and inbound Surface Parcel Post at non-UPU rates, please explain why costs exceed revenues. Please describe what steps the Postal Service will take to ensure that revenues exceed attributable costs by increasing revenues and reducing costs in the future.

(b) With respect to inbound Surface Parcel Post at non-UPU rates, please refer to page 78 (revised January 6, 2010) of the ACR which states "new, higher rates were implemented in January 2009, and so the first quarter of the fiscal year would have been tendered at lower rates." Please explain to what extent the lower rates during the first quarter of FY 2009 were responsible for costs exceeding the revenues of inbound Surface Parcel Post at non-UPU rates during FY 2009.

(c) In the Postal Service's FY 2008 Annual Compliance Report, December 29, 2008, at 64-65, the Postal Service stated that it had undertaken to improve the financial performance of inbound Surface Parcel Post at non-UPU rates "through the negotiation of new rates for inbound parcels tendered by Canada Post," which became effective January 2009. Using "imputed" revenues and costs, the cost coverage for inbound Surface Parcel Post at non-UPU rates in FY 2009 was less than the cost coverage in FY 2008. Please explain why the new rates for inbound parcels tendered by Canada Post not only failed to result in revenues that exceeded costs, but also failed to improve cost coverage over FY 2008.

RESPONSE

(a) First, it is important to recall why, in USPS-FY09-NP2, there are two Reports files: a Booked version of the ICRA, Reports (Booked).xls and an Imputed version of the ICRA, Reports.xls. The Commission approved filing both versions as part of the FY09 ICRA in Docket No. RM2009-10, Order No. 339 (11/13/09), Proposal Eleven. The Booked version corresponds with the General Ledger amounts in the Postal Service financial statements, which makes sense

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

from an accounting perspective, but would likely cause problems when developing rates over time. The problems would stem from a change in accounting procedures planned for 2010.

Beginning in 2010, the Postal Service is implementing a new Foreign Postal Settlement (FPS) System for settlement receivables and payables between the USPS and foreign postal administrations. FPS will allow Postal Service accruals to be more real time than with the current system. The current system calculates settlements by using volumes from the same period last year with the General Ledger making quarterly accrual adjustments for the most current data at a corporate level, as well as using current SDR settlement rates and a fixed SDR to US dollar exchange rate to convert the calculations into US dollars. Thus, only the SDR settlement rates are current to the present fiscal year. FPS will provide the Postal Service with the means to use current period volume and current SDR to US dollar exchange rates, along with the current SDR settlement rates.

This new system is very similar to the Imputed methodology historically utilized in the ICRA settlement calculations. For example, the Imputed version of the ICRA uses the reported fiscal year volumes and the average SDR to US dollar exchange rates in effect during the reported fiscal year, as well as the settlement rates in effect during the reported fiscal year. As such, beginning in 2010, the accounting amounts that will appear in the financial statements of the Postal Service will more closely follow the historic trend of the Imputed

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

settlements as calculated in the ICRA. For decisions where time series is important, for instance, when setting prices, it is preferable to rely on the FY09 Imputed results in the FY09 ICRA rather than the FY09 Booked results because the Booked results will be an outlier when viewed over a period of years.

For both Inbound Single-Piece First-Class Mail at Non-UPU Rates for Target Countries and Inbound Surface Parcel Post at Non-UPU Rates, the negative contribution is less using the Imputed results, [REDACTED] [REDACTED] respectively. To put these amounts in perspective, the Booked loss for First-Class Single-Piece Mail at Non-UPU Rates is roughly [REDACTED] of its total revenue and for Inbound Surface Parcel Post at Non-UPU Rates, the loss is [REDACTED]. The Imputed loss for First-Class Single Piece at Non-UPU Rates is less than [REDACTED] and the loss for Inbound Surface Parcel Post at Non-UPU Rates is about [REDACTED]. Thus, the revenue shortfall to make up is much less using the Imputed version.

Because the bilateral agreement with Canada is calendar year based, fiscal year reporting does not capture the full benefit of rate increases. Quarter 1 of FY09 represented a prior contract period with Canada Post, and the rates for inbound services in that agreement were lower than the rates set in the CY2009 agreement. The remaining three quarters of the fiscal year reflects the higher rates associated with the implementation of the CY2009 negotiated contract. The Postal Service recently concluded the CY2010 agreement with Canada

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

Post. The new agreement again results in rate increases for inbound traffic, and demonstrates Postal management's commitment to ensure that inbound traffic from Canada cover costs. An unredacted version of this response is provided under seal in USPS-FY09-NP31.

(b) If the CY09 rates had been in place for FY09 Quarter I, revenue would have increased approximately [REDACTED] for Inbound Surface Parcel Post, which, holding everything else equal, would have decreased the loss by about [REDACTED]. See also the response to subpart (c). An unredacted version of this response is provided under seal in USPS-FY09-NP31.

(c) The following is from Page A-1 of the Competitive Products page for the FY08 Imputed ICRA and the FY09 Imputed ICRA (amounts are in thousands):

| | |
|---------------|------------|
| FY08 Revenue | [REDACTED] |
| FY08 Cost | [REDACTED] |
| Cost Coverage | [REDACTED] |
| FY09 Revenue | [REDACTED] |
| FY09 Cost | [REDACTED] |
| Cost Coverage | [REDACTED] |

Using these amounts, the CY09 rate increase was an improvement over the CY08 rate structure.

Finally, the Postal Service has undertaken to perform an update to PRC-ACR2008-NP-LR3 in USPS-FY09-NP31 in the files entitled ChIR.2.Q.17(c)t1 Resp.pdf and ChIR.2.Q.17(c)t2.Resp.pdf to account for FY09 IOCS Attributable costs by inbound mail by category and terminal dues group. The Postal Service then calculated a revised unit processing cost taking into account the FY09 IOCS

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

attributable costs. If FY09 revenues are compared against these FY09 costs, Inbound Surface Parcel Post at non-UPU rates would show a cost coverage above 100 percent. An unredacted version of this response is provided under seal in USPS-FY09-NP31.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

18. Please refer to USPS-FY09-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (c), Table A-2. Also, please refer to the Postal Service's FY 2009 Annual Compliance Report at 78 (revised January 6, 2010), which references the Commission's Annual Compliance Determination at 88. Please discuss the results of the Postal Service's efforts to date in analyzing IMTS "to better estimate volume variable (and product-specific) costs by identifying 'specific cost drivers' for this service." *Id.*

RESPONSE:

Volume variable costs:

To remedy an inconsistency in the treatment of domestic and international money orders, the Postal Service proposed in Docket No. RM2009-10, for the FY 2009 Annual Compliance Report (ACR) to categorize window costs for both domestic and international money orders as "window acceptance," and apply the same volume variability factor, 64.76 percent, to both. The Commission approved the proposal, and "applauded" the Postal Service's efforts to improve cost methodologies for the IMTS products. As a result of this change in volume variability, the attributable window costs for FY2009 for IMTS decreased substantially compared to the costs initially reported for FY2008, and IMTS covered its volume variable costs for FY2009.

However, as stated in the Supplemental Response to Order No. 154, Docket No. MC2009-15, the relatively small number of tallies and the costs for IMTS, when divided by the declining volume of transactions, led to relatively volatile unit costs. Other methods of determining the volume-variable costs for IMTS were considered, including some which required studying the window transaction times for international money order purchases, presentations of foreign money orders for cash, and purchases of Dinero Seguro money transfer services. Although a team was deployed to offices that included some of the highest transaction locations in the country, only 22 purchase

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 2

transactions were observed (no cashing activity was observed). Among these observations, a handful of them are in fact aborted transactions (i.e., the transaction ended prior to completing the final steps because the customer did not have the proper identification, for instance). We suspect the "aborted" transactions may contribute to the relatively high transaction time/unit cost implied in the IOCS and CRA. The denominator for the unit time and unit cost is the number of completed transactions, because no record would be kept of incomplete transactions. If the clerk time associated with the incomplete transaction is fairly close to the time for a completed transaction, and both are included in the IOCS observations but only the completed transactions are used in the denominator to estimate unit cost, the cost per transaction may appear to be too high but may accurately reflect the cost of providing the service for that product.

Although other costing methodologies were attempted, all yielded fruitless results. Therefore, we have returned to the resource- and time-consuming task of accumulating enough observations of IMTS transactions to determine more reliably the time associated with the transactions and the relative proportion of transactions that are completed and those that are aborted for purposes of developing distribution keys for other costing methodologies.

Product specific costs

The product specific costs assigned to IMTS more than doubled in FY2008 compared that of FY2007; and increased again slightly in FY2009 compared to the costs for FY2008. The largest component of these increases in product specific costs

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

was due to start-up costs associated with testing a new system for electronic money transfer. The project associated with the new system for effecting electronic money transfers is on hold, with no current plans to expend such resources in FY 2010 or in the immediate future. Thus, a substantial component of the product specific costs in FY2008 and FY2009 is not expected to remain in the cost base for this product in the future.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

19. Please refer to USPS-FY09-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (c), Table A-1.

(a) For inbound International Expedited Services, please explain why costs exceed revenues. Please describe what steps the Postal Service will take to ensure that revenues exceed attributable costs by increasing revenues and reducing costs in the future.

(b) Within the outbound competitive International Ancillary (Special) Service product, the Postal Service reports revenues and costs for the following three services: Registered Mail, Return Receipt, and Insurance. For each of these services, and thus for the outbound competitive International Ancillary Service product as a whole, reported costs exceed revenues. Please describe what steps the Postal Service will take to ensure that revenues exceed attributable costs by increasing revenues and reducing costs in the future.

RESPONSE

(a) Please see the response to Question 17(a) for the explanation of why the Imputed version of the ICRA should be used rather than the Booked version. Imputed revenue provides a more accurate reflection of the financial performance of products and should be use to evaluate cost coverage performance. Please note that Inbound International Expedited Services do cover their costs by ██████ when using Imputed revenues. The Postal Service is implementing a new foreign post settlement accounting system that calculates booked revenue by product, uses current volumes, and allows for real time exchange rate calculations which will more closely align with the imputed methodology. Finally, as per Docket No. CP2009-12, inbound EMS charges were raised in January 2009, and hence the rate increase for CY2009 would not be reflected in the first quarter of the postal fiscal year. Moreover, the Postal

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

Service again raised Inbound International Expedited Services 2 rates this year, per Docket No. CP2009-57. An unredacted version of this response is provided under seal in USPS-FY09-NP31.

(b) The outbound competitive International Ancillary Services are a relatively small category that may exhibit annual cost variations associated with small transactional volumes. We note that in last year's ICRA (USPS-FY08-NP2), two of the three international ancillary services at issue here (i.e., insurance and return receipt) showed positive contribution, and competitive International Ancillary Services on the whole collectively covered costs. The Postal Service proposes to monitor this situation to determine whether this year is an anomaly or indication of a trend. If a trend is seen in the 2010 ACR, then thereafter, Postal Service management would likely recommend that the Governors increase these rates. We note, however, that due to automated systems changes and the fact that certain outbound competitive ancillary services prices are tied to their market dominant counterparts (such as the case with outbound return receipt), it would be challenging to change the rates for these services until other market dominant product prices are scheduled for any changes. Thus, any rate changes for competitive ancillary services for which there is a market dominant counterpart would be best addressed at the next available opportunity when other market dominant rate changes are in play.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

20. Please refer to USPS-FY09-NP2, Excel file "Reports (Booked).xls", worksheet A Pages Summary, and worksheet A-Pages (c), Table A-2.
- (a) Volumes, revenues and costs for Inbound Direct Entry and International Business Reply Service (IBRS) Contracts, shown in worksheet A-Pages (c), Table A-2, are reported as Outbound International in worksheet A Pages Summary, under the heading International Negotiated Service Agreements. Please clarify.
 - (b) In worksheet A-Pages (c), Table A-2, there are two headings entitled Inbound International. Under the first Inbound International heading are found the following entries: Inbound Direct Entry and International Business Reply Service (IBRS) Contracts. Under the second Inbound International heading are found the entries Global Direct Entry with Customers, Global Direct Entry with Foreign Postal Administrations, and International Business Reply Service (IBRS) Contracts. Please explain the nature of the services offered under each entry and why there are duplicate entries for Global Direct Entry and International Business Reply Service (IBRS) Contracts.

RESPONSE:

A response is filed under seal as part of USPS-FY09-NP31.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

21. Please refer to USPS-FY09-NP2, and the Excel files Reports.xls and Reports (Booked).xls. In the worksheet A Pages Summary in Reports.xls, the reported figure is labeled Transit Revenue while a different figure in the worksheet A Pages Summary in Reports (Booked).xls is labeled Transit Revenue and International Fees. Please explain.

RESPONSE:

The amount in Reports (Booked).xls, worksheet A Pages Summary is solely International Fees, as shown in tab BenchMarkControls, cell B100. Thus, the line should be labeled International Mailing Fees.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

22. On page 10 and 11 of the FY 2009 ACR the Postal Service states:
In Quarter 1 of FY09, the San Francisco International Service Center (ISC) ceased processing of outbound mail. That outbound volume was processed at the Los Angeles ISC. This was followed in Quarter 4 by the consolidation of all outbound mail processing into the New York ISC.

Please confirm that the Los Angeles ISC was closed during FY 2009, and that all outbound letter mail processing was shifted to the New York ISC. Also, please identify the location(s) of International Service Center(s) engaged in processing inbound LC/AO mail.

RESPONSE

Not confirmed. The Los Angeles ISC was not closed in FY2009. *Outbound* processing operations of the Los Angeles ISC for First-Class Mail International outbound letters and flats were, however, shifted to the New York JFK ISC in FY 2009. The Los Angeles ISC continues to handle outbound EMS and air parcels. Further, the Los Angeles ISC receives inbound mail, and passes such mail on to the Los Angeles P&DC for processing.

With respect to the latter question, at present, only the New York JFK ISC performs mail processing operations on inbound letter post mail. The remaining four ISCs do not process inbound letter post mail; rather, they receive such mail and pass it on to nearby domestic plants for downstream processing. Thus, currently, the Miami ISC passes on inbound letter post mail to Miami P&DC; the Chicago ISC passes on inbound letter post flat mail to Irving Park P&DC and inbound letter post letter mail to the Cardiss Collins P&DC; the San Francisco ISC passes on inbound letter post mail to the San Francisco P&DC; and as

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2
DOCKET NO. ACR2009

described above, the Los Angeles ISC passes on inbound letter post mail to the
Los Angeles P&DC.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

23. In USPS-FY09-NP8, please refer to the Excel files ICM_Costing_FY09 Merged Results by Contract (Booked).xls, worksheet report, and USPS-LR-NP08_COMPETITIVE_INTL_BD.xls, worksheet INTERNATIONAL NSA –ICM.
- (a) Please provide a crosswalk between the contract numbers in the worksheet report and the docket numbers shown in the worksheet INTERNATIONAL NSA –ICM.
 - (b) In the worksheet report, please reconcile the Grand Total in the Total Sum of Adj Revenue column with the sum of the figures in the Revenue column shown in worksheet INTERNATIONAL NSA –ICM. Please show all calculations.
 - (c) Please update the Excel file USPS-LRNP08_COMPETITIVE_INTL_BD.xls to incorporate the FY 2009 revenues, costs, volumes, and weights for each contract in the following dockets:
 - CP2008-7
 - CP2008-14
 - CP2008-15
 - CP2009-1
 - CP2009-9
 - CP2009-12
 - CP2009-15
 - CP2009-16
 - CP2009-22
 - CP2009-28
 - CP2009-41
 - CP2009-57
 - CP2009-58
 - CP2009-62
 - CP2009-64

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

RESPONSE:

- (a) A crosswalk between the contract reference numbers and the docket numbers is provided in the Excel workbook ChIR.2.Q.23.ICM Ref No Map FY 09.xls, filed under seal as part of USPS-FY09-NP31.
- (b) Adj Revenue includes an adjustment to account for ISAL and IPA revenue collected at acceptance offices not tied to the *PostalOne!* data system. This adjustment is based on a ratio of total Trial Balance revenue to Trial Balance revenue at *PostalOne!* offices. The Excel workbook ChIR.2.Q.23.NCTB_Analysis09_forPRC.xls, filed under seal as part of USPS-FY09-NP31, contains the derivation of these ratios.
- (c) Please see the response to Chairman's Information Request No. 2, Question 12 (b) for data associated with contracts that had activity during FY09. The following docket numbers were not included in that response because there was no activity during FY09:

CP2009-1
CP2009-16
CP2009-57
CP2009-58
CP2009-62
CP2009-64

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

24. In USPS-FY09-NP8, please refer to the Excel file ICM_Costing_FY09 Merged Results by Contract (Booked).xls, and the worksheet report.
- (a) Please show all calculations used to derive the figures in columns headed Adj Revenue, RevenueCostRatio, and Total Sum of RevenueCostRatio, and provide citations to all sources used.
 - (b) Please explain the terms Current and Prior as used in the heading of the worksheet report.

RESPONSE:

- (a) Adj Revenue includes an adjustment to account for ISAL and IPA revenue collected at acceptance offices not tied to the *PostalOne!* data system. This adjustment is based on a ratio of total Trial Balance revenue to Trial Balance revenue at *PostalOne!* offices. See also the response to Chairman's Information Request No. 2, Question 23.

The Excel file, ICM_Costing_FY09 Merged Results by Contract (Booked).xls, referenced in the question and previously filed as part of USPS-FY09-NP8, has a "data" sheet which is populated with direct transfers of values from the two ICM costing module workbooks. This merged workbook was prepared in order to provide annual summary results by contract. The sources of the data as well as the cost calculations are from the two Annual Compliance Report workbooks: ICM_Costing_FY09_NewGroups (Booked).xls and ICM_Costing_FY09_OldGroups (Booked).xls.

The "data" sheets of these two workbooks include cost calculations for cost components and total costs -- please refer to cell A10 of the "Contents" tab in

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

each of these workbooks for a description, as well as a hyperlink to the calculations.

The RevenueCostRatio on the "report" sheet is summarized by an Excel "pivot table formula" referencing the concepts on the "data" sheet. By expanding the data shown on the summary pivot table to include the "Cost" concept (i.e., total cost), the revenue cost ratios can be verified. This is provided in the file ChIR.2.Q.24.ICM_Costing_FY09 Merged Results by Contract (Booked) (Expanded).zip that is provided under seal as part of USPS-FY09-NP31. The "Total Sum of RevenueCostRatio" is merely the Excel naming convention for total columns and reports the annual revenue to cost ratios by contract and in total for all contracts.

- (b) The Current and Prior distinction reflects the May 2009 international rate changes; Current is post rate change data based on "new" USPS product group definitions and Prior is pre-rate change data using "old" group definitions.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

25. The following worksheets are referenced in I_FORMS-NP as inputs to the City Carrier Cost System (CCCS), and the Rural Carrier System (RCS):

CCCS_FY2009_COLLECTION_FINAL.XLS
CCCS_MATRIX_FY09_FINAL.XLS
RCCS_FY2009_COLLECTION_FINAL.XLS
RCCS_MATRIX_FY09_FINAL.XLS
SPR_OUTPUT_FY09_FINAL.XLS

Please identify where these worksheets can be found in the ACR filing. If they have not been filed with the ACR, please provide.

RESPONSE:

SPR_OUTPUT_FY09_FINAL.XLS was originally filed with the ACR as part of USPS-FY09-NP22 in the SPR FILES folder. In response to this request, the other requested files used as inputs to I_FORMS-NP are provided under seal as part of USPS-FY09-NP31 as zip file ChIR.2.Q.25.Attach.zip. Each file is described below:

CCCS_FY2009_COLLECTION_FINAL.XLS – spreadsheet version of CITYFY2009.COLL.DATA, which was filed with USPS-FY09-NP22.

CCCS_MATRIX_FY09_FINAL.XLS – volume summaries of products by shape from CITYFY2009MCODE.DATA, which was filed with USPS-FY09-NP22.

RCCS_FY2009_COLLECTION_FINAL.XLS – spreadsheet version of RURALFY2009COLL.DATA, which was filed with USPS-FY09-NP23.

RCCS_MATRIX_FY09_FINAL.XLS – volume summaries of products by compensation category from RURALFY2009MCODE.DATA, which was filed with USPS-FY09-NP23.

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
February 2, 2010