

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 1-17 OF CHAIRMAN'S INFORMATION REQUEST NO. 2
(February 4, 2011)

The Postal Service hereby files its responses to questions 1-17 of Chairman's Information Request No. 2, issued on January 27, 2011. Each question is stated verbatim, and followed by the response. In responses in which nonpublic information has been redacted, the unredacted version appears as part of USPS-FY10-NP31.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
February 4, 2011

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

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.

RESPONSE:

- (a) Chapter 9 documents the calculations for the Imputed version of the ICRA as shown in the Reports.xls file. The Reports (Booked).xls file uses RPW as its booked basis and RPW reports only revenue, no pieces.
- (b) Confirmed that the number of transactions reported in Chapter 9 is accurate for calculations of the Imputed Reports.xls version.

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

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.

RESPONSE:

The revenue, volume-variable costs, pieces and net/gross pound for each Foreign Postal Administration are shown on the GDEI Cost by Country tab of ChIR.2.Q.2-5.NONPUBLIC.xls, filed under seal as part of USPS-FY10-NP31.

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

RESPONSE:

The revenue, volume-variable costs, pieces, and net/gross pounds for each contract/agreement for Inbound Air Parcel Post and Inbound Express Mail International are shown on the Inbound Non-UPU ACP, China EMS tab of ChIR.2.Q.2-5.NONPUBLIC.xls, filed under seal as part of USPS-FY10-NP31.

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

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.

RESPONSE:

Revenue, volume-variable costs, pieces, and net/gross pounds for each contract/agreement for IBRS are shown in: USPS-FY10-NP2; ICM Costing; IBRS; IBRS Costing; IBRS tab. The associated docket numbers are:

Customer 1: Docket Numbers CP2009-20 and CP 2010-22,

Customer 2: Docket Numbers CP2009-22 and CP2010-21, and

Customer 3: Docket Number CP2010-17.

Revenue, pieces, and net/gross pounds for each contract/agreement for Inbound Direct Entry are shown on the IDE tab of ChIR.2.Q.2-5.NONPUBLIC.xls, filed under seal as part of USPS-FY10-NP31. Files ChIR.2.Q.4.NP.CP2008-14 IDE.FY10.v2.xls, ChIR.2.Q.4.NP.CP2008-15 IDE.FY10.xls and ChIR.2.Q.4.NP.CP2009-41 IDE FY10.xls are included in USPS-FY10-NP31 to calculate the Inbound Direct Entry Unit costs used in the IDE tab of ChIR.2.Q.2-5.NONPUBLIC. These three IDE files update the financial models that accompanied the dockets noted in their titles.

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

RESPONSE:

a. The Canada Post-United States Postal Service Contractual Bilateral Agreement for Inbound Competitive Services revenue, volume-variable costs, pieces, and net/gross pounds are shown on the Canada Inbound Products tab of ChIR.2.Q.2-5.NONPUBLIC.xls, filed under seal as part of USPS-FY10-NP31.

b. Confirmed.

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

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.

RESPONSE:

Confirmed that the financial models were based upon “imputed” revenues and expenses. The causes of the difference between the cost coverage reported in the FY 2010 ICRA and cost coverages estimated in the earlier financial models are both revenue and cost related. The Imputed FY2010 ICRA shows a [Redacted] cost coverage for the period from October 1, 2009 through September 30, 2010. The financial models underlying the Canada bilateral agreement shows a [Redacted] cost coverage for the period from January 1, 2010 through December 31, 2011 arranged as Period 1 from January 1, 2010 through December 31, 2010 and Period 2 from January 2, 2011 through December 31, 2011. However, approximately [Redacted] of the [Redacted] as calculated in the financial model occurs during Period 2; thus, those benefits are not reported in the FY2010 ICRA.

Another revenue reason for the difference is the actual US Dollar per SDR exchange rate was [Redacted] than the projection, thus [Redacted]. This effect would [Redacted] for both mail steams.

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

On the cost side, relative to the projection for 2010 in the financial models underlying the Canada Bilateral, the FY 2010 ICRA imputed version reports [Redacted] because the total of domestic processing, delivery and other costs on a per piece basis were [Redacted] than the projected rolled-forward ICRA 2008 costs for air LC and 2 [Redacted] for surface AO. Furthermore, domestic transportation costs were [Redacted] and [Redacted] than the projection, respectively. The aggregate of these cost changes would have [Redacted], resulting in a projected [Redacted].

An unredacted version of this response is filed under seal as part of USPS-FY10-NP31.

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

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.

RESPONSE:

- a. The requested information is filed under seal as part of USPS-FY10-NP31.
- b. The CY2010 Report Card will not be available until March 2011 or soon thereafter. Additionally, the EMS Unit has not distributed Q4-CY2011 report card. Thus, unredacted versions of Quarters 1, 2, and 3 for CY2010 are included as part of USPS-FY10-NP31.

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

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.

RESPONSE:

It is confirmed that the financial models were based upon "imputed" revenues and expenses. The causes of the difference between the cost coverage reported in the FY 2010 ICRA and cost coverages estimated in the earlier financial models are both revenue and cost related. Relative to the projection for 2010 in the financial models underlying the proposed EMS rates, the FY 2010 ICRA reports lower revenue because the projection is for CY 2010, and Q1 rates in the ICRA for FY 2010 were over [Redacted] lower for the non-PFP countries. Under a full year of the 2010 rates, the ICRA would have reported a [Redacted] contribution. Additionally, the actual US Dollar per SDR exchange rate was [Redacted] lower than the projection, thus reducing inbound revenues by the same percentage. This effect would reduce projected contribution by [Redacted], leaving a [Redacted] contribution.

On the cost side, domestic processing, delivery and other costs on a per piece basis were [Redacted] higher than the rolled-forward ICRA 2008 costs, domestic transportation [Redacted] lower per kilogram. The net of these two factors would have reduced contribution [Redacted], resulting in a projected contribution of [Redacted].

An unredacted version of this response is filed under seal as part of USPS-FY10-NP31.

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

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).

RESPONSE:

Inbound Surface Parcel Post costs for mail processing were reported as Expedited Parcels for the entire fiscal year. Inbound Surface Parcel Post costs for non-mail processing were reported as Inbound Surface Parcel Post (at Non-UPU rates) for Quarter I and as Expedited Parcels for Quarters II – IV.

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

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.

RESPONSE:

a. It is not confirmed that items identified as Xpresspost from Canada were reported as Inbound Express Mail International "Subject to Agreement" Xpresspost because residual pieces of Xpresspost at Xpresspost rates would continue to be received from Canada until January 2011. Items identified as EMS from Canada were reported as Inbound Express Mail International "Subject to Agreement."

b. Confirmed.

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

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.

RESPONSE:

The source is USPS-FY10-NP13, file "IRpt.xls", sheet "CS98.3", cell H56 = -0.9298. This factor is applied to the CS14 Alaska Air Non-Pref Priority Mail costs and the result is subtracted from CS14 Alaska Air Non-Pref costs. Algebraically this is equivalent to multiplying the corresponding CS14 costs by .0702 because $X - .9298X = .0702X$. Its use is consistent with the calculation of final transportation costs in the CRA.

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

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.

RESPONSE:

Cells c64 and d64 had incorrect values. They have been corrected in workbook SupportPriority_FY10_ChIR2.xls, which is being filed under seal in USPS-FY10-NP31.

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

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.

RESPONSE:

The source for cell e32 is 'USPS-FY10-NP29, "Trial Balance 2010.xls", sheet "seg 16", cell L191.

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

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.

RESPONSE:

Cell e4 (from the first file cited in the question) had the wrong value, while cell u56 (from the second file cited in the question) had the correct value. In workbook SupportPriority_FY10_ChIR2.xls, filed under seal in USPS-FY10-NP31, cell e4 has now been corrected to match cell u56.

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

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.

RESPONSE:

Cell c4 (from the first file cited in the question) had the wrong value, while cell u55 (from the second file cited in the question) had the correct value. In workbook SupportExpress_FY10_ChIR2.xls, filed under seal in USPS-FY10-NP31, cell c4 has now been corrected to match cell u55.

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

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.

RESPONSE:

The source for cell c21 is USPS-FY10-NP29, "Trial Balance 2010.xls", sheet "seg 16", cell L190.

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

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.

RESPONSE:

With respect to the Miscellaneous Item Revenue, attached to this response electronically is an Excel file (ChIR.2.Q.17.PUBLIC.Misc.Rev.xls) that contains a table which constructs the Miscellaneous Item Revenue reported in RPW from the Trial Balance download. In FY 2010, RPW began separately reporting new Postal and non-Postal services (i.e., certain former "nonpostal" services, some of which remained nonpostal, and some of which were reclassified as postal services). Revenues for some of these are in Trial Balance accounts that formerly used to be directly included in the calculation of Miscellaneous Item Revenue. In order not to double count revenues that are reported elsewhere, the gross Miscellaneous Item Revenue is calculated first (\$709,322,843), and then the total of the amounts reported elsewhere (\$136,337,617) is

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

subtracted, leaving the net Miscellaneous Item Revenue cited in the question of \$572,985,226. These steps are shown in the attached Excel file (ChIR.2.Q.17.PUBLIC.Misc.Rev.xls), although for purposes of the public response, disaggregations of certain Competitive Product revenues are aggregated in one line. The corresponding disaggregated revenues are provided under seal in ChIR.2.Q.17.NONPUBLIC.Misc.Rev.xls, as part of USPS-FY10-NP31.

With respect to Free Military Mail Revenue, that item is reported in accordance with the methodology approved by the Commission in Docket No. RM2009-10 as Proposal Seventeen. See, Order No. 339 (Nov. 13, 2009) at 41-43. As indicated in that Order, the source is accrued revenue in General Ledger 41422, based on the current period billing.

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
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