

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

Annual Compliance Report

Docket No. ACR2010

CHAIRMAN'S INFORMATION REQUEST NO. 5

(Issued February 25, 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 March 4, 2011.

1. Please refer to the response to CHIR No. 1, question 1, "ChIR.1.Q.1.USPS-FY10-10.ACR2010.xlsx", tab 'WAGE RATES – PIGGYBACK FACTORS' cell D13. The piggyback factor used for the MPBCS equipment is identical to the one used for DBCS. In last year's ACD, the MPBCS piggyback factor was taken from "USPS-FY09-25, MPPGBY09PRC.xls" tab 'A', cell M103. The equivalent source in the 2010 ACR materials shows an error ("#DIV/0!") in the cell. Based on an examination of the 'MODS' tab of the letter cost model ("ChIR.1.Q.1.USPS-FY10-10.ACR2010.xlsx"), it appears that no pieces were processed on MPBCS equipment in FY 2010.
 - (a) Please confirm that all remaining MPBCS equipment was phased out of service during FY 2009. If not, please explain the reason for the missing values in the piggyback factor calculations.

- (b) Please confirm that the MPBCS piggyback factor used in the letter cost models no longer has any effect on the results of the First-Class or Standard Mail models. If not, please explain the rationale for the use of the DBCS piggyback factor as a proxy.
 - (c) Please identify all additional changes that were made to the 2010 ACR supporting materials to reflect the phasing out of MPBCS equipment. Please also describe any additional changes that should be made to reflect the phasing out of MPBCS equipment that were not made in the 2010 ACR.
2. Please refer to USPS-FY10-3, "FY10.3.Workshare Discounts Table-FY 2010_12_29_10.xls.xls", tab 'FCM Parcels'. The avoided costs for First-Class parcels are taken from USPS-FY10-11, "FCM flat costs 2010.xls", tab 'BUNDLE OPS SUMMARY', column J (labeled "Bundle Ops Adj. to match nonauto"). In the 2009 ACD and the 2009 ACR, the Commission and the Postal Service used the unadjusted costs in column G (labeled "Bundle Operations Piece Distribution") from the 2009 version of the source file to estimate First-Class parcel cost avoidances. Please describe the adjustment mechanism that is applied to calculate the figures in column J and discuss the rationale for using adjusted figures instead of unadjusted ones. Please include a description of the types of parcels (e.g., nonautomation or all presort) that are included in the 71.719 cents cost for presort parcels from USPS-FY10-26.
3. Please refer to USPS-FY2010-NP 27, excel file: SupportPriority_FY10.xls, tab: Inputs, line 36.

- (a) Please confirm that the cost described on line 36 was not included in the FY 2008 and FY 2009 supporting worksheets that were originally filed in support of the contracts.
- i. If confirmed,
1. Update all contract specific workpapers to only include adjustments that were included in the original financial analysis that the Commission relied on to approve the contract.
 2. List all other adjustments that were not included in the FY 2008 and FY 2009 supporting worksheets that the Postal Service has made to supporting workpapers for Priority Mail Contracts, Express Mail Contracts, Parcel Select Contracts, and Parcel Return Service Contracts.
 3. Provide a narrative explaining the rationale and methodology used to develop the cost described on line 36, and all adjustments listed in response to question (a)(i)(2) above.
- ii. If not confirmed, please provide information explaining the derivation and justification for this cost from the FY 2008 and FY 2009 supporting worksheets.
- (b) Is the cost described on line 36 an analytical principle under 39 CFR 3050.1(c)? Please provide the rationale supporting your response.

- (c) If you responded in the affirmative to (b), please state whether the cost described on line 36 is an accepted analytical principle under 39 CFR 3050.1(a).
 - (d) Please confirm that the accepted analytical principles related to each competitive NSA are contained in the worksheets that were originally filed in support of the contracts. If not confirmed, please explain.
- 4. In Order No. 211, Order Concerning Collaborative Logistics Market Test, the Commission stated “[a]ll [Collaborative Logistics] agreements shall be retained by the Postal Service for at least one year following the end of the market test.” Order No. 211 at 7-8. Please provide all contracts to the Commission, and match each contract to each generic customer name (*i.e.*, Customer A, Customer B, etc.) filed in ChIR.1.Q.25.NONPUBLIC.Collab.Logistics.xlsx.
- 5. Please refer to the response to CHIR No. 1, question 24(a), which states that most of the cost increase for inbound EMS (Express Mail Service) between FY 2009 and FY 2010 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.” Please explain what a “scan barcode edit” is, how the scan barcode edit caused the approximate 10 percent cost increase, and whether this cost will occur during FY 2011. Also, please explain why the Postal Service did not estimate the increase in costs associated with mail processing and the scan barcode edit, noted in CHIR No. 1, question 24(a), in its financial model accompanying the proposed CY2010 inbound EMS rates filed in CP2009-57.
- 6. Please refer to the response to CHIR No. 1, question 24(c), which states, “Changes have been made to include the Insurance fee breakouts in the RPW

Reporting beginning with Q1 FY 2011.” Please provide the FY 2010 and FY 2011, Quarter 1 insurance fee revenues arising from sales’ transactions made through Click-N-Ship for all service categories.

7. Please refer to the response to CHIR No. 2, question 2, which references USPS-FY10-NP31, and the Excel file ChIR.2.Q.2-5.NONPUBLIC.xls. In worksheet tab GDEI RPW, the Postal Service provides revenue, pieces, and weight for Global Direct Entry from six of the eight countries listed. In the Excel file Reports (Booked).xls, worksheet tab A Pages (md), the financial results for Global Direct Entry with Foreign Postal Administrations is reported along with other market dominant products.
 - (a) In the proposed market dominant product list, please identify where “Global Direct Entry with Foreign Postal Administrations” can be found.
 - (b) Please confirm that the Postal Service has a bilateral agreement with the postal administrations of each of the countries listed in worksheet tab GDEI RPW. If not confirmed, please explain.

8. Please refer to the response to CHIR No. 2, question 5, which references USPS-FY10-NP31, and the Excel file ChIR.2.Q.2-5.NONPUBLIC.xls. In worksheet tab Canada Inbound Products, the Postal Service provides revenue, pieces, weight and costs for inbound Surface Parcels and Expedited Parcels.
 - (a) Please explain the difference (if any) between inbound Surface Parcels and Expedited Parcels.
 - (b) Please explain why the Postal Service is reporting the financial results separately for Expedited Parcels and inbound Surface Parcels.

- (c) In the Excel file Reports (Booked).xls, worksheet tab A Pages (c), Table A-1, the Postal Service notes that for Quarter 1, inbound Expedited Parcels are being reported as Inbound Surface Parcels (at Non-UPU rates). Please explain where revenues, pieces, weight and cost figures for inbound Expedited Parcels are reported during Quarters 2 – 4.
 - (d) Please provide for each fiscal quarter the revenue, pieces, weight and cost (*i.e.*, Mail Processing, Delivery, Other Domestic, and Domestic Transportation) figures separately for Inbound Surface Parcels (at Non-UPU rates) and inbound Expedited Parcels. If revenue, pieces, weight and cost figures are reported for Inbound Surface Parcels (at Non-UPU rates) and inbound Expedited Parcels in the inbound EMS and Xpresspost categories, please provide for each fiscal quarter the revenue, pieces, weight and cost for those categories as well.
9. Please refer to the response to CHIR No. 2, question 4, which references USPS-FY10-NP31, and the Excel file ChIR.2.Q.2-5.NONPUBLIC.xls. In worksheet tab IDE, the Postal Service provides revenue, volume, weight and cost figures for Inbound Direct Entry. However, in the Excel file Reports (Booked).xls, worksheet tab A Pages (c), Table A-2, the Postal Service does not provide any volume variable or product-specific cost figures. Please explain the absence of such cost figures in worksheet tab A Pages (c), table A-2.
10. FY 2010 library reference USPS-FY10-29 at 4 states that the “results for Letter performance from IMMS are combined with the proxy data for flats and parcels to measure service performance for all inbound and outbound Single-Piece First-Class Mail International. Transit time is compared against the First-Class Mail service standard due to the comparability of domestic-leg processing with that of First-Class Mail.” The Inbound/Outbound Single-Piece First-Class Mail

International service performance score was 89.4 percent. The service performance scores for FY 2009 and FY 2008 were 89.7 and 93.4 percent, respectively.

- (a) Please explain why the FY 2010 combined Inbound/Outbound Single-Piece First-Class Mail International service performance scores have been declining when compared with those of Single-Piece First-Class Mail for FY 2010, FY 2009 and FY 2008.
 - (b) Please explain why the FY 2010 Inbound Overnight, 2-day and 3-to-5-day Single-Piece First-Class Mail International service performance scores are lower than the Single-Piece First-Class Mail scores for FY 2010.
 - (c) Please explain why the FY 2010 Outbound Overnight, 2-day and 3-to-5-day Single-Piece First-Class Mail International service performance scores are lower than the Single-Piece First-Class Mail scores for FY 2010.
11. Please refer to the Postal Service's response to CHIR 3, question 13b. The interrogatory requested information on "[w]hat percentage of total Presort First-Class Mail by volume was entered as Full Service IMb compliant as of the end of FY 2010." The Postal Service's response referred to Standard Mail volume. Please respond to the original question regarding Presort First-Class Mail.
12. In the 2010 Comprehensive Statement on Postal Operations at 53, the Postal Service identifies Intelligent Mail as a strategic initiative. Excluding Within County Periodicals, the FY 2011 target is to have 90 percent of mail contain either a Full-Service or Basic IM barcode.
- (a) Please provide the percentage of mail by class that is expected to be Full-Service IMb compliant by the end of FY 2011.

- (b) Please identify the percentage of mail by class that is expected to be Basic IMb compliant by the end of FY 2011.
 - (c) Please identify the FY 2011 data yield for service performance measurement and the percentage that is Full Service IMb compliant.
 - (d) Please specifically identify the steps the Postal Service plans to take in order to obtain sufficient Full Service IMb compliant mail to report service performance results for Standard Mail and Presort First-Class Mail in FY 2011.
13. The Public Representative reported that the Postal Service recently announced its intention to close or consolidate approximately 2,000 offices over the next 2 years. Public Representative Comments in Response to Order No. 636 at 11. Please identify by facility type (station, branch, post office, etc.) the number of facilities that are currently planned to be closed in FY 2011.
14. For FY 2011, the Postal Service identifies as a strategic initiative reducing energy use. 2010 ACR USPS-FY10-17. No quantifiable FY 2011 target was set. Please specifically identify the energy reduction programs and quantify the energy use reductions planned for FY 2011.
15. In response to Chairman's Information Request No. 3, question 2 of the 2010 ACR, the Postal Service provided the information shown in columns (a), (b) and (c). Column (d) is the actual difference when columns (a) and (b) are subtracted. Please explain why the calculated differences in column (d) do not match those provided in column (c).

As Reported in Response to CHIR 3, Question 2

Change in the Number of Collection Boxes from the Beginning to End of FY 2010

Area	FY 2010 Beginning of Year (a)	FY 2010 End of Year (b)	Number of Collection Boxes Removed as Reported in CHIR 3, Q2 (c)	Calculated Boxes Removed (d)
Capital Metro	14,111	14,049	145	62
Eastern	28,759	27,647	1,256	1,112
Great Lakes	22,647	22,298	475	349
Northeast	34,063	33,258	911	805
Pacific	20,349	20,039	424	310
Southeast	15,012	14,170	1,019	842
Southwest	12,467	12,018	580	449
Western	27,055	26,641	575	414
Total	174,463	170,120	5,385	4,343

16. Please provide the minimum required sample size (usable IMb data points) to achieve a level of precision of +/- 3 percent for service performance measurement at the district, area, and national level for each of the products listed below:

Intelligent Mail Performance Reporting	
First Class Mail:	
	Bulk Letters/Postcards
	Overnight
	Two-day
	3/4/5-day
	Flats*
	Overnight
	Two-day
	3/4/5-day
Standard Mail:	
	Destination Entry
	High Density and Saturation Letters
	High Density and Saturation Flats/Parcels
	Carrier Route
	Letters
	Flats
	Not Flat-Machinables (NFM)/Parcels
	End-to-End
	High Density and Saturation Letters
	High Density and Saturation Flats/Parcels
	Carrier Route
	Letters
	Flats
	Not Flat-Machinables (NFM)/Parcels
Periodicals:	
	Within County
	Outside County

Flats* - Semi-permanent exception requested for district level Reporting- RM2010-4

17. In its response to CHIR No. 1, Question 3(d) in Docket No. RM2011-1, the Postal Service computed a minimum sample size of 875 pieces for First-Class Mail Flats at the district level per destinating district resulting in a useable data sample size of 200,000 pieces per quarter at a +/- 3 percent level of precision. However,

if a 95 percent confidence level is assumed, approximately 300,000 pieces per quarter of useable data would be needed. What is the targeted confidence level in the IBM/iMaps service performance measurement system for FY2011 and when completely operational?

By the Chairman.

Ruth Y. Goldway