

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

ANNUAL COMPLIANCE REPORT, 2010

Docket No. ACR2010

NOTICE OF THE UNITED STATES POSTAL SERVICE OF
FILING OF REVISED PUBLIC RESPONSE TO QUESTION 3 OF CHAIRMAN'S
INFORMATION REQUEST NO. 5 -- ERRATA
(March 8, 2011)

The Postal Service hereby gives notice of filing a replacement version of the public response to Question 3 of ChIR No. The original public version filed on March 4 merely referred to the non-public version filed under seal in USPS-FY10-NP33. The replacement, a copy of which is attached, is a redacted version of the non-public response. The full (unredacted) response to this question, and the associated Excel materials, are unchanged and remain provided under seal as part of USPS-FY10-NP33.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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March 8, 2011

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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.

RESPONSE:

- (a) Confirmed. There were four adjustments in ACR2010 that were not included in FY 2008 or FY 2009. These are:

(1) cost avoidance for Priority mailpieces that are [REDACTED] (the "line 36" cost referenced in the question);

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(2) inclusion of D-Report adjustments;

(3) incorporation of the CRA adjustment for Alaska Air Priority transportation;

(4) change in distribution of Other costs for Parcel Select and PRS.

All changes except for (1) were listed in the preface to USPS-FY10-NP27.

Workpapers provided in file Chir.5.Q.3.zip in USPS-FY10-NP33 exclude these four adjustments. They also include corrections to errors identified earlier (Response to ChIR 2, questions 11-16 and material filed under seal in USPS-FY10-NP31). However, they do not always reflect the financial analysis from the original analysis reviewed when the Commission approved. For example, the analysis in Docket Nos. CP2010-75, CP2010-76 and CP2010-77 included an adjustment involving the Priority Mail advertising campaign. Later, in Docket Nos. CP2011-3 (Order No. 573, pp. 6-7) and CP2011-4 (Order No. 574, pp. 6-7), the Commission made it clear that it did not accept this adjustment, so it has not been included in any of the current analysis.

See the response to (b)-(c) below for the rationale for the cost adjustment on line 36.

(b)-(c) The rationale for the cost on line 36 is that the contract volumes are [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]. In the Postal Service's view, the rationale does not constitute "a particular economic, mathematical, or

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statistical theory, precept, or assumption" but rather recognizes an operational feature of the affected NSA mail. This cost avoidance was not incorporated in a number of early Priority Mail NSAs, but was incorporated into others.¹ The Postal Service submits that the change makes the cost estimates more reflective of the operational characteristics of the affected NSA volumes.²

The line 36 cost quantifies the avoided mail processing costs by identifying Priority Mail costs for the avoided operations using Commission mail processing cost attribution methodology. While this could be viewed as a quantification method using accepted Commission methodology, recognizing the cost avoidance in the cost model may constitute an "analytical technique" under 39 CFR 3050.1(c) rather than a "quantification technique" under 39 CFR 3050.1(f) since that rule states "quantification techniques" "should not change the output of the analysis in which it is employed." In this case, subtracting the line 36 cost avoidance clearly changes the product costs. However, the purpose of the cost calculation is to test whether the contract volumes cover their attributable

¹ The Commission approved the application of this cost avoidance for the NSA in CP2011-51 (Order No. 661). See "PMNPP_Costs_FY10.xls", sheet "Input Costs", cells B42:C42.

² Under the time constraints of contract negotiations, it is often impractical to conduct refined cost modeling exercises in advance. In this context, cost estimates that may not reflect all available cost avoidances for the contract mail have the feature that the cost coverage tests are robust to the omission—a finding that the contract volumes would produce the required minimum markup would be made a fortiori using the "true" costs. Nevertheless, using accurate cost estimates is important, and to that end, the Postal Service conducts retrospective reviews of its data and methods for contract costing and incorporates changes as warranted.

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costs and make the required contribution to the other costs of the Postal Service. As the material filed in response to part (a) shows, the outcomes of the cost coverage tests are unaffected by the inclusion (or exclusion) of the line 36 costs. The line 36 cost adjustment is not used in support of rates of general applicability.

Regardless of the applicability of certain parts of 39 CFR 3050.1, the Postal Service wishes to emphasize that the lack of documentation of the line 36 cost was not a deliberate omission, and will endeavor to improve our documentation to better explain these changes to the Commission. Also, with the joint experience of several dozen NSAs, the analysis methods have begun to stabilize and we can anticipate that there will be fewer corrections and changes in the future.

- (d) Not confirmed. In some of the earliest NSAs, such as Docket No. CP2009-17, the original cost models did include additional costs for [REDACTED] [REDACTED]. However, that cost has been incorporated in later NSAs, Docket No. CP2009-24 and later, and was also applied to the costing of Docket No. CP2009-17 in both ACR2009 and ACR2010.

Similarly, the Commission approved NSAs in Docket Nos. CP2010-75, CP2010-76 and CP2010-77 that included an adjustment involving the Priority Mail advertising campaign. The Commission disallowed that adjustment in Docket Nos. CP2011-3 (Order No. 573, pp. 6-7) and CP2011-4 (Order No. 574, pp. 6-7). The Postal Service has applied the Commission's later instructions to the costing in the ACR FY2010 for the

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earlier dockets.

The Postal Service's view is that the Commission's instructions in these cases applied to all earlier NSAs that were similarly situated.

CERTIFICATE OF SERVICE

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

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