

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report

Docket No. ACR2010

CHAIRMAN'S INFORMATION REQUEST NO. 2

(Issued January 27, 2011)

To clarify the basis of the Postal Service's estimates in its Annual Compliance Report, filed December 29, 2010, the Commission requests the Postal Service to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than February 4, 2011.

1. The following questions concern market dominant inbound international Registered Mail.
 - (a) Please refer to Library Reference USPS-FY10-NP5, FY 2010 ICRA Overview/Technical Description, Volume I, Part 2, Chapter 9, and the table on page 40, which reports Transactions for "Inbound Registered." Also, please refer to Library Reference USPS-FY10-NP2, Excel file Reports (Booked).xls, worksheet A Pages (md), Table A-2, which reports that the number of pieces for inbound international Registered Mail is zero. Please explain the absence of reported transactions for inbound international Registered Mail in Table A-2.
 - (b) Also, please confirm that the number of transactions reported in Chapter 9 is accurate. If not confirmed, please provide the correct number of transactions for inbound international Registered Mail.

2. The following question concerns market dominant inbound international negotiated service agreements (NSAs). Please refer to USPS-FY10-NP2, Excel file Reports (Booked).xls, worksheet A Pages (md), Table A-2, and the reference to Global Direct Entry with Foreign Postal Administrations. Please provide the revenue, volume-variable costs, product-specific costs (if any), pieces, and net/gross pounds for each contract/agreement (identified by name, docket number and, if applicable, contract/agreement number) used to derive the revenue, cost, volume, and weight figures for Global Direct Entry with Foreign Postal Administrations shown in Table A-2.
3. The following question concerns Inbound Air Parcel Post and Inbound Express Mail International. Please refer to USPS-FY10-NP2, Excel file Reports (Booked).xls, worksheet A Pages (c), Table A-1, and the reference to Inbound Air Parcel Post "Subject to Agreement" and Inbound Express Mail International "Subject to Agreement." Please provide the revenue, volume-variable costs, product-specific costs (if any), pieces, and net/gross pounds for each contract/agreement (identified by name, docket number and, if applicable, contract/agreement number) used to derive the revenue, cost, volume, and weight figures for Inbound Air Parcel Post and Inbound Express Mail International "Subject to Agreement" shown in Table A-1. In the response, the Postal Service may combine in a single entry the requested figures for Express Mail Service (EMS) originating from foreign posts with rates established in accordance with the EMS Cooperative of the UPU.
4. The following question concerns competitive inbound international negotiated service agreements (NSAs). Please refer to USPS-FY10-NP2, Excel file Reports (Booked).xls, worksheet A Pages (c), Table A-2, and the reference to Inbound Direct Entry and Inbound Business Reply Mail Service (IBRS) Contracts. Please provide the revenue, volume-variable costs, product-specific costs (if any),

pieces, and net/gross pounds for each contract/agreement (identified by name, docket number and, if applicable, contract/agreement number) used to derive the revenue, cost, volume, and weight figures for Inbound Direct Entry and IBRS Contracts shown in Table A-2.

5. The following questions concern the Canada Post–United States Postal Service Contractual Bilateral Agreement.
 - (a) Please refer to USPS-FY10-NP2, Excel file Reports (Booked).xls, worksheet A Pages (c), Table A-2, and the reference to “Canada Post–Bilateral for Inbound Competitive Services,” where the revenue, cost, volume and weight figures only pertain to Xpresspost and Expedited Parcels. For the Canada Post–United States Postal Service Contractual Bilateral Agreement for Inbound Competitive Services product, please identify the other competitive inbound international mail services covered by the agreement. Also, please provide the revenue, volume-variable costs, product-specific costs (if any), pieces, and net/gross pounds for the identified competitive inbound international mail services covered by the agreement if not already separately reported as such in the Excel file, Reports (Booked).xls, worksheet A Pages (c).
 - (b) In the Excel file Reports (Booked).xls, worksheet A Pages (md), under the heading “International Negotiated Service Agreements,” there is no comparable reference to “Canada Post–Bilateral for Inbound Market Dominant Services.” For the Canada Post–United States Postal Service Contractual Bilateral Agreement for Market Dominant Services product, please confirm that the only market dominant inbound international mail service covered by the agreement and reported in the Excel file Reports (Booked).xls, is inbound Letter Post. If not confirmed, please explain and

provide the revenue, volume-variable costs, product-specific costs (if any), pieces, and net/gross pounds for each market dominant international inbound mail service covered by the agreement if not already separately reported as such in the Excel file Reports (Booked).xls, worksheet A Pages (md).

6. For FY 2010, the ICRA reports that costs exceed revenues for Inbound Single-Piece First-Class Mail from Canada based upon both “booked” and “imputed” methodologies. In Docket Nos. R2009-1 and R2010-2, the Postal Service presented financial models showing that its negotiated rates, effective in CY 2009 and CY 2010, would cover cost. Please confirm that the financial models were based upon “imputed” revenues and expenses. If not confirmed, please explain. If confirmed, please explain the causes of the difference between the cost coverage reported in the FY 2010 ICRA and cost coverages estimated in the Postal Service’s financial models.
7. The following questions concern Inbound Express Mail Service (EMS).
 - (a) Please provide the CY 2009 EMS Cooperative Report Card provided to the Postal Service.
 - (b) Please provide the CY 2010 EMS Cooperative Report Card, if available. If not available, please provide the available quarterly report cards for CY 2010, provided to the Postal Service.
8. For FY 2010, the ICRA reports that costs exceed revenues for Inbound Express Mail Service (EMS) based upon both “booked” and “imputed” methodologies. In Docket Nos. MC2009-10/CP2009-12 and CP2009-57, the Postal Service presented financial models showing that its proposed EMS rates, effective in CY 2009 and CY 2010, would cover cost. Please confirm that the financial

models were based upon “imputed” revenues and expenses. If not confirmed, please explain. If confirmed, please explain the causes of the difference between the cost coverage reported in the FY 2010 ICRA and cost coverages estimated in the Postal Service’s financial models.

9. Please refer to USPS-FY10-NP2, Excel file “Reports (Booked).xls”, worksheet tab A-Pages (c), Table A-1. For Canada Post Inbound Bilateral, *i.e.*, Inbound Surface Parcel Post (at non-UPU rates), the reported volume-variable cost figure does not include any mail processing costs. Please explain the absence of, and provide the mail processing costs for, Inbound Surface Parcel Post (at non-UPU rates).

10. Please refer to USPS-FY10-NP2, Excel file “Reports (Booked).xls”, worksheet tabs A-Pages (md) and A-Pages (c), and Table A-1 and Table A-2, respectively. Also, please refer to the Notice of United States Postal Service of Proposed Minor Classification Change Concerning Canada Post–United States Postal Service Contractual Bilateral Agreement for Inbound Competitive Services, August 2, 2010 (Notice), Docket No. MC2010-33.
 - (a) In its Notice, the Postal Service states that as of August 23, 2010, Xpresspost items will be charged the Tier 1 inbound Express Mail Service (EMS) rates, handled in the Express Mail network and, for reporting purposes, that it will aggregate Xpresspost volumes with other EMS volumes to the end of FY 2010 and in Quarter 1 of FY 2011. Notice at 5 and 6. Please confirm that in Quarter 4 of FY 2010, beginning August 23, 2010, the Postal Service reported Xpresspost items as Inbound Express Mail International “Subject to Agreement” in worksheet tab A-Pages (c), Table A-2. If not confirmed, please explain.

- (b) In worksheet tab Pivot5, the Postal Service separately reports revenue, cost, and volume figures for Expedited Parcels and Xpresspost, which are then combined and reported in Table A-2 as Canada Post–Bilateral for Inbound Competitive Services, Quarters 2–4. For Quarter 1, please confirm that the Postal Service reported Xpresspost items and part of Inbound Single-Piece First-Class Mail from Canada in worksheet tab A-Pages (md), Table A-1. If not confirmed, please explain.
11. For Library Reference USPS-FY10-NP27, file “SupportPriority_FY10 “ tab “inputs,” please identify the source and provide the rationale for the use of the adjustment factor .0702 applied to cells c60 and d60 of tab.
 12. For Library Reference USPS-FY10-NP27 file “SupportPriority_FY10 “ tab “inputs,” please reconcile the sum of cells c59:c63 and d59:d63 to the sum of cells c64 and d64.
 13. For the Library Reference USPS-FY10-NP27 file “SupportPriority_FY10 “ tab “inputs,” please identify the Library Reference, File Name, Tab Name, and Cell Number of the source of cell e32.
 14. Please reconcile the value of Library Reference USPS-FY10-NP27, file “SupportPriority_FY10 “ tab “inputs,” cell e4 and Library Reference USPS-FY10-NP12, file “FY10 Nonpublic CS&S Rpt,“ tab “CSSummary,” cell u56.
 15. Please reconcile the value of Library Reference USPS-FY10-NP27, file “SupportExpress_FY10, “ tab “inputs,” cell c4 and Library Reference USPS-FY10-NP12, file “FY10 Nonpublic CS&S Rpt,“ tab “CSSummary,” cell u55.

16. For Library Reference USPS-FY10-NP27, file "SupportExpress_FY10 " tab "inputs," please identify the Library Reference, File Name, Tab Name, and Cell Number of the source of cell c21.
17. In the file FY2010_RPWextractfile.xls, at worksheet RPW Report the amount of revenue for Other Mailing Services Revenue is \$753,163(000) and is composed of the following revenue sources as found in the worksheet rate category RPW data:

	<u>FY 2010 Revenue</u>
Reimbursement Revenue (Emergency Preparedness Funds)	\$63,004.061
Appropriations: Revenue Foregone Investment Income	88,877.000
Investment Income	25,326.249
Miscellaneous Item Revenue	572,985.226
Free Military Mail Revenue	2,970.917
 Total Other Mailing Service Revenues	 753,163.453

The revenues for the Emergency Preparedness Funds, Appropriations, and Investment Income can be tracked directly to the FY 2010 Trial Balance data (USPS-FY10-NP29). However, Miscellaneous Item Revenue and Free Military Mail Revenue cannot be directly traced. Please provide the sources for the derivation of the revenues and the composition of the revenues reported in the RPW extract file for the Miscellaneous Item Revenue and Free Military Mail Revenue.

By the Chairman.

Ruth Y. Goldway