

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

ANNUAL COMPLIANCE REPORT, 2010

Docket No. ACR2010

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-31 OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(January 24, 2011)

The Postal Service hereby files its responses to questions 1-31 of Chairman's Information Request No. 1, issued on January 14, 2011. Each question is stated verbatim, and followed by the response. Instead of being attached to this response electronically, related public Excel files are provided within USPS-FY10-42, filed today.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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January 24, 2011

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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1. In USPS-FY10-3, USPS-FY10-10, and USPS-FY10-21, the Postal Service uses methodologies and input data introduced in Docket No. RM2011-5 Proposal Nine to calculate unit cost avoidances. The Commission has not made a final decision on Proposal Nine. Please provide versions of USPS-FY10-3, USPS-FY10-10, and USPS-FY10-21 that exclude the Proposal Nine changes.

RESPONSE:

The modified First-Class Mail presort letters mail processing cost model is contained in USPS-FY10-42, in the Excel file 'ChIR.1.Q.1.USPS-FY10-10.ACR2010.xlsx'. The modified QBRM cost avoidance and BRM fees cost model is contained in USPS-FY10-42, in the Excel file 'ChIR.1.Q.1.USPS-FY10-21.ACR2010.xlsx'. With respect to USPS-FY10-3, the effects of the change on the workshare passthrough calculations are shown within USPS-FY10-42, in the Excel file ChIR.1.Q.1&10 USPS-FY10-3 ACR 2010.xls.

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2. Please refer to USPS-FY10-11, File: PERACR2010.xls, Sheet: CRA Flats, Column E.

a. Please confirm that this file uses flats-only unit mail processing costs by cost pool.

b. Please confirm that Docket No. ACR2009, PRC-ACR2009-LR5, PERACR2009.xlsx, Sheet: CRA Flats, used the weighted average of flats and parcels unit mail processing costs by cost pool.

c. Please explain why this change was made.

d. Please revise the file to reflect the current methodology. (See PRC-ACR2009-LR5, PERACR2009.xlsx.)

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) The use of flats costs instead of the sanctioned non-letter costs was an inadvertent error. However, parcels were only 0.082 percent of non-letters by volume in FY10, so PER non-letter costs were only 0.017 cents higher than PER flats costs. Given such a small proportion and difference in costs, the impact on the overall Periodicals costs is minimal. Moreover, a review of the model in preparing this response raised the question of the appropriateness of using the non-letter costs when only flats are being modeled in the Periodicals model first presented in TW-LR-L-2, accepted by the Commission in Docket No. R2006-1, and used as the approved model in Annual Compliance Reports since then. The combination of non-letter costs and flats volumes results in a CRA adjustment factor that is overstated, so that the cost avoidances also are overstated.

(d) As requested, a version that reflects the current methodology is provided in the revised Periodicals cost model submitted as part of USPS-FY10-42 as Excel file ChIR.1.Q.2.5.7.8.Rev.FY10.Periodcl.xls.

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3. Please refer to FY10.3.Workshare Discounts Table-FY 2010_12_29_10.xls.xls, Sheet: "Worksheet WC," Cells: B7:E11.

- a. Please confirm that this worksheet uses the sum of direct and allied unit mail processing piece costs by bundle level, barcode status, and machinability as the mail processing inputs for Within County Periodical worksharing discounts.
- b. Please confirm that only unit direct mail processing piece costs were used in Docket No. ACR2009, PRC-ACR2009-LR5, PERACR2009.xlsx, Sheet: "Within County," Cells C6:F29.
- c. Please explain why this change was made.
- d. Please revise the file to reflect the current methodology. (See PRC-ACR2009-LR5, PERACR2009.xlsx.)

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The change in methodology described in part (a) was unintentional.
- d. A version of Within County unit direct mail processing piece costs using the current methodology is included in USPS-FY10-42, in the file titled ChIR.3.Q.3&4.FY10.3.xls. See cells B7 through E11 in "Worksheet WC."

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4. Please refer to FY10.3.Workshare Discounts Table-FY 2010_12_29_10.xls.xls, Sheet: "Periodicals Outside County."
- a. Please confirm that this worksheet uses the sum of direct and allied piece costs by bundle level, barcode status, and machinability as the mail processing inputs for Outside County worksharing discounts.
 - b. Please confirm that only unit direct mail processing piece costs were used in Docket No. ACR2009, PRC-ACR2009-LR5, PERACR2009.xlsx, Sheet: "Periodicals OC PC WS," Cells E6:E9. , E13:E23, and E30:E31.
 - c. Please explain why this change was made.
 - d. Please revise the file to reflect the current methodology. (See PRC-ACR2009-LR5, PERACR2009.xlsx.)

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The change in methodology described in part (a) was unintentional.
- d. A version of Periodicals Outside County using unit direct mail processing piece costs per current methodology is included in USPS-FY10-42, in the file titled ChIR.3.Q.3&4.FY10.3.xls. See cells F9:F14, F16:F18, F20:F22, F24:F26, F29 and F31 in worksheet "Periodicals Outside County."

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5. Please refer to USPS-FY10-11, PerACR2010.xls, Sheet: "MODS Data E23."
- a. Please confirm that the source of data for cells G98:H98 in this worksheet should be USPS-FY10-23, YRscrub2010.xls, Sheet: "Table."
 - b. If you do confirm, please recalculate cells G98:H98 Sheet: MODS Data E23 using the cells from the referenced source file.
 - c. If you do not confirm, please provide the data source used to calculate cells G98:H98 in this worksheet.

RESPONSE:

- (a) Confirmed.
- (b) See the revised Periodicals cost model submitted as part of USPS-FY10-42 as Excel file ChIR.1.Q.2.5.7.8.Rev.FY10.Periodcl.xls, worksheet 'MODS Data E23', cells G98:H98. Cell values do not change in the revised file; however, the cells now display the formulae used.
- (c) N/A

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6. Please refer to USPS-FY10-14, Folder: Coverage Factors1, File: Coverage Factorsm.xls.
- a. Please confirm that the coverage factors for originating bundle sorting for APPS, SBPS, and Manual, should be identical to those found in USPS-FY14, Folder Coverage Factors 2, File: Periodical Bundle ADC 10m.xls.
 - b. If you do not confirm, please provide the data source for originating bundle sorting coverage factors.
 - c. Please confirm that the coverage factors for originating piece distribution for AFSM100 only, UFSM1000 only, and Manual should be identical to those found in USPS-FY14, Folder Coverage Factors 2, File" Periodical Piece ADC 10m.xls.
 - d. If you do not confirm, please provide the data source for originating piece distribution coverage factors.

RESPONSE:

- (a) Confirmed.
- (b) N/A
- (c) Confirmed.
- (d) N/A

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7. Please refer to USPS-FY10-11, PerACR2010.xls, Sheet: PIGGYBACKS.
- a. Please confirm that the source of data for this worksheet should be USPS-FY10-25, MPPGBY10PRC.xls, Sheet: "A."
 - b. If you do not confirm, please provide the data source for the referenced worksheet, "Piggybacks."

RESPONSE:

- (a) Confirmed, except in USPS-FY10-11, PERACR2010.xls, sheet: Piggybacks, cells B11 and H13 are a placeholder for FSS piggyback factors, for future use, and thus are not currently found in USPS-FY10-25, MPPGBY10PRC.xls, Sheet:
- A. It should be noted that a revision of the Piggyback factors file caused the earlier version to be used in USPS-FY10-11, while the newer version was submitted in the ACR. The revised Periodicals cost model provided in USPS-FY10-42 as Excel file ChIR.1.Q.2.5.7.8.Rev.FY10.Periodcl.xls has been corrected to reflect the version of the Piggyback inputs submitted in the ACR.
- (b) N/A

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8. Please refer to USPS-FY10-1-np18 part3.xls, Sheet: "MODS 1&2 Costs by shape."
a. Please confirm that this worksheet is used to calculate the percentage of costs incurred on mechanized flat sorting equipment by flat shaped mail.
b. Please confirm that the correct formula for this calculation is:

$\text{sum}(D26:E40) / \text{sum}(D6:E18, D26:E40, C48:D62)$.

- c. If you confirm, please use this formula to recalculate Cell N81 in USPS-FY10-11, File: PERACR2010.xls, Sheet: "ACR 2008 MODIFICATIONS."
d. If you do not confirm, please provide the correct formula for the percentage of costs incurred by flats on mechanized flat sorting equipment and explain why this is the correct formula.

RESPONSE:

This response assumes that the question refers to USPS-FY10-NP18 part 3.xls, and that the "-1" in the file title at the beginning of the question is extraneous.

- a. Confirmed. The worksheet is used to calculate the percentage of costs incurred on automated or mechanized flat sorting equipment by flat-shaped mail.
- b. Confirmed.
- c. The cell N81 has been recalculated in the revised version of USPS-FY10-11 provided in USPS-FY10-42 as Excel file ChIR.1.Q.2.5.7.8.Rev.FY10.Periodcl.xls, Sheet: 'ACR 2008 MODIFICATIONS'.
- d. N/A

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9. Please refer to USPS-FY10-10 - FY 2010 Special Cost Studies Workpapers - Letter Cost Models (First and Standard), workbook "USPS-FY-10 STD PRST LETTERS MPFinal.xlsx", worksheet 'CRA - PRESORT LETTERS.' If the value of cell M10 is equal to 1, the model treats unexpected costs as piggybacked. In Docket No. R2006-1, the Commission decided that unexpected costs should receive piggyback treatment, but inadvertently omitted the value of 1 in cell M10. This omission has been carried forward in subsequent versions of this model.

- a. Please provide a corrected version of USPS-FY10-10.
- b. Please update affected workshare passthrough calculations.

RESPONSE:

(a) The modified Standard Mail presort letters mail processing cost model is included within USPS-FY10-42, in the Excel file 'ChIR.1.Q.9.USPS-FY10-10.ACR2010.xlsx'.

This model is the same as that originally filed in document USPS-FY10-10, with the exception that the modification described above has been incorporated into the model.

(b) The effects of the change on the workshare passthrough calculations are shown within USPS-FY10-42, in the Excel file ChIR.1.Q.1&9 USPS-FY10-3 ACR 2010.xls.

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10. In USPS-FY10-3 and USPS-FY10-10, the Postal Service uses methodologies and input data introduced in Docket No. RM2011-5 Proposal 9 to calculate unit cost avoidances. The Commission has not made a final decision on Proposal Nine. Please provide versions of USPS-FY10-3 and USPS-FY10-10 that exclude the Proposal 9 changes.

RESPONSE:

The modified Standard Mail presort letters mail processing cost model (USPS-FY10-10) is included within USPS-FY10-42, in the Excel file 'ChIR.1.Q.10.USPS-FY10-10.ACR2010.xlsx'. In addition to the changes described in question 10 above, the modification described in question 9 of this Information Request has also been incorporated into the model. With respect to USPS-FY10-3, the effects of the change on the workshare passthrough calculations are shown within USPS-FY10-42, in the Excel file ChIR.1.Q.1&10 USPS-FY10-3 ACR 2010.xls.

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11. In FY 2010, the Package Services class failed to recover sufficient revenue to cover attributable costs. Specifically, single-piece Parcel Post, Bound Printed Matter (BPM) Parcels, and Media Mail and Library Mail products failed to cover costs. In the ACR2010 at pages 39 and 42, the Postal Service explains that pricing and product actions are needed to improve cost coverage for single-piece Parcel Post and BPM Parcels, but is silent on a plan to improve cost coverage for Media/Library Mail. Please explain in detail what pricing and product actions the Postal Service plans to implement to improve the cost coverage for each product with a negative contribution and the class in FY 2011 and beyond.

RESPONSE:

The pricing and product actions needed to improve cost coverage for Media/Library Mail are similar to those for single-piece Parcel Post and BPM parcels. Within the limits imposed by the price cap, the Postal Service is attempting to improve cost coverage for Media/Library Mail with the price cap filing submitted on January 13, 2011, in Docket No. R2011-2. In this price adjustment, the Postal Service is increasing prices for package services by the maximum amount allowed under the price cap, but increasing prices relatively higher for products that fail to cover their costs than for products covering their costs. Specifically, the Postal Service is increasing prices for Single Piece Parcel Post, BPM-Parcels, Media/Library Mail, and International Inbound Parcels by a collective 1.887 percent, while increasing BPM-Flats by only 0.707 percent. Increasing the products that are failing to cover costs by more than the increase for products covering cost is one way the Postal Service is making an effort to bring these products to adequate cost coverage. These products will not reach full cost coverage after this price change due to the relatively low current price cap.

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Media Mail's cost coverage also suffers from the tendency of mailers to use this product, rather than BPM Parcels, disproportionately to send books to more distance zones. This issue was discussed in the Postal Service's pricing statement in the exigent price change case (see Docket No. R2010-4, Statement of James M. Kiefer on Behalf of the United States Postal Service, July 6, 2010, at p. 46, lines 9-20). The Postal Service recognizes that addressing this problem will involve some alteration in the relative prices of Media Mail and BPM Parcels, and these price changes will be part of the future pricing plans for these two products.

Improving operational efficiencies and general improvement in the economy are expected to aid the Postal Service in returning these products to full cost coverage. The Postal Service will endeavor to bring all Package Service products to full cost coverage as soon as possible within the limits of the price cap and operational efficiency improvements. As the Postal Service explains in its FY 2010 ACR (see pp. 6-10), however, the Commission's denial of the exigent rate increase greatly hinders the Postal Service's plan to bring the fourteen products to full attributable cost coverage. With the relatively low level of the current price cap by historical standards and the possibility of continued historically low price caps, it may not be possible to bring these products to full cost coverage within these limits. As stated in the ACR, the Commission may have the authority to remedy the shortfall of the products in question by allowing for increases above the amount allowed by the price cap. In the FY 2009 ACD process, other parties suggested that the Commission's statutory authority includes such powers. See, e.g., Public Representative Reply Comments (Feb. 23, 2010), Docket No.

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ACR2009, and Reply Comments of the Greeting Card Association (Feb. 23, 2010),
Docket No. ACR2009.

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12. In USPS-FY10-15 and USPS-FY10-16, the Postal Service uses input data introduced in Docket No. RM2011-5 Proposal Twelve to calculate unit cost avoidances. The Commission has not made a final decision on Proposal Twelve. Please provide versions of USPS-FY10-15 and USPS-FY10-16 that exclude the Proposal Twelve methodological changes.

RESPONSE:

The requested alternative versions of the models requested in this question are all provided as part of USPS-FY10-42, with the file names described below. In terms of models originally provided in USPS-FY10-15, the modified Media Mail – Library Mail mail processing cost model is contained in the file ‘ChIR.1.Q.12.USPS-FY10-15.ACR2010.xls’. The Bound Printed Matter mail processing cost model that was filed in USPS-FY10-15 is not affected.

In terms of models originally provided in USPS-FY10-16, the modified Bound Printed Matter transportation cost models are contained in the following files:

‘ChIR.1.Q.12.USPS-FY10-16A.ACR2010.xls’

‘ChIR.1.Q.12.USPS-FY10-16B.ACR2010.xls’

‘ChIR.1.Q.12.USPS-FY10-16C.ACR2010.xls’

The modified Bulk Parcel Return Service cost model is contained in the file ‘ChIR.1.Q.12.USPS-FY10-16D.ACR2010.xls’.

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13. Please refer to the FY 2010 Public Cost and Revenue Analysis, which shows that for Collect-on-Delivery (COD) and Stamp Fulfillment Services, FY 2010 attributable cost exceeds FY 2010 revenue. Please explain why the attributable costs exceed revenues. Additionally, please explain the Postal Service's plan to ensure that revenues exceed attributable costs in the future.

RESPONSE:

With respect to COD, COD total costs rose from \$6.6M in FY2009 to \$8.2M in FY2010, an increase of 24 percent, causing FY10 costs to exceed revenues. Most of the costs for COD are determined from the In-Office Cost System (IOCS). Because the volume of COD is so small, there are relatively few tallies where employees are found handling COD in any given year. In FY2010, for example, there were only 15 clerk and mailhandler tallies. Thus cost estimates exhibit large year-to-year variability. The coefficients of variation (CVs) are almost 40 percent for mail processing, where most of the increase in costs occurred in FY2010, and almost 50 percent for window (see USPS-FY10-37, "IOCS PRC CV Summary FY10.xls").

The higher than average price increase for Collect on Delivery (COD) of 4.2 percent (2.4 times the 1.741 percent cap) was an effort to close the gap in the cost coverage, but it also reflects that it is possible that the sampling next year could result in COD having a cost coverage that exceeds 100 percent. Additionally, COD is not a product, but rather a service within the Ancillary Services product, and the Ancillary Services product as a whole does cover its cost.

With respect to Stamp Fulfillment Services (SFS), in Order No. 487 (July 13, 2010), the Commission approved the addition of Stamp Fulfillment Services to the Mail

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Classification Schedule, maintaining the current \$1 fee for stamp shipments. That led to the first estimation of the costs for this product within a regulatory context, completed in late December of 2010. The Postal Service plans to evaluate costs and pricing strategies for the Stamp Fulfillment Services product, including the impact of the CPI cap for Special Services, in order to determine how best to cover costs. The Postal Service will also consider the balance between covering costs for Stamp Fulfillment Services (the fulfillment of stamp orders) and promoting stamp sales through cost effective channels.

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14. Please refer to the FY 2010 Public Cost and Revenue Analysis, which shows that the Address Management Services product incurred a negative \$1.2 million in volume variable costs. Please explain how the product incurred a negative volume variable cost.

RESPONSE:

In USPS-FY10-31, file FY10.DRpt.xls starts with a total attributable cost for Address Management Services of \$23,126 thousand, and then shows a final adjustment to attributable cost of \$1,497 thousand, yielding Adjusted Attributable costs of \$21,629 thousand. Product specific costs are 98.9 percent of attributable AMS costs.

Therefore, Total Product Specific costs for AMS (shown in column H of the D Report file as negative \$22,873 thousand) should have been reduced by 98.9 percent of the \$1,497 final adjustment, or \$1,481 thousand. If column H of the D Report file had properly been reduced (by \$1,481 thousand) to negative \$21,392 thousand, then column I of the D Report, which shows Volume Variable cost and is calculated as the difference between the Adjusted Attributable Costs (Column E) and the Product Specific Costs (Column H), would likewise have increased by \$1,481 thousand. The result would have been a correct calculation of the volume variable costs of AMS as positive \$235 thousand, rather than the original negative \$1.2 million cited in the question.

Note that correcting this error has no effect on the Attributable Costs for AMS reported in the CRA, just the split between Volume Variable and Product Specific. Hence, the CRA (USPS-FY10-1) for AMS should still show Attributable Cost of \$21.6 million, but it should show \$0.2 million for Volume Variable Cost instead of negative \$1.2 million, and it should show \$21.4 million for Product Specific Costs instead of \$22.9 million. Likewise, in the Nonpublic CRA (USPS-FY10-NP11), in the line for Address

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Enhancement Services, the Volume Variable costs should be reduced by \$1,481 thousand, and the Product Specific costs should be increased by \$1,481 thousand. As with respect to AMS, this change has no effect on the total Attributable Cost for AES reported in the Nonpublic CRA.

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15. Please refer to Notes to FY 2010 Public Cost and Revenue Analysis, Section 2: Definitions, Miscellaneous items, which states that "1.3 million in interest earned from the money order float...is included in domestic and international money orders." Please provide an Excel file that derives the money order float for domestic money orders. The file should be similar to the one provided in Docket No. ACR2009, in response to CHIR No. 4, question 22, titled 'ChIR.4.Q.22.FY09.MO.Float.xls.'

RESPONSE:

A spreadsheet showing the derivation of the domestic Money Order float is included within USPS-FY10-42 as ChIR.1.Q.15.FY10_MOFloat.xls.

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16. Please refer to the FY 2010 Public Cost and Revenue Analysis (PCRA), Excel file "FY10PublicCRA.xls" and the FY 2010 RPW extract file, Excel file "Fy2010_RPWextractfile.xls," worksheet 'Summary Category RPW Data.'

- a. For Address Management Services, please reconcile the revenue of \$85,801,133 from the PCRA with the revenue of \$18,129,422 from the RPW extract file.
- b. For customized postage, please reconcile the revenue of \$1,200,000 from the PCRA with the revenue of \$600,000 from the RPW extract file.

RESPONSE:

a. The \$18.1 million in the RPW was accurate and is the revenue for Address Management Services. The \$85,801,133 in the PCRA was inaccurately calculated using full volume times price rather than prorated volume times price for the Address Management Services and, more importantly, also erroneously included Address Correction Service (\$55.9 million) and Internet and Telephone COA Authentication Fees (\$11.4 million).

b. The Billing Determinants, upon which the CRA revenue was based, reported as "volume" a total of four contracts. Billing Determinant revenue was then calculated under the assumption that payment (at the established rate to \$300,000) had been received for each of the four contracts. In contrast, the RPW was directly tracking revenue, and only found records of payment (of \$600,000) for two of the four contracts. In actuality, three of the four contractors paid in FY 2010, for a total of \$900,000, while payment from one of the contractors was not received until early FY 2011. Additionally, payment from one of the three who paid in FY 2010 was unfortunately not credited to the correct account, which is why the RPW identified revenue of only \$600,000. Therefore, on an accrued basis, FY2010 revenue should have been \$1,200,000, while

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on a cash basis, it was only \$900,000. Assuming the same number of contracts in 2011, and further assuming payments for FY 2011 are all actually received in FY 2011, the situation at the conclusion of FY2011 is likely to be the reverse of what it was at the conclusion of FY 2010 -- accrued revenues of \$1,200,000, but cash revenues of \$1,500,000 (because of the \$300,000 fourth payment for FY2010 received in early FY 2011). For purposes of evaluating product performance in FY 2010, however, it seems clear that the \$1,200,000 from the PRCA is the appropriate figure to employ.

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17. For each Priority and Express Negotiated Service Agreement in effect in FY 2010, please provide the following information in an Excel file, linked to the appropriate Excel spreadsheet. For each contract where the volume, weight, or revenue is not identical in all information sources, please explain the discrepancy.

		Volume		
Partner Name	Docket Number	LR-NP27 Summary	LR-NP1	LR-NP27 Partner Profile
		Weight		
Partner Name	Docket Number	LR-NP27 Summary	LR-NP1	LR-NP27 Partner Profile
		Revenue		
Partner Name	Docket Number	LR-NP27 Summary	LR-NP1	LR-NP27 Partner Profile

RESPONSE:

Please see the Excel workbook CHIR.1.Q.17-18.NP27.xls, sheet NSA_Volume, filed under seal as part of USPS-FY10-NP30. Explanations are found in the Notes column in sheet NSA_Volume.

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- 18.** The following questions concern LR-FY10-NP27, file "NSACostRevenueSummaryFY10.xlsx," and the underlying partner profiles.
- a. Please confirm that no information for the following contracts is contained in LR-FY10-NP27:

CP2009-5
CP2009-7
CP2009-26
CP2009-32
CP2010-7
CP2010-75

- b. For each contract under which mail was sent in FY 2010, please update "NSACostRevenueSummaryFY10.xlsx" and underlying partner profile files to reflect FY 2010 volumes, weights, revenues, and costs.
- c. In LR-FY10-NP27, File "NSACostRevenueSummaryFY10.xlsx" several contracts are noted where partner specific data are not available. For each contract where data are unavailable, please explain why data are not available and when the Postal Service expects actual data to become available. Also, please provide a narrative explaining the methodology used to adjust costs when partner data are not available and why the methodology used is appropriate.
- d. Please identify the docket number of the contracts in cells A21 and A24 of tab "FY 2010 NSA" in the file "2010 Priority Mail BD.xls" in the Library Reference "FY10-NP1".
- e. Please update the file "NSAcostrevenuesummary.xls" in library reference "FY10-NP27" to include the contract in cell c18 in the tab "FY 2010 NSA" in the file "2010 Express Mail BD.xls" in the Library Reference "FY10-NP1".

RESPONSE:

- a.-b. Confirmed. All contracts where mail was sent in FY2010 are included in NSACostRevenueSummary.xls filed in USPS-FY10-NP27.
- c. Please see "Notes" in workbook "CHIR.1.Q.17-18.NP27.xls", sheet NSA_Volume, filed under seal as part of USPS-FY10-NP30. When current partner profile data are not available, costs are estimated using the same methodology as described in the Preface to USPS-FY09-NP27, section C.

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d. Docket numbers are as follows:

Cell A21 - CP2009-56 / MC2009-37
Cell A24 - CP2009-32/ MC2009-25

e. All of the pieces from this mailer were mailed at published rather than negotiated prices. Therefore, the referenced file in FY10-NP27 does not need to be updated because the NSA revenue from this contract is zero.

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19. The following questions pertain to the quality of service link to terminal dues.
- a. For CY 2009, 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 CY 2010, 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.
 - c. 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. – b. The requested information is being filed under seal as part of USPS-FY10-NP30.

c. Confirmed that the Postal Service does submit queries to International Post Corporation / its contractor TNT-Research International concerning questionable test items and panelists.

For CY 2010, the queries averaged about [redacted] per month. The subject matter of each inquiry relates to possible inconsistencies detected by Postal Service analysts in reviewing the data. Common examples of inquiry subject matter consist of a request to confirm that the panelist was available to receive an item on the specified date, or verify unusual number failures or length of transit time.

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Another example of an inquiry subject matter consists of a fact pattern whereby the recipient has an unusually high rate of rejection, for instance on Mondays and Saturdays.

TNT-Research International conducts further analysis and responds by indicating whether the panelist's response can be validated. The monthly average of queried items resolved in favor of the Postal Service ranges from [redacted].

The Postal Service has not undertaken to estimate the effect on performance and revenues associated with the queries it has submitted for CY2010 and does not have all of the information to do so without assistance from the IPC. Generation of responsive data would take considerable effort. For more information on the work necessary to evaluate the impact, please see the response of the Postal Service to Chairman's Information Request No. 2, Question 14, in Docket No. ACR2009, filed on February 2, 2010.

An unredacted version of this response is filed under seal as part of USPS-FY10-NP30.

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20. The following question concerns inbound international mail. For FY 2010, 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 from Canada and the rest of the world (separated by transition and target system countries, if possible).

RESPONSE:

The requested information is being filed under seal as part of USPS-FY10-NP30 as a nonpublic response to this question.

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21. Please refer to USPS-FY10-NP2, Excel file "Reports (Booked).xls", worksheet "Inbound Mail by TD Group". This table breaks out booked unit revenues, attributable unit costs, and attributable cost coverage into 3 groups: Canada, ICs and DCs. In CY 2010, based on decisions made at the 2008 Congress of the Universal Postal Union (UPU), some developing countries formerly in the terminal dues transition system moved into the terminal dues target system. This transition of some developing countries from the transition system to the target system will continue until all UPU members participate in the same terminal dues system. Please confirm that the booked revenues, attributable costs, and cost coverages for ICs in this worksheet reflect those developing countries formerly in the transition system that joined the target system in 2010. If not confirmed, please explain.

RESPONSE:

Confirmed. USPS-FY10-NP2, Core Files, Inputs.xls, tab "Country Masterlist" contains the updates. Additionally, tab "UPU Rates CY2" provides a list of the countries at the bottom of the sheet in rows 60-71, starting with the country Bahamas.

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22. In Docket No. RM2009-10, the Postal Service stated its intention to implement the new Foreign Payment System (FPS) beginning with FY 2010. In Docket No. ACR2009, the Postal Service also stated that for FY 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 settlements as calculated in the ICRA." Response to CHIR No. 2, question 17(a). Please discuss the implementation status of the FPS and to what extent the amounts reported in the Excel files "Reports.xls" and "Reports (Booked).xls" reflect the implementation of the FPS.

RESPONSE:

The Foreign Post Settlement (FPS) system was implemented effective January 2010. For fiscal quarters 2, 3, and 4 of FY 2010, the revenues and expenses recognized in the Corporate General Ledger are based on actual inbound and outbound international mailing activity. Inbound and outbound mailing transactions are 'priced' in FPS using the appropriate UPU rates or other agreed-upon prices. Accounting journals are posted to the Corporate General Ledger based the currency exchange rate in effect for the GL period.

Although FPS was implemented in January 2010, the ICRA maintained its traditional methodology that relies on ICRA-specific reports from the St. Louis International Accounting Branch and Sirvo/i data. The ICRA methodology will need to transition to the FPS environment and this will require coordination between Accounting and the ICRA, which the Postal Service is working towards for Fiscal Year 2011.

As such, FPS is not reflected in the Reports.xls and only partially reflected in the Reports (Booked).xls file. In terms of the Reports.xls file, there are two important differences between it and the FPS calculations: 1) the Reports.xls calculations are based on FY10 Sirvi/o data and, 2) Reports.xls does not included prior period

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adjustments. In terms of the Reports (Booked).xls file, the total FPS dollar amounts as reported in the Corporate General Ledger are reflected in the Reports (Booked).xls file total dollar amounts, but differences exist for country-level detail. Reports (Booked).xls relies on Sirvi/o data to calculate the country-level detail, so although the rates and total dollar amounts are the same in both Reports (Booked).xls and FPS, the country-level detail will differ to the extent Sirvi/o and FPS differ.

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23. Please refer to USPS-FY10-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (md), Tables A-1 and A-2. Also, please refer to the Postal Service's FY 2010 Annual Compliance Report (ACR).

a. For inbound single-piece First-Class Mail International (FCMI) at UPU rates from Target and Transition System Countries and for inbound FCMI at non-UPU rates from Target System Countries, please explain why costs exceed revenues. Please describe what steps the Postal Service will take in the future to ensure that revenues exceed attributable costs.

b. Within the market dominant International Ancillary Services product, which provided a positive contribution, costs for Inbound Registered Mail exceeded revenues. Please explain.

RESPONSE:

a. Despite showing a negative contribution, the inbound single-piece First-Class Mail International (FCMI) categories: UPU Target, UPU Transition and Non-UPU, all showed an improvement over Fiscal Year 2009. In each case, revenue increased, expenses decreased and contribution improved despite declining volumes in all categories. The Postal Service will continue utilizing both revenue and expense efforts to improve contribution for all categories. The Postal Service will also work on bilateral agreements with designated postal operators of UPU member countries to improve cost coverage for inbound single-piece FCMI. This category of mail is subject to payment of terminal dues rates set by UPU Congress every four years. The Postal Service anticipates filing more bilateral instruments with the Postal Regulatory Commission this year.

b. Inbound Registered Mail prices are set by the Universal Postal Convention and thus the Postal Service does not have direct control over prices for this service absent a bilateral agreement with a foreign postal operator. As with the categories in part (a)

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Inbound Registered Mail exhibited increased revenue, decreased costs and improved contribution between Fiscal Year 2009 and Fiscal Year 2010.

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24. Please refer to USPS-FY10-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (c), Table A-1. Also, please refer to the Postal Service's FY 2010 Annual Compliance Report (ACR) concerning competitive products.

- a. For inbound International Expedited Services, please explain why costs exceed revenues. Please describe what steps the Postal Service will take in the future to ensure that revenues exceed attributable costs.
- b. Within the competitive International Ancillary (Special) Service product, the Postal Service reports revenues and costs for the following services: Registered Mail, Return Receipt, Insurance, and Customs Clearance and Delivery Fee. For the outbound Insurance service, and thus for the International Ancillary Service product as a whole, reported costs exceed revenues. Please describe what steps the Postal Service will take in the future to ensure that revenues exceed attributable costs for the outbound Insurance service.
- c. In the FY 2010 ACR at page 67, the Postal Service states that it is "studying possible undercounting of insurance revenue, but is unable to offer a definitive explanation as to whether the revenue for insurance is understated at this time." Please discuss the causes of the possible undercounting, and when the Postal Service's study will be concluded.

RESPONSE:

a. Revenue and contribution for Inbound EMS improved between Fiscal Year 2009 and Fiscal Year 2010, although expenses increased to offset these improvements. Most of the expense increase was in mail processing, and about 10 percent of the increase can be explained by the scan barcode edit that was introduced in FY10 for IOCS Inbound Express pieces. Inbound EMS prices were increased as of January 2011 for all EMS Cooperative members, as well as Canada Post. See Docket Nos. CP2010-90 and CP2010-126. It is important to keep in mind, however, that the financial performance of Inbound EMS is affected by use of the booked version of the ICRA. In the FY 2009 ACD, the Commission acknowledged that "[t]he differing financial results for Inbound Expedited Services are not a consequence of any postal management action. Rather, such results are a consequence of a Commission-mandated methodological change requiring the use of booked revenues and expenses for

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purposes of analyzing the financial performance of all products." FY 2009 ACD (March 29, 2010) at 121. As a result, in last year's ACD, the Commission recommended "no additional action on the part of the Postal Service." *Id.*

b. See also part (c) of the response to this the question concerning the undercounting of International Insurance fees for International non-Priority Mail categories. Most of the increase in expenses, 42 percent, was an increase in Indemnities, which combined with the possible revenue undercounting, contributed to the negative contribution. Contribution will likely improve once revenue from online channels is reported with other insurance revenue. In addition, the Postal Service has taken steps to improve the financial performance of this product by raising prices for international insurance effective January 2, 2011. See Docket No. CP2011-26.

c. It is believed that insurance revenue is underestimated due to the exclusion of revenue for insurance arising from sales transactions made through the Click-N-Ship (CNS) channel. Priority Mail International (PMI) Insurance fees from this channel were not split out separately and recorded with insurance. Instead, the revenues for the fees were included with other revenue for the underlying host PMI piece. The FY2010 revenues across all International Insurance fee categories generated from CNS transactions totaled [Redacted] on [Redacted] transactions. Changes have been made to include the Insurance fee breakouts in the RPW Report beginning with Q1 FY2011. (An unredacted version of the instant response is filed under seal as part of USPS-FY10-NP30.)

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25. Please provide supporting spreadsheets to verify the costs and revenues for Collaborative Logistics provided in USPS-FY10-NP27.pdf Section E.1.

RESPONSE:

The requested materials have been filed under seal in USPS-FY10-NP30 as
ChIR.1.Q.25.NONPUBLIC.Collab.Logistics.xls.

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26. In Order No. 452 the Commission stated:

The Postal Service is directed to keep track of all expenses associated with this market experiment and report them as group-specific costs for competitive products. The information is to be reported in sufficient detail to identify those costs as research and development costs related to the Samples Co-Op Box market experiment.

See, e.g., Order No. 452 at 9.

Please confirm that the competitive group-specific cost reported in USPS-FY10-NP10 does not include costs associated with market tests. If confirmed, please update competitive group-specific costs to include costs for each market test in effect during FY 2010. If not confirmed, please disaggregate group-specific costs to show a separate cost for each market test in effect during FY 2010.

RESPONSE:

Confirmed that the competitive group specific costs (\$39,027 thousand) reported in the FY10 ACR and in USPS-FY10-NP10 do not include the costs associated with market tests. As indicated at pages 68-70 of the FY10 ACR, there were two competitive product market tests in effect in FY 2010, Collaborative Logistics and Samples Co-op Box. Adding the FY 2010 costs for both of those market tests to the group specific costs reported in USPS-FY10-NP10 yields an updated FY 10 competitive products group specific cost estimate of \$39,362 thousand. Including those costs with other group-specific costs, however, does not alter the conclusions reached on page 66 of the FY10 ACR that the "hybrid incremental costs of \$6.386 billion are well below total competitive products revenue of \$8.678 billion," and "that competitive products in FY 2010 were not cross-subsidized by market dominant products, and thus were in compliance with subsection 3633(a)(1)."

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27. The Parcel Select Loyalty Incentives and Growth Incentives expired May 31, 2010. Please provide data detailing the rebates paid in FY 2010.

RESPONSE:

The Postal Service is not aware of any rebates paid under this program in FY 2010.

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28. In USPS-FY10-NP15 and USPS-FY10-NP16, the Postal Service uses input data and methodologies introduced in Docket No. RM2011-6, Proposals Thirteen and Fourteen. The Commission has not made a final decision on Proposals Thirteen and Fourteen. Please provide versions of USPS-FY10-NP15 and USPS-FY10-NP16 that exclude the Proposals Thirteen and Fourteen changes.

RESPONSE:

The modified Parcel Select – Parcel Return Service mail processing cost model is contained in the file 'ChIR.1.Q.28.USPS-FY10-NP15.ACR2010.xls', provided under seal as part of USPS-FY10-NP30.

The modified Parcel Select – Parcel Return Service transportation cost model is contained in the file 'ChIR.1.Q.28.USPS-FY10-NP16.ACR2010.xls', also provided under seal as part of USPS-FY10-NP30.

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29. In Docket No. ACR2009, in response to CHIR No. 1, question 24, the Postal Service submitted the non-public Excel file NP.30.FY2009_RPWextractfile_Restricted.xls (See USPS-FY09-NP30). 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 "RPW Report." Please provide an Excel file featuring the aforementioned worksheet tabs that contain the same comprehensive mail category data from the RPW updated for FY 2010.

RESPONSE:

The requested material has been filed under seal as part of USPS-FY10-NP30 in the Excel file ChIR.1.Q.29.NONPUBLIC.FY2010_RPWextractfile.xls.

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30. In its response to Docket No. ACR2009, CHIR No. 5, question 3, the Postal Service provided a distribution of FY 2009 Market Dominant Mail fees to mail categories. Please distribute the FY 2010 Market Dominant Mail fees provided in Table 1 below to the list of mail categories provided in Excel file CHIR_No.1_Attachment_A.xls, worksheet 'Market Dominant Mail Categories.'

RESPONSE:

The requested material has been provided in the Excel file ChIR.1.Q.30.MD.Fees.xls as part of USPS-FY10-42.

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31. In its response to Docket No. ACR2009, CHIR No. 5, question 4, the Postal Service provided a distribution of FY 2009 Competitive Mail fees to mail categories. Please distribute the FY 2010 Competitive Mail fees provided in Table 2 below to the list of mail categories provided in Excel file CHIR_No.1 _Attachment_A.xls, worksheet 'Competitive Mail Categories.' The cell values referenced in Table 2 are located in Fy2010_RPWextractfile.xls, worksheet 'Summary Category RPW Data.'

RESPONSE:

The requested material has been provided under seal in the Excel file

ChIR.1.Q.31.NONPUBLIC.Comp.Prod.Fees.xls as part of USPS-FY10-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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January 24, 2011