

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 1-2, 4-5, 7-17, 19, 21-23, AND 25 OF
CHAIRMAN'S INFORMATION REQUEST NO. 4
(February 16, 2010)

Chairman's Information Request No. 4 was issued on February 5, 2010.

Responses were requested by February 16, 2010. Attached are the Postal Service's responses to Questions 1-2, 4-5, 7-17, 19, 21-23, and 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. Responses to additional questions will be submitted as they are developed. Each request is stated verbatim, and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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February 16, 2010

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1. Please provide the spreadsheets which calculate the workyears and the workyear conversion factor found in USPS-FY09-7 Part VIII, Productive Hourly Rates. Include all data sources and data used to compute the workyears and conversion factor.

RESPONSE:

This information was already provided on February 5, 2010, in response to Question 20 of Chairman's Information Request No. 3.

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2. Please refer to the rate category volumes presented in the FY 2009 billing determinants (USPS-FY09-4) and those presented in the mail characteristics study (USPS-FY09-14, revised January 4, 2010). While some of the volumes presented are consistent between the two sources, others are not. Compare, for example, the First-Class Mail automation letter rate category volumes from the billing determinants (09 FCM.xls, tab 'A-4 Automation Letters') with those from the mail characteristics study (MAILCHAR09V.xls, tab 'FCM PRESORT LETTERS').
 - (a) Please identify and reconcile all discrepancies between rate category volumes in the billing determinants and those in the mail characteristics study.
 - (b) If there are rate categories for which the volumes cannot be reconciled, please identify and explain which source is more appropriate for use as inputs to other models such as the worksharing cost avoidance models.

RESPONSE:

(a). In the process of reconciling the mail characteristics volumes (USPS-FY09-14) to the billing determinants (USPS-FY09-4), two errors were discovered. First, in the workbook (MAILCHAR09V.xls, tab 'FCM PRESORT LETTERS') the control volume of nonmachinable letters was inadvertently double counted.

The second error involves the treatment of 136,820 pieces that BMEU acceptance clerks identified as physically letter shaped, but which paid nonautomation flat rates. These pieces were removed from the nonautomation Standard flat control values used to produce the mail characteristics for Standard Flats (MAILCHAR09V.xls, tab 'STANDARD FLATS') but were inadvertently not included in the control values for nonautomation Standard Mail letters used to develop the mail characteristic estimates for Standard Mail letters (MAILCHAR09V.xls, tab 'STANDARD LETTERS').

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The remaining differences between the billing determinants in USPS-FY09-4 and the mail characteristics volumes in USPS-FY09-14 are due to (1) the assignment of volumes in obsolete rate elements to the current rate structure or (2) in the case of Standard Mail ECR flats, the exclusion of pieces that are physically letter shaped from the USPS-FY09-14 estimates of ECR flats (MAILCHAR09V.xls, tab 'STANDARD ECR FLATS'), while the same pieces are included in the billing determinant volumes of pieces that paid Standard Mail ECR flat rates. The variance between the two measures is provided in the workbook attached to this response electronically as ChIR.4.Q.2.Mail.Char.Variance.xls.

(b). The billing determinants in USPS-FY09-4 and the mail characteristics data in USPS-FY09-14 are created for different purposes. The billing determinant data are intended to be used to analyze questions related to the Postal Service's revenue. The mail characteristics data are used to calibrate the workshare cost avoidance models to the CRA. The mail characteristics data provide estimates of the cost drivers identified in the cost avoidance models, such as the volumes by container presort level and bundle presort level, that are not included in the billing determinants. Additionally the mail characteristics are intended to measure calibration volumes as they would be captured in the IOCS. For this reason NSA volumes are merged into the mail characteristic estimates, since IOCS data collectors are unable to distinguish NSA pieces from non-NSA pieces. Similarly the mail characteristics data attempt to measure calibration volumes by the physical shape of the piece rather than the rate element, since data collectors are unable to distinguish a letter shaped piece that paid flat rates from one

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that paid letter rates. For these reasons it is appropriate to use the mail characteristics data from USPS-FY09-14 as calibration inputs for the cost avoidance models. For any analysis related to rates and revenues the billing determinants should be used.

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4. Please refer to USPS-FY09-10, FCM Letter Costs Final.xls, tab 'PRODUCTIVITY'. The variability for 1OPBULK Opening Unit – BBM is taken from USPS-FY09-7, Preface to USPS-FY09-7-Table.xls, tab 'CS3 cost pools' cell G38 (Opening Unit–BBM operation). In the 2008 Annual Compliance Report, the same variability input used the value for the Preferred Mail Opening Unit. Please explain the rationale for the use of a different variability factor in this year's calculations. The response should discuss whether First-Class Mail is processed in the Opening Unit operation for BBM, Preferred Mail, or both.

RESPONSE:

The correct variability factor for the FCM Letter Costs Final.xls, tab 'PRODUCTIVITY' is Opening Unit Preferred Mail (1OPPREF), which is 0.9775. More of First Class Mail opening unit processing is under 1OPPREF. See FY09 MODS cost pool information as reported in USPS-FY-07 Tab II-1. Mods 1&2.

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5. Please refer to USPS-FY09-10, FCM Letter Costs Final.xls, tab 'WAGE RATES – PIGGYBACK FACTORS'. Please also refer to Docket No. ACR2008, Responses of the United States Postal Service to Questions 1-6 of Commission Information Request No. 3, February 13, 2009, question 2. In last year's letter cost model, the piggyback factor used for the MLOCR operation was for "Total OCR and DIOSS OCR Replacements" whereas this year's model uses the figure for "Total OCR and DIOSS OCR Replacements with RBCS workroom." Also, for the DBCS operation piggyback factor, last year's model used the figure for "DBCS (excluding CIOSS)" whereas this year's model uses the figure for "BCS/DBCS – combined incoming and outgoing." Please explain the rationale for the use of different piggyback factors for each of these operations.

RESPONSE:

The correct operation specific piggyback factor for "MLOCR" in the 'WAGE RATES-PIGGYBACK FACTORS' tab is 1.804. This figure is taken from the 'NEWOCR' tab "Total OCR and DIOSS OCR Replacements" from USPS-FY09-25 MPPGY08PRC.xls. A different piggyback factor from the "Total OCR and DIOSS OCR Replacements with RBCS workroom" was used in this year's calculation, in keeping with the FY 2008 ACD.

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7. This question is directed to the method of calculating the avoided costs of Within County, 3-Digit Automation Letters. Please refer to the File: ChIR.1.Q.10.Wrkshre.Discnt.2.1.10.xls, Sheet: Worksheet WC, Cell: J57. The discount for Within County 3-Digit Automation Letters is based on the difference in avoided costs between a Standard Basic Automation Letter and a Standard 3-Digit Automation Letter.
- (a) Please confirm that the value of Basic Automation Letters as currently calculated is the volume weighted average of Mixed AADC and AADC Automation Standard Letter Unit Mail Processing and Delivery Unit Cost, where the volume weights are the volume of Standard Automation Mixed AADC and AADC Automation Letters, respectively.
 - (b) If you confirm, please file a revised version of Worksheet WC.
 - (c) If you do not confirm, please explain.

RESPONSE:

Confirmed. A version of Within County automation cost avoidances using the current methodology is attached to this response electronically as an Excel file entitled ChIR.4.Q.7.Wrkshare.Rev.2.16.10.xls. See cell F15 in worksheet Periodicals Within County.

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8. Please refer to File: PER OC flts rev02.01.10.xls, Sheet: PIECE DENSITIES, Cells: D19 and E19. Please also refer to Docket No. RM2010-4, Order No. 399, at 13.
- (a) Please confirm that values in cells D19 and E19 should be zero or blank.
 - (b) If you do not confirm, please explain.

RESPONSE:

Confirmed. In accordance with Order No. 399 at 13, both cells in question (D19 and E19) should be zeroed out or left blank. At the same time, it may be noted that both cells are extraneous to the cost analysis performed in the model and have no dependants, in recognition of the Commission's analysis of Proposal 25, Modification 2. Neither the current values nor zeroed out or blank cells affect the piece, bundle, or pallet costs.

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9. Please refer to USPS-FY09-NP25 Excel file: Shape Indicia FY 2009V.xlsx tab: Package Services. Please confirm that the revenue, weight, and pieces associated with "PSVC PRESORTED DDU BOUND PRINTED MATTER FLATS" should be moved from the "Parcels" columns to the "Flats" columns. If not confirmed, please explain.

RESPONSE:

Confirmed. Corrected workbooks for USPS-FY09-NP25 are filed under seal as part of USPS-FY09-NP32 (file ChIR.4.Q.9.RPW.Shape.NP.Rev.2.16.10.zip), and corrected workbooks for USPS-FY09-14 are attached to this response electronically as ChIR.4.Q.9.RPW.Shape.Public.Rev.2.16.10.zip

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10. Please provide supporting spreadsheets to verify the costs for Collaborative Logistics provided in USPS-FY09-NP27.pdf Section E.1.

RESPONSE:

The requested spreadsheet has been provided under seal as

“ChIR.4.Q.10.Collaborative Logistics.xls” in USPS-FY09-NP32.

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11. Please confirm that the source for USPS-FY09-NP15, tab: Volume Data column [6] should be USPS-FY09-NP1.

RESPONSE:

Confirmed.

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12. Please refer to USPS-FY09-NP2, Excel file Reports (Booked).xls, worksheet Revenue Reconciliation w RPW. Cell C43 shows the revenue for Total International, obtained from the worksheet A Pages Summary. However, the sum of the column entitled "Booked" exceeds the Total International revenue in cell C43. Please confirm that the amount by which sum of the column entitled "Booked" exceeds Total International revenue in cell C43 reflects the double counting of the figure for Inbound Direct Entry—once for Inbound Direct Entry, and a second time in International Business Reply Mail. If not confirmed, please explain.

RESPONSE:

Confirmed that Inbound Direct Entry was double counted in the revenue crosswalk between the RPW and the ICRA. It was not double-counted in the reporting for total international revenue.

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13. Please refer to USPS-FY09-NP2, Excel file "Reports (Booked).xls."
- (a) In the worksheet Cost Reconciliation w CRA, cells D11 and D9, show the Adjusted Benchmarked Booked Costs and the CRA Volume Variable Costs (less Product Specific), respectively. Please explain the rationale for calculating and then reconciling the Adjusted Benchmarked Booked Costs to the CRA Volume Variable Costs (less Product Specific), rather than using the Total International volume variable costs found in the worksheet A Pages Summary at cell F60.
 - (b) In Docket No. RM2009-10, Proposal Eleven (i.e., Excel file Reports (Booked).xls, worksheet Cost Reconciliation w CRA), the Postal Service used ICRA [Booked] Volume Variable Costs to calculate Adjusted ICRA Volume Variable Costs, which were then reconciled to CRA Volume Variable Costs. With respect to Library Reference USPS-FY09-NP2, Excel file "Reports (Booked).xls, please explain why the Postal Service did not use same methodology presented in Docket No. RM2009-10, Proposal Eleven, to reconcile ICRA booked volume variable costs to CRA volume variable costs.
 - (c) Using the methodology presented in Docket No. RM2009-10, Proposal Eleven, please confirm that for FY 2009, virtually the entire difference between ICRA booked volume variable costs and CRA Volume Variable Costs can be explained by the fact that the ICRA includes settlement costs for market dominant and competitive Registered Mail, nontransportation "segment" costs for all mail, and "segment" costs and domestic transportation costs associated with International Business Reply Service not identified or included in the CRA. If not confirmed, please explain.

RESPONSE:

(a) There are two issues with the crosswalk that are best explained with the help of the following table:

[The table has been redacted from the public response, but the complete response, with table, has been filed under seal as part of USPS-FY09-NP32.]

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The first issue is that Registry settlement costs were removed in RM2009-10 and then inadvertently retained in USPS-FY09-NP2. The second issue is that in USPS-FY09-NP2, the link for cell D4 of the "Cost Reconciliation w CRA" sheet referred to the imputed version of the ICRA (Reports.xls) and the reference should have been to the same cell in the booked version of the ICRA (Reports (Booked).xls) file. The table above shows the correct amount on the first line at footnote 1/.

(b) The table follows the same format as the "Cost Reconciliation w CRA" sheet with the addition of the Competitive and Market Dominant Registry amounts. Excluding the Registry amounts to parallel RM2009-10, the resulting difference is \$19 thousand; thus, there is no impact on the reported results.

(c) Confirmed.

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14. Please refer to USPS-FY09-NP2, Excel file Reports (Booked).xls, worksheet A Pages (c). For International Negotiated Service Agreements, Outbound International, under the line Global Plus 2 Contracts, there are two entries: Global Bulk Economy and Global Direct. The revenue, volume variable cost, pieces, and net/gross pounds for Global Bulk Economy and Global Direct are linked to hardcoded figures. Please provide the revenue, volume variable cost, pieces, and net/gross pounds for each contract (identified by contract number) that equal the sum of the revenue, volume variable cost, pieces, and net/gross pounds for Global Bulk Economy and Global Direct shown in worksheet A Pages.

RESPONSE:

These details are provided in the ICM costing module "ICM_Costing_FY09 Merged Results by Contract (Booked).xls"; however, the information noted above is not summarized, but rather exists on the "data" sheet in full detail. A version that summarizes the requested information is provided under seal as part of USPS-FY09-NP32 as file "ChIR.4.Q.14.ICM_Costing_FY09 Merged Results by Contract (Booked).xls."

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15. In the periodic reports for the non-public RPW, please refer to the Excel file, *Fy2009_RPWsummaryreport_restricted.xls*, worksheet FY 2009. Also, please refer to USPS-FY09-NP2, Excel file *Reports (Booked).xls*, worksheet A, pages (c), Table A-2, which reports revenues, costs, and volumes for inbound Global Direct Entry with Foreign Postal Administrations under the heading International Negotiated Service Agreements. Please explain where revenues and volumes for inbound Global Direct Entry with Foreign Postal Administrations are reported in the non-public RPW.

RESPONSE:

The data identified in USPS-FY09-NP2 as "Inbound Global Direct Entry with Foreign Postal Administrations" correspond to the "Inbound Intl. Negotiated Services Agreement" lines under First-Class Mail, Standard Mail and Package Services Mail in the non-public RPW report.

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16. In the periodic reports for the non-public RPW, please refer to the Excel file `Fy2009_RPWsummaryreport_restricted.xls`, worksheet FY 2009.
- (a) The restricted RPW reports revenues for the following international market dominant products: Inbound Single-Piece Letter-Post and inbound Surface Parcel Post (at UPU Rates). Please explain why the non-public RPW does not report volumes for these products.
 - (b) The non-public RPW reports revenues for the following international competitive products: Inbound International Expedited Services, Inbound Air Parcel Post, and Inbound Surface Parcel Post (at Non-UPU rates). Please explain why the non-public RPW does not report volumes for these products.

RESPONSE:

(a)-(b) Volume data are not currently available for these products. These categories of the RPW report are based on the Foreign Postal Settlement General Ledger Accounting revenues for terminal dues, and the revenue is spread across the inbound categories using a prior ICRA distribution key. It is expected that once the new Foreign Postal Settlement System is available during FY2010, the Postal Service will begin reporting revenue, pieces and weight based on actual and estimated dispatch weights, last settled items per kilogram, and current exchange rates and SDR valuations.

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17. In the periodic reports for the non-public RPW, please refer to the Excel file *Fy2009_RPWsummaryreport_restricted.xls*, worksheet FY 2009. Under the heading *Package Services mail*, the non-public RPW reports revenue and volume for the line entitled *Inbound International Negotiated Service Agreement Mail*. Please identify and describe the agreements and contracts included in *Inbound International Negotiated Service Agreement Mail*. Also, please reconcile the reported revenue and volume from the non-public RPW with the ICRA.

RESPONSE:

Inbound International Negotiated Service Agreement Mail in the market-dominant categories of the RPW report generally consists of items bearing the indicia of the respective domestic mail classes and entered directly for delivery in the United States by certain foreign postal operators. Arrangements with foreign postal operators may also permit the channel to be used, on an exceptional basis, for comparable items bearing the respective foreign postal operators' own indicia. The foreign postal operators compensate the Postal Service at customized rates based on the level of worksharing and the prices for applicable domestic mail types. During FY2009, the Postal Service had such arrangements with Deutsche Post DHL (Germany), Swiss Post, Singapore Post Limited, Belgian Post International, and Groupe La Poste (France). These arrangements predate the effectiveness of the Commission's system for regulating market dominant and competitive products under the Postal Accountability and Enhancement Act of 2006, and therefore were established in accordance with the Postal Service's former authority over international mail rates. Except for Deutsche Post DHL and Swiss Post, these arrangements were entered into informally, but the Postal Service is in the process of memorializing and updating all such arrangements with new written agreements. The Postal Service expects to submit any new agreements to the Commission in accordance with the Commission's rules.

With regard to reconciliation of data, please see the response to Question 15 of this Information Request. The data listed in the relevant line of the ICRA are equal to the sums of the data in the market-dominant Inbound International Negotiated Service Agreement Mail subcategories of the non-public RPW report.

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19. Please refer to USPS-FY09-NP26, Excel file "COACreditCard2009.xls."
- (a) Please confirm that the value in cell B5, Credit Card Fees, includes the value in cell B14, USPS Credit Card Fees. If not confirmed, please explain the purpose of cell B14. If necessary, please provide a revised worksheet that includes cell B14 in the total cost calculation of COA Credit Card Authentication.
 - (b) For the COA Credit Card Authentication product, please provide the cost coverage and show all underlying calculations.

RESPONSE:

Confirmed. A spreadsheet showing the cost coverage calculations is provided under seal as part of USPS-FY09-NP32, with the file name ChIR.4.Q.19.COA.Crdt.Crd.xls.

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21. Please refer to the FY 2009 Special Services Billing Determinants, Excel file "09 Special Services.xls," worksheet Stamped Envelopes. In addition, please refer to the Public Cost and Revenue Analysis (PCRA). For Stamped Envelopes, please reconcile the revenue listed in the billing determinants, \$15,414,860 (cells D34+D45), with the revenue listed in the PCRA, \$16,543,434.

RESPONSE:

The revenue listed in the billing determinants (\$15,414,860) is the appropriate value to use. The PCRA revenue estimate is incorrect.

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22. The public Cost and Revenue Analysis (PCRA) lists the revenue for Money Orders as \$191,100,000. Please confirm that the revenue figure is accurate. If confirmed, please show the derivation of the interest earned on the domestic float and any other figures used to develop the total revenue figure for Money Orders. If not confirmed, please provide the correct revenue figure along with all calculations used to derive the figure.

RESPONSE:

1. The revenue figure reported on the PCRA for Money Orders (\$191.1 million) was rounded up inaccurately. The true FY09 total revenue for domestic Money Orders was \$191,024,595, which consists of RPW revenue of \$189,727,834 and Money Order float of \$1,296,761. A spreadsheet showing the derivation of the domestic Money Order float figure is attached electronically as ChIR.4.Q.22.FY09.MO.Float.xls.

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23. Please refer to the response to CHIR No. 1, Question 22(c), which requested that the Postal Service reconcile the revenue for Confirm Service listed in the PCRA with the revenue listed in the Special Services billing determinants. In its response, the Postal Service explains that both figures are incorrect and that the actual revenue for Confirm Service is \$2,352,100. Please provide a revised Confirm Service billing determinants worksheet that displays the revenue for each Tier and Additional ID option that sum to the total revenue for Confirm Service.

RESPONSE:

The actual revenue reported in response to CHIR No. 1, Question 22(c) of \$2,352,100 was incorrect. The correct total revenue is presented in the revised Confirm Service billing determinant provided below.

K-14

**Confirm
Fiscal Year 2009**

	<u>Transactions</u>	<u>Revenue (\$)</u>
Bronze	9	9000
Additional Scans	0	0
Silver	23	46,000
Additional Scans	0	0
Gold	104	703,000
Additional Scans	12	9,600
Platinum	<u>48</u>	1,150,500
Total Subscribers	184	
Additional IDs		
Quarter	5	4,500
Annual	194	<u>485,000</u>
Total		2,407,600

Note: \$56,750 of the total revenue is the result of an NSA.

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25. Please refer to the FY 2008 Annual Compliance Determination at 78. In footnote 41, the Commission recommended that the Postal Service "attempt to provide billing determinants and costs for anticipated changes in post office box reclassifications that result in the migration of post office boxes from one rate category to another."
- (a) For FY 2009, please provide for each post office box Fee Group, the number of post offices (or other postal facilities) that were moved from a higher number to a lower number Fee Group, or from Group E to a numbered Fee Group.
 - (b) For FY 2009, please provide for each post office box Fee Group, the number of post offices (or other postal facilities) that were moved from a lower number to a higher number Fee Group, or from a numbered Fee Group to Group E.
 - (c) Please provide for each post office box Fee Group, the number of post offices (or other postal facilities), if any, that began offering post office box service during FY 2009.
 - (d) Please provide for each post office box Fee Group, the number of post offices (or other postal facilities), if any, that ceased providing post office box service during FY 2009.

RESPONSE:

No postal facility housing Post Office Box service can be designated as Fee Group E since each such box corresponds to a single potential carrier delivery point where the Postal Service chooses not to extend carrier delivery. Fee Groups 1 through 7, respectively, range from most expensive to least expensive.

Facilities whose Post Office Box fees went to a lower numbered Fee Group in FY2009 experienced fee increases.

- (a) Table 25 A identifies how many facilities were moved from a lower-priced Fee Group to a higher-priced one during FY 2009.

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Table 25 A	
Fee Group Changes	
<u>Higher Fee Group Number to Lower Fee Group Number</u>	
<u>Fee Group</u>	<u># of Locations</u>
Fee Group 1	N/A
Fee Group 2	0
Fee Group 3	0
Fee Group 4	1
Fee Group 5	6
Fee Group 6	3
Fee Group 7	0

(b) Table 25 B identifies how many facilities were moved from a higher-priced Fee Group to a lower-priced one during FY 2009.

Table 25 B	
Fee Group Changes	
<u>Lower Fee Group Number to Higher Fee Group Number</u>	
<u>Fee Group</u>	<u># of Locations</u>
Fee Group 1	1
Fee Group 2	0
Fee Group 3	1
Fee Group 4	4
Fee Group 5	0
Fee Group 6	0
Fee Group 7	N/A

(c) Table 25 C identifies how many facilities began offering Post Office Box service in respective Fee Groups in FY2009.

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Table 25 C	
<u>New PO Box Locations in FY2009</u>	
<u>Fee group</u>	<u># of Locations</u>
Fee Group 1	9
Fee Group 2	4
Fee Group 3	15
Fee Group 4	33
Fee Group 5	24
Fee Group 6	11
Fee Group 7	0

(d) Table 25 D identifies how many facilities ceased offering PO Box service in FY2009. Facilities are defined by locations with unique facility IDs. These facility IDs were observed in computer systems used to track PO Boxes prior to FY2009, but were no longer in the systems at the end of the fiscal year. However, many PO Box customers from these facilities remained PO Box customers, either at nearby facilities or at the location to which their physical box was moved; some in this latter group would have avoided an address change.

Table 25 D	
<u>Removed PO Box Locations in FY2009</u>	
<u>Fee group</u>	<u># of Locations</u>
Fee Group 1	1
Fee Group 2	3
Fee Group 3	10
Fee Group 4	12
Fee Group 5	28
Fee Group 6	12
Fee Group 7	1

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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February 16, 2010