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

ANNUAL COMPLIANCE REPORT, 2011	DOCKET NO. ACR2011

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1, 3-6, 8-27, 29-37, AND 39-42 OF
CHAIRMAN'S INFORMATION REQUEST NO. 1
(January 27, 2012)

The United States Postal Service hereby provides its responses to the above-listed questions from Chairman's Information Request No. 1, issued on January 19, 2012. Responses are due by today. Each question is stated verbatim and followed by the response. Responses to Questions 2, 7, 28, and 38 are forthcoming.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1

Please refer to the discussion of First-Class Mail worksharing discounts in the FY 2011 Annual Compliance Report at 51-54. There are nine workshare discounts that exceed avoided costs. Note that this does not include the evaluation of the discount for Automation Mixed AADC letters, which has been suspended pending the outcome of Docket No. RM2010-13. For each First-Class Mail discount that exceeds avoided costs, please explain whether the Postal Service believes that some or all of these discounts are covered by exceptions in 39 U.S.C. § 3622(e), and if so, for each discount for which a § 3622(e) exception is claimed, identify the exception and explain how it applies to the discount.

RESPONSE:

The discussion on pages 51-54 of the Annual Compliance Report includes the following First-Class Mail discounts that exceed avoided costs:

1. Automation AADC Letters – Passthrough 104.8 percent
2. 5-Digit Automation Letters – Passthrough 104.2 percent
3. Mixed AADC Automation Cards – Passthrough 131.6 percent
4. AADC Automation Cards – Passthrough 120 percent
5. 5-Digit Automation Cards – 116.7 percent
6. ADC Automation Flats – Passthrough 226.4 percent
7. 3-Digit Automation Flats – Passthrough 134.9 percent
8. QBRM Letters – Passthrough 287.5 percent
9. QBRM Cards – Passthrough 287.5 percent

The AADC Automation Letters cost avoidance (compared to Mixed AADC) is 2.1 cents compared to 2.2 cents in FY2010. The Postal Service will give consideration to this cost avoidance as the network rationalization initiative presented in Docket No.

N2012-1 evolves. This passthrough is justified by the exception granted in 39 U.S.C. § 3622(e)(2)(B).

The passthrough for 5-Digit Automation Letters is 104.2 percent due to the reduction in the cost avoidance from 2.6 cents to 2.4 cents. This particular passthrough will be 100 percent with the implementation of the Docket No. R2012-3 prices on January 22, 2012. This passthrough is justified by the exception granted in 39 U.S.C. § 3622(e)(2)(B).

The three discounts for First-Class Mail Automation Cards exceed their respective cost avoidances because in all cases the cost avoidances have shrunk. All of these passthroughs were below 100 percent in FY2010. The Postal Service will consider these new cost avoidances in future price increases. These three passthroughs are justified by the exception granted in 39 U.S.C. § 3622(e)(2)(B).

The ADC Automation Flats passthrough has declined significantly (from 277.3 percent to 226.4 percent) mainly because of an increase in the cost avoidance. The 3-Digit Automation Flats passthrough has risen (108.9 to 134.9 percent) mainly because of a reduction in the cost avoidance. The Postal Service will continue to take into consideration these passthroughs in future price changes. These passthroughs are justified by the exception granted in 39 U.S.C. § 3622(e)(2)(B).

The QBRM Letters and Cards cost avoidance has experienced large reductions over the last two years from 2.4 cents (FY2009) to 1.3 cents (FY2010) and then to the current 0.8 cents. The Postal Service has already reduced this discount by one-tenth of a cent to 2.2 cents for the rates that went into effect on January 22, 2012 and will continue to take into consideration the lower cost avoidance in future price changes.

These QBRM Letters and Cards passthroughs are justified by the exception granted in 39 U.S.C. § 3622(e)(2)(B).

In summary, the process of managing passthroughs is a process over time. As cost avoidances may change from one year to the next, the Postal Service addresses such passthrough issues in its subsequent price change, while striking the right balance with respect to mitigating potential rate shock to customers.

Question 3

Please refer to USPS-FY11-11, USPS-FY11-11 FCM Prsrt Flats Alternate__79118.xls, cell G14 in worksheet "CRA PRESORT FLATS" and cell K73 in all of the "Cost" worksheets, *e.g.*, "5D AUTO COST."

a. Please confirm that the FY 2011 CRA unit cost for the FSS pool for First-Class Mail Presort Flats was 0.354 cents. If not confirmed, please provide the correct figure and all underlying calculations.

b. Please confirm that the modeled FSS costs per piece in all of the "Cost" worksheets except "NONAUTO COST" were above 0.77 cents. If not confirmed, please explain fully.

c. Please explain why the modeled FSS costs were more than double the CRA costs in the FSS cost pool.

d. Please explain why the FSS cost in the "NONAUTO COST" worksheet is lower than the FSS cost in each and every presort level-specific "NONAUTO COST" worksheet.

RESPONSE:

a. Confirmed

b. Confirmed.

c. The available FSS MODS data can only be used to develop an estimate of the incidence that a piece in the system incurs an FSS sort. Separate FSS incidence estimates cannot be estimated by class using currently available data. To the extent that the proportion of First-Class Mail Presort flats worked on the FSS differ from the system average the modeled costs will diverge from the measured FSS cost. It appears that First-Class Mail Presort flats are less likely to incur an FSS sort than other flats in the system.

d. The 'NONAUTO COST" worksheet and the presort level-specific "NONAUTO

COST" worksheets serve two different functions. The "NONAUTO COST" worksheet models the cost of non-barcoded pieces with the actual FY11 mail characteristics. The presort level-specific "NONAUTO COST" worksheets measure the costs of a fictional population of non-barcoded mail that has the characteristics of mail that meets all the requirements for automation except for the barcode. These sheets are intended to isolate the cost savings when a barcode is applied. The population of actual non-auto pieces are more likely to be non-machinable than automation-rated pieces. Non-machinable pieces would be worked manually rather than on FSS. For this reason the modeled FSS costs of actual nonautomation pieces will be less than the fictitious auto-characteristic-non-auto mail that is modeled in the presort level-specific "NONAUTO COST" worksheets.

Question 4

Please refer to USPS-FY11-11, USPS-FY11-11 FCM Prsrt Flats Alternate__79118.xls.

a. Please confirm that the delivery cost for a flat that is sorted to DPS on FSS is less than the carrier cost for a flat that is sorted to carrier route on an AFSM 100. If not confirmed, please explain fully.

b. Please confirm that the First-Class Model flats cost avoidance model referenced above does not model the impact of FSS on delivery costs and thus the cost avoidance estimates the model generates do not include any differences in delivery costs by presort level that may result from differing FSS processing percentages. If not confirmed, please explain fully.

RESPONSE:

a-b. Confirmed. The FSS technology reduces the carrier workload by presenting flats in delivery sequence. This reduced workload enables the Postal Service to expand the number of delivery points per route, reduce the number of routes and reduce carrier labor costs. The reduced delivery cost is a function of piece destination and is independent of the presort discount or workshare activities.

Question 5

Please refer to USPS-FY10-10, USPS-FY-10 FCM PRST LETTERS MPFinal.xlsx, "CRA-BULK METERED LETTERS," Cell C76, and USPS-FY11-10, USPS-FY11-10 FCM LTRS.xls, "CRA-BULK METERED LETTERS," Cell C79.

a. Please confirm that the CRA Mail Processing cost of First-Class Mail Single-Piece Metered Letters (which is used as a proxy for Bulk Metered Mail mail processing costs) declined between FY 2010 and FY 2011, from 13.611 cents per piece in 2010 to 12.265 cents per piece in 2011. If not confirmed, please explain fully.

b. Please explain any operational reasons for this reduction in costs.

RESPONSE:

a. Confirmed. It should be noted that the mail processing unit cost estimate for First-Class Mail presort letters also decreased from 5.733 cents in FY 2010 to 5.508 cents in FY 2011.

b. There are no known operational reasons for the decline in the First-Class Mail single-piece metered letters mail processing unit cost estimate.

Question 6

Please refer to USPS-FY10-10, USPS-FY-10 FCM PRST LETTERS MPFinal.xlsx, "CRA-BULK METERED LETTERS," Cell C74, and USPS-FY11-10, USPS-FY11-10 FCM LTRS.xls, "CRA-BULK METERED LETTERS," Cell C75.

a. Please confirm that the sum of the Non Mods pools declined from 2.503 cents per piece to 2.214 cents per piece. If not confirmed, please explain fully.

b. Please explain any operational reasons for this reduction in costs.

RESPONSE:

a. Confirmed.

b. There are no known operational reasons for the decline in the First-Class Mail single-piece letters non-MODS mail processing unit cost estimate.

Question 8

Please refer to the discussion of Standard Mail worksharing discounts in the FY 2010 Annual Compliance Report at 54-58. There are 15 workshare discounts that exceed avoided costs. For each Standard Mail discount that exceeds avoided costs, please explain whether the Postal Service believes that some or all of these discounts are covered by exceptions in § 3622(e), and if so, for each discount for which a § 3622(e) exception is claimed, identify the exception and explain how it applies to the discount.

RESPONSE:

a. Letters

Three workshare passthroughs for this product exceed 100 percent: (1) the presort discount for nonautomation ADC nonmachinable letters compared to nonmachinable mixed ADC letters, (2) the presort discount for nonautomation 3-digit nonmachinable letters compared to ADC nonmachinable letters, and (3) the presort discount between nonautomation 5-digit nonmachinable letters and 3-digit nonmachinable letters.

In the 2010 ACR, the presort discounts for 3-digit and for 5-digit nonmachinable letters both exceeded their respective avoided costs. The presort discount for ADC nonmachinable letters was well below FY 2010 avoided costs. In Docket No. R2011-2 the Postal Service aligned all three of these discounts with avoided costs.

Because of changes in cost estimates between FY 2010 and FY 2011, passthroughs for all of these discounts have increased to over 100 percent. The Postal Service is adjusting prices toward setting discounts at or below avoided costs in Docket No. R2012-3 and the next general price change. It would be inefficient and unduly disruptive to our business and our customers' businesses to immediately adjust prices to reflect the new lower avoided costs. The inability of customers to rely on stability of prices between regularly scheduled price adjustments would significantly undermine the ability of the Postal Service to use prices to signal efficient behavior. Therefore we justify these discounts under the exception in § 3622(e)(2)(D).

b. Flats

Four workshare passthroughs for this product exceed 100 percent: (1) the presort discount between automation 3-digit flats and automation ADC flats, (2) the presort discount between nonautomation 3-digit flats and nonautomation ADC flats, (3) the presort discount between nonautomation 5-digit flats and nonautomation 3-digit flats, and (4) the pre-barcoding discount between automation mixed ADC flats and nonautomation mixed ADC flats.

In the 2010 ACR, two of the three presort discounts (the discounts between automation 3-digit and ADC flats, and between nonautomation 5-digit and 3-digit flats) had passthroughs that exceeded 100 percent. In Docket No. R2011-2 the Postal Service aligned these discounts with avoided costs. In that same price adjustment the presort discount between nonautomation 3-digit flats and ADC flats was set at 85.2 percent of avoided costs. Because of changes in cost estimates between FY 2010 and FY 2011, passthroughs for all of these discounts increased to over 100 percent. The Postal Service is adjusting prices toward setting discounts at or below avoided costs in Docket No. R2012-3 and the next general price change. It would be inefficient and unduly disruptive to our business and our customers businesses to immediately adjust prices to reflect the new lower avoided costs. The inability of customers to rely on stability of prices between regularly scheduled price adjustments would significantly undermine the ability of the Postal Service to use prices to signal efficient behavior. Therefore we justify these discounts under the exception in § 3622(e)(2)(D).

In ACR 2010, the pre-barcoding discount had a passthrough of 248 percent. The Postal Service justified this passthrough under the exception in § 3622(e)(2)(D). The excessive discount was necessary to encourage pre-barcoding of flats as a way to support the implementation of the Flats Sequencing System program. The Commission accepted the Postal Service's justification. ACD at 114. Nevertheless, in Docket No. R2011-2, the Postal Service began the process of moving this discount closer to avoided costs, lowering the discount from 6.2 cents to 5.7 cents. A decrease in the avoided costs between FY 2010 and FY 2011, from 2.5 cents to 2.1 cents, however, has increased the passthrough from 248 percent to 271 percent.

The Postal Service believes that it is still necessary to encourage as many flats as possible to be prebarcoded to ensure a successful continuation of the FSS program. At the same time, the Postal Service does not believe that a permanent extra incentive will be required to make the FSS program successful, so the Postal Service is gradually eliminating the excess incentive as the FSS program progresses. Therefore, while justifying the temporary extra barcoding incentive as needed to not impede the efficient operation of the Postal Service, the Postal Service intends in its next general price change to continue to reduce the discount and its passthrough with the intent of eventually eliminating the added incentive. Until full elimination is possible, the Postal Service continues to justify the extra incentive under the exception in § 3622(e)(2)(D).

c. Parcels and NFMs

Eight worksharing discounts for Standard Mail Parcels and NFMs have passthroughs that exceed 100 percent. These are the presort discounts between (1) NDC machinable parcels and mixed NDC machinable parcels, (2) NDC irregular parcels and mixed NDC irregular parcels, (3) SCF irregular parcels and NDC irregular parcels, (4) NDC NFMs and mixed NDC NFMs, (5) SCF NFMs and NDC NFMs; the pre-barcoding discounts between (6) mixed NDC machinable barcoded parcels and mixed NDC machinable nonbarcoded parcels, (7) mixed NDC irregular barcoded parcels and mixed NDC irregular nonbarcoded parcels, and (8) mixed NDC barcoded NFMs and mixed NDC nonbarcoded NFMs.

Updated costs during FY 2011 have resulted in significant changes in the avoided cost estimates for NFMs and Parcels, and has produced numerous instances where the current discounts exceed, in some instances substantially, 100 percent of avoided costs. The presort discounts for NDC machinable parcels (compared to Mixed NDC machinable parcels), for NDC irregular parcels (compared to Mixed NDC irregular parcels), for SCF irregular parcels (compared to NDC irregular parcels), for NDC NFMs (compared to Mixed NDC NFMs), and for SCF NFMs (compared to NDC NFMs) all exceed the newly developed estimates of avoided costs. The Postal Service does not intend to maintain these presort discounts permanently above avoided costs, although the large changes required to adjust some of the current discounts down to the new avoided costs may require a transition period to avoid rate shock. Nevertheless, the Postal Service will attempt to reduce or eliminate these excess presort discounts in the next general price change, when it can do so without running the risk of rate shock.[1] If rate shock appears to be a risk, the Postal Service would justify the excess

[1] See footnote 23 in the FY 2011 ACR filed on Dec. 29, 2011.

passthroughs under the exception in § 3622(e)(2)(B). Furthermore, it would be inefficient and unduly disruptive to our business and our customers' businesses to immediately adjust prices to reflect the lower avoided costs from the newly approved methodology. The inability of customers to rely on stability of prices between regularly scheduled price adjustments would significantly undermine the ability of the Postal Service to use prices to signal efficient behavior. Therefore the Postal Service further justifies these discounts under the exception in § 3622(e)(2)(D).

In the FY 2010 ACR, The Standard Mail NFMs and Parcels cost model did not estimate costs separately for pre-barcoded and non-barcoded Standard Mail NFMs and Parcels. In FY 2011, the Postal Service did have separate cost estimates, and was able to calculate the costs avoided by prebarcoding for mixed NDC machinable parcels, for mixed NDC irregular parcels, and for mixed NDC NFMs. In the FY 2010 ACR, the Postal Service justified the size of the non-barcoded surcharge under § 3622(e)(2)(D), to promote a totally pre-barcoded incoming parcel mailstream which would allow elimination of keying stations at sorting facilities, and to facilitate implementation of electronic manifesting (a cost savings not incorporated in the barcoding savings estimate). In the 2010 ACD, the Commission found this surcharge to be justified at 7.0 cents. In Docket No. R2011-2, the Postal Service reduced this surcharge to 6.4 cents, believing that the surcharge's purposes could still be met at the lower level.

The current cost model has estimated the avoided costs for prebarcoding Standard Mail parcels and NFMs to be 4.1 cents. In light of this information, the Postal Service will re-examine the non-barcoded surcharge when it files for its next general price adjustment to determine how the surcharge should be modified in light of its purposes, as well as the updated costs. In the interim the Postal Service continues to justify the current level of the surcharge as needed to ensure efficient postal operations under the exception in § 3622(e)(2)(D).

Question 9

As outlined in the FY 2010 Annual Compliance Determination, please provide the following information regarding the Standard Mail Flats product:

a. Describe all operational changes designed to reduce flat costs in FY 2011 and estimate the financial effects of such changes.

b. Describe all costing methodology or measurement improvement made in FY 2011 and estimate the financial effects of such changes.

c. Provide a statement summarizing the historical and current fiscal year subsidy of the Flats product; and the estimated timeline for phasing out this subsidy.

d. Provide an explanation of how the prices in Docket No. R2012-3 will move the Flats cost coverage toward 100 percent.

e. Provide a statement estimating the effect that the Docket No. R2012-3 prices will have in reducing the subsidy of the Standard Mail Flats product.

RESPONSE:

a. In FY 2011 the Flat Sequencing System (FSS) timeline was accelerated to finalize installation and acceptance of phase one AFSM 100 machines. All phase one FSS machines are now fully deployed and operational, resulting in a significant increase to the number of delivery units and routes receiving sequenced flats mail. The table below illustrates the installation ramp up and operational status on a year over year period.

	Machines	**Sites**	**Delivery Units**	**Delivery Routes**
Nov. 1, 2010	**13**	**8**	**278**	**6,868**
Nov. 1, 2011	**100**	**47**	**1,223**	**43,534**

Over the past several months, the Postal Service has conducted comprehensive site-by-site training and held bi-weekly FSS telecoms with plant managers to assess performance and introduce Lean Six Sigma continuous improvement methods for adoption. Additionally, teams consisting of both mail processing and maintenance personnel have been deployed to ensure sites are maximizing the availability and reliability of the FSS machines, as well as properly managing mail flows and work methods to optimize productivities. As FSS operations continue to stabilize, and become more efficient, the flats volume moved up the ladder will open up processing time on all flats sorting equipment.

Further efforts during FY 2011 included modifying mail preparation requirements to allow mailers the option to prepare FSS-schemed bundles and two levels of pure FSS pallets, in addition to the introduction of FSS label lists. These mail preparation changes increase opportunity for mail to be available on FSS prior to the operation start time.

Collectively, these efforts are expected to improve efficiencies and productivities, and reduce overall flats costs.

b. Proposal Eighteen (Docket No. RM2012-2) documents methodological changes made to the costing methodology to reflect new equipment deployments, changes in mail classification, and general improvements in the costing methodology. The proposal is accompanied by cost model spreadsheets equipped with toggle switches to demonstrate the financial impact of such changes in the cost estimation of individual cost categories. Similar toggle switches have been provided in the cost model spreadsheets filed in USPS-FY11-11.

c. In FY 2011, the Standard Mail Flats shortfall was $652 million.[2] The Postal Service's working plan includes operational efficiencies to reduce costs as well as above-average price increases to close the remaining gap. In Docket No. R2012-3, Standard Mail Flats received an above-average 2.2 percent price increase. In discussing a potential timeline which involves future pricing, it must be remembered that all pricing decisions are made by the Governors, following a careful consideration of the statutory and regulatory requirements as well as an evaluation of market dynamics and business strategy considerations. These decisions can be made only within the context of the circumstances that exist at the time a specific price change is approved.

[2] ACR at 20 (Table 2), as revised January 12, 2012.

The table below shows the Flats historical shortfalls.

Year	Revenue (millions)	Cost (millions)	Shortfall (millions)
2008	$ 3,664	$ 3,891	$ 227
2009	$ 2,866	$ 3,488	$ 622
2010	$ 2,579	$ 3,161	$ 582
2011	$ 2,491	$ 3,143	$ 652

Source:
FY 2008 - FY 2011 Public Cost & Revenue Analysis

d. As stated in the response to part (c), Standard Mail Flats recently received an above-average price increase. While the overall price increase for Standard Mail was 2.1 percent, Standard Mail Flats received a 2.2 percent increase. This translated into an increase in the Standard Mail Flats cost coverage, which is estimated to increase to 84 percent.

e. Since Standard Mail Flats were given an above average increase, the effect is expected to decrease the shortfall. The Postal Service has estimated that with the implementation of the new prices in January 2012, the Standard Mail Flats shortfall will decrease to an estimated $458 million.

Question 10

In FY 2011, revenues for the Package Services class failed to cover attributable costs. Specifically, Single-Piece Parcel Post, Bound Printed Matter (BPM) Parcels, and Media Mail/Library Mail failed to cover costs.

a. Please explain the Postal Service's plans for Media Mail/Library Mail to ensure that revenues cover attributable costs in the future.

b. With respect to Single-Piece Parcel Post and BPM Parcels, the Postal Service explains that pricing and product actions can improve the cost coverage for both products. *See* ACR2011 at 37 and 40. Please explain what product actions, if any, the Postal Service plans to take to ensure revenues cover attributable costs in the future for both products.

RESPONSE:

a. The limits of the price cap constrain the Postal Service's ability to improve cost coverage for Media Mail and Library Mail. The price cap in the most recent price adjustment filed October 18, 2011 was a modest 2.133 percent and the price cap on the previous price adjustment was even smaller at 1.741 percent. These low price caps limit the Postal Service's ability to address the large cost coverage deficiencies found in Media Mail and Library Mail. However, the Postal Service did endeavor to address the cost coverage deficiencies in both price adjustments by allocating a larger than average share of the Package Services price cap increase to Media Mail and Library Mail, compared to other Package Services products. When the price cap was 1.741 percent, the increase for Media Mail and Library Mail was 1.964 percent. When the price cap was 2.133 percent, the price increase for Media and Library Mail was 2.581 percent. The Postal Service expects that it will continue to allocate larger than average shares of Package Services price cap increases to Media Mail and Library Mail in order to help move them towards sufficient cost coverage.

Another action taken by the Postal Service should improve cost coverage for Media Mail and Library Mail. The elimination of the 3-cent barcode discount should help cost coverage for Media Mail and Library Mail in the coming Fiscal Year and for years after that. The Postal Service believes that this eliminated discount does not necessarily mean customers will stop barcoding Media Mail and Library Mail pieces. If so, much needed cost coverage relief to Media Mail and Library Mail will result.

b. The elimination of barcode discounts will provide similar cost coverage improvement for BPM Parcels. Although Parcel Post does not offer barcode discounts and the product's cost coverage cannot benefit from eliminating these discounts, Parcel Post did receive a larger than average increase in the two most recent price adjustments and made significant progress towards full cost coverage in FY2011. The price change implemented on January 22, 2012 may be enough to achieve 100 percent cost coverage for Parcel Post.

Question 11

Please refer to Library Reference USPS-FY11-3, Excel file “FY11.3.Worksharing Discount Table_Final.xls,” worksheet ‘Bound Printed Matter Parcels,’ cell F28, which shows the discount for BPM parcels dropshipped at a DDU is $0.795. Please confirm that the correct discount is $0.762 ($1.451 – $0.689). If not confirmed, please explain.

RESPONSE:

Confirmed.

Question 12

The BPM Flats DNDC dropship discount and the BPM Parcels DNDC dropship discount exceed avoided costs. Please explain if the two discounts are covered by exceptions under section 3633(e). For each discount that is covered by an exception, please identify the exception and explain how it applies to the discount.

RESPONSE:

These two discounts are covered by exceptions under section 3622(e), which is assumed to be the intended reference in the question. These two discounts exceed 100 percent of the cost savings because of the exception in § 3622(e)(2)(D) – getting them below 100 percent would impede the efficient operations of the Postal Service. During the previous two price adjustments, attempts were made to reduce these passthroughs, but these efforts had to be balanced with competing interests, such as efforts to improve cost coverage and encourage dropshipping, the price cap size limitation, and the desire to keep the price adjustments uniform across all weights and zones. The workshare passthroughs were reduced as much as possible without undermining the competing interests.   The FY 2011 BPM Parcels and BPM Flats DNDC passthroughs were both 102.4 percent compared to 126.4 percent and 125.3 percent in FY 2010.

Question 13

Please refer to USPS-FY11-41, worksheet "FY 2011 Intl Fees & Services." Please provide the number of transactions and revenues differentiated between Market Dominant International Inbound and International Outbound for the following two services: (1) International Registered Mail; and (2) International Restricted Delivery.

RESPONSE:

Please refer to USPS-FY11-NP2, Core Files, Reports.xls. Tab A Pages (md) shows Market Dominant Outbound Registered (Registered Mail – Market Dominant) and Inbound Registered Mail. The same tab also shows Outbound Restricted Delivery and that there are no data for Inbound Restricted Delivery. Tab A Pages (c) shows Outbound Competitive International Registered Mail, and there is no Inbound Competitive Registered Mail. There is only outbound International Restricted Delivery for Competitive products.

Question 14

Refer to Postal Bulletin 22326 (12-15-11), at page 65. For FY 2011, please identify where "[f]unds collected from fees charged for cashing Treasury checks at POS ONE offices" and non-POS ONE offices are reported in the market dominant or competitive product list and provide the amount of the fees.

RESPONSE:

The funds collected from the $4.00 fee are reported in the RPW as part of "Other Mailing Services Revenue." No fees were collected during FY 2011. The amount of the fees collected for FY 2012 (through January 20, 2012) is $128,644.

Question 15

Please reconcile the differences shown in the Table below between RPW and billing determinant figures. These data are in USPS-FY11-4.

	RPW Revenue	Billing Det Revenue	Difference	RPW Volume	Billing Det Volume	Difference
Special Service	a	b	c=(a-b)	d	e	f=(d-e)
Collect on Delivery	$ 6,677,514	$ 6,791,224	$ (113,710)	819,400	874,285	(54,885)
Insurance /1	$ 116,651,990	$ 113,751,303	$ 2,900,687	34,573,190	34,355,095	218,095
Registered Mail /2	$ 45,236,486	$ 43,373,693	$ 1,862,793	2,687,960	2,530,773	157,187
Return Receipts	N/A	N/A	N/A	195,572,643	194,295,595	1,277,048
Stamped Env. & Cds						
Stamped Cards	$ 1,610,880	$ 1,610,880	-	-	53,696,000	(53,696,000)
Stamped Envel	$ 10,649,631	$ 9,729,416	$ 920,215	-	-	-
Ttl Envel & Cards	$ 12,260,511	$ 11,340,296	$ 920,215	-	53,696,000	(53,696,000)
/1 Includes Express Mail Insurance		/2 Without USPS				

RESPONSE:

Collect on Delivery – The revenue reported in the RPW is correct. The Billing Determinants had a formula error. The Billing Determinant Volume is correct as it includes volume from Notice of Nondelivery and Alteration of COD Charges, which were omitted from the RPW volume.

Insurance – The revenue reported in the RPW is correct. Neither volume is correct. The RPW volume incorrectly reports an additional 2,976 pieces for insurance up to $100, even though insurance of up to $100 is included in Express Mail postage. The Billing Determinants omitted the volume resulting from increasing the limit for insurance online from $500 to $5000. The correct volume is 34,570,214.

Registered Mail – The RPW volume and revenue are correct.

Return Receipts – The Billing Determinants report the correct volume.

Stamped Cards – The Billing Determinants volume is correct.

Stamped Envelopes – Neither Stamped Envelope revenue is correct; the correct revenue is $14,523,084. The Billing Determinants understate the revenue for Printed Stamped Envelopes, their premium features, and the shipping fees. The RPW revenue does not include revenue from the premium features and shipping fees.

Question 16

Please refer to the Notes to FY 2011 Public Cost and Revenue Analysis, Section 2: Definitions, Miscellaneous items, which states that "1.2 million in interest earned from the money order float, which 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. ACR2010 in response to CHIR No. 1, question 15, titled 'ChIR.1.Q.15.FY10_MOFloat.xls.'

RESPONSE:

Please see ChIR1.Q16.xls.

Question 17

The reported revenue for Stamp Fulfillment in the RPW differs from the reported figure in the Billing Determinants (USPS-FY11-4). Please reconcile the figures and provide the supporting source data.

RESPONSE:

The revenue reported in the Billing Determinants is correct. Source data are provided in CHIR1.Q17.xls.

Question 18

Please reconcile differences in the RPW revenue and volume for Address Enhancement Services with the information provided in the Non Public Cost and Revenue Analysis (USPS-FY11-NP11). Provide cites to all source documents used. If a document has not been previously provided, please do so.

RESPONSE:

Both sources are incorrect. The Non Public Cost and Revenue Analysis replicated two errors that were also reported in the Billing Determinants. The revenue and volume for TIGER/ZIP+4 were understated, and $900 of Express Mail revenue resulting from customer requests for expedited delivery were unintentionally included. The RPW was incorrect because it included $1,802 of Express Mail revenue as Address Enhancement Services revenue. This misallocation also incorrectly increased volume by 4 units. The correct revenue and volume are $1,466,863 and 17,732,686.

Question 19

In the FY 2010 Annual Compliance Determination Report (ACD), the Commission suggested that the Postal Service consider using either a moving average for calculating Collect-on-Delivery (COD) attributable costs or investigate alternatives to sampling (FY 2010 ACD at 125). Please explain how the Postal Service calculated the FY 2011 attributable costs for COD.

RESPONSE:

Collect-on-Delivery costs for FY 2011 were calculated in the same way as they were for FY 2010.

Question 20

The following questions refer to requests the Commission issued to the Postal Service in the FY 2010 ACD.

a. The Commission directed the Postal Service to report on its efforts to reduce Address Management costs. In the FY 2011 Annual Compliance Report (FY 2011 ACR) the Postal Service reports that Address Management costs were $9.9 million and the cost coverage improved from FY 2010 of 83.82 percent to the cost coverage of 155.56 percent. (*See* FY 2011 ACR at 43.) Please identify the measures the Postal Service implemented to improve the cost coverage.

b. In the FY 2010 ACD, the Address Management Services revenue was $18.1 million. For FY 2011, it declined to $15.4 million (FY 2011 ACR at 43). Please explain why the decline occurred, and whether the Postal Service expects the revenue decline to continue into FY 2012.

RESPONSE:

a. The first estimation of the costs for Address Management Services (AMS) was completed shortly before the filing of the FY2010 ACR. Response to ACR FY10, ChIR No. 4, Question 7 (February 28, 2011). The Postal Service subsequently evaluated the costing, and determined that some cost elements were erroneously included in costs for AMS in the FY2010 ACR. Moreover, some AMS prices were increased during FY 2011. These two factors improved the AMS cost coverage.

b. Approximately 63 percent of the difference between FY2010 and FY2011 was attributed to exceptional revenue received during FY2010 that was non-recurring in nature, as a result of billing changes to one of the addressing services and the collection of a settlement from a revenue assurance issue. The rest of the difference was from declining sales due to economic conditions. The Postal Service expects some improvement in revenue for its addressing products and services when economic conditions improve, but a repeat of the exceptional revenue of FY2010 is not expected.

Question 21

For the FY 2011 Caller Service product, please confirm that the contribution to institutional costs is $64.4 million. If unable to confirm, please explain and provide the source documents.

RESPONSE:

Confirmed.

Question 22

Please refer to the FY 2011 Public Cost and Revenue Analysis (PCRA)- USPS-FY11-1, Excel file "FY11PublicCRA.xls" and the FY2011 RPW extract file, "Fy2011_RPWextractfile.xls, worksheet 'Summary Category RPW Data.'

a. For Address Management Services, please reconcile the revenue of $15,416,343 from the PCRA with the revenue of $16,440,630 from the RPW extract file.

b. For Customized Postage, please reconcile the revenue of $1.5 million from the PCRA with the revenue of $0.9 million from the RPW extract file.

RESPONSE:

a. Both the Public Cost and Revenue Analysis (PCRA) and RPW are incorrect. The correct revenue is $16,283,226. The PCRA omitted NCOALink revenue of $866,883 due to a formula error. The RPW reported revenue for price points that are not in the MCS, including $207,900 for MASS Test Decks. The RPW also omitted $10000 from licensing of copies for all products revenue, and $1709.90 in refunds, that were included in the PCRA.

b. The PCRA is correct. The RPW omitted $600,000 of revenue (from 2 customers) for Customized Postage.

Question 23

For Address Management Services, please refer to the FY 2011 RPW extract file, "Fy2011_RPWextractfile.xls, worksheet 'Summary Category RPW Data'. Please confirm that the Address Management Service volume is 2,707,223. If unable to confirm, please provide the correct volume and provide the source.

RESPONSE:

Not Confirmed. A total volume for Address Management Services is a combination of unrelated volumes, and has little meaning since a license and the sequencing of addresses are not really comparable. The best source for the volumes is the Billing Determinants, which contains an error also in the PCRA; errata will be filed in the near future. The aggregate volume as requested is 2,706,754. The source document is attached as "CHIR1.Q23.xls".

Question 24

Competitive Ancillary Services and First-Class Package Services (formerly Lightweight Commercial Parcels) were added to the competitive product list during FY 2011. However, the Postal Service did not provide FY 2011 financial results for the two products.

a. Please confirm that the Postal Service offered both products in FY 2011.

b. If confirmed, please provide estimated FY 2011 revenue, volume, and cost data. If unable to provide estimates, please explain.

c. If not confirmed, please provide the implementation dates for the products.

RESPONSE:

a. The Postal Service offered Competitive Ancillary Services in FY 2011. The Postal Service did not offer First-Class Package Service in FY 2011. As stated in Docket No. MC2011-28, the Postal Service made the transfer of First-Class Package Service to the competitive product list effective at the beginning of FY 2012.[3]

b. For Competitive Ancillary Services, please see ChIR.1.Q24.NP.zip, filed under seal in USPS-FY11-NP31.

c. The implementation date for First-Class Package Service was October 1, 2011.

[3] *See*, *e.g.*, Response of the United States Postal Service to Public Representative Comments, Docket No. MC2011-28 (Aug. 24, 2011), at 8-9 ("[W]hile the transfer of commercial First-Class Mail Parcels was approved by the Commission on April 6, 2011, the Postal Service cannot, as a practical matter, make the transfer effective immediately, in light of the need to change internal Postal Service systems, publish DMM revisions, and give mailers time to adjust to new requirements. The October 1st date listed in the Federal Register notice is a consequence of such practicalities").

Question 25

For each Priority and Express NSA in effect in FY 2011, please provide the following information in an Excel file, linked to the source data, and please provide the electronic files containing the source data. Also, please include contracts which were in effect, but no mail was sent pursuant to the agreement. 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 workbook Chir1.Q25-26.Nonpublic.xls filed under seal in USPS-FY11-NP31.

Question 26

The following questions concern LR-FY11-NP27, file "NSACostRevenueSummaryFY11.xls," and the underlying partner profiles.

a. Please confirm that no information for the following contracts is contained in LR-FY11-NP27: CP2009-54, CP2010-4, CP2010-7, CP2010-15, CP2010-16, CP2010-75, CP2011-33, CP2011-47, CP2011-48, CP2011-49, CP2011-50, CP2011-57, CP2011-53.

b. In "NSACostRevenueSummaryFY11.xls," partner specific data are unavailable for several contracts. For each of these contracts, 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 is not available.

RESPONSE:

a. Confirmed, except for CP2011-33. Contract CP2011-33 went into effect on December 2, 2010 and is a replacement for contract CP2009-2 with the same customer. The data reported in USPS-FY11-NP27 for CP2009-2 are for all of FY 2011 and for both contracts of this customer.

b. In FY 2011 the Postal Service has for the first time obtained current partner-specific data for all contracts. In some cases where the payment system does not report data by rate category, i.e. PostalOne, the profile is based either on a sample of the partner's mail or uses current zone information to update the original profile by weight. See the notes for each contract in workbook Chir1.Q25-26.Nonpublic.xls, filed under seal. Total costs are calculated using total reported revenue divided by the cost coverage computed from the analysis workbook, a method equivalent to that used in previous years.

Question 27

In accordance with the annual reporting of customer satisfaction, 39 CFR § 3055.91(c), please provide the number of collection boxes at both the Postal Administrative Area and the National level including:

a. The number of collection boxes at the beginning of FY 2011 (§ 3055.91(c)(1));

b. The number of collection boxes at the end of FY 2011 (§ 3055.91(c)(2));

c. The number of collection boxes removed during FY 2011 (§ 3055.91(c)(3));

d. The number of collection boxes added during FY 2011 (§ 3055.91(c)(4));

e. The proportion of collection boxes for which the last mail pick-up time is:

   i. Midnight to 11:59 a.m.;
   ii. Noon to 2:59 p.m.;
   iii. 3:00 p.m. to 4:59 p.m.;
   iv. 5:00 p.m. to 6:59 p.m.;
   v. 7:00 p.m. to 11:59 p.m.

f. A copy of the Collection Point Management System (CPMS) database in Excel spreadsheet format as of the end of FY 2011.

RESPONSE:

a.

CAPITAL METRO	14,049
EASTERN	27,647
GREAT LAKES	22,298
NORTHEAST	33,258
PACIFIC	20,039
SOUTHEAST	14,170
SOUTHWEST	12,018
WESTERN	26,641
TOTAL	**170,120**

b.

CAPITAL METRO	15,002
EASTERN	29,563
GREAT LAKES	22,522
NORTHEAST	32,903
PACIFIC	19,121

SOUTHWEST	20,708
WESTERN	26,679
TOTAL	**166,498**

c.

CAPITAL METRO	994
EASTERN	528
GREAT LAKES	652
NORTHEAST	411
PACIFIC	899
SOUTHWEST	766
WESTERN	869
TOTAL	**5119**

d. The Collection Point Management System does not track added boxes.

e.

Proportion of Collection Boxes per Last Monday - Friday Pick-Up Time

AREA NAME	Midnight to 11:59 am	Noon to 2:59 pm	3:00 pm to 4:59 pm	5:00 pm to 6:59 pm	7:00 pm to 11:59 pm
CAPITAL METRO	15.62%	35.69%	33.90%	14.63%	0.17%
EASTERN	25.55%	25.53%	34.87%	13.78%	0.27%
GREAT LAKES	21.31%	29.79%	33.83%	14.80%	0.27%
NORTHEAST	31.13%	27.42%	22.86%	18.44%	0.15%
PACIFIC	14.04%	24.88%	38.86%	21.73%	0.49%
SOUTHWEST	9.40%	27.72%	45.47%	16.87%	0.53%
WESTERN	8.32%	21.50%	45.49%	23.83%	0.87%
TOTAL	19.10%	26.95%	35.74%	17.82%	0.39%

Proportion of Collection Boxes per Last Saturday Pick-Up Time

AREA NAME	Midnight to 11:59 am	Noon to 2:59 pm	3:00 pm to 4:59 pm	5:00 pm to 6:59 pm	7:00 pm to 11:59 pm
CAPITAL METRO	33.64%	51.51%	13.48%	1.21%	0.16%
EASTERN	45.71%	39.55%	12.56%	2.04%	0.14%
GREAT LAKES	41.60%	43.20%	12.28%	2.72%	0.20%
NORTHEAST	47.90%	42.61%	8.19%	1.22%	0.08%
PACIFIC	31.47%	40.93%	22.10%	5.18%	0.32%
SOUTHWEST	33.49%	38.17%	22.89%	5.12%	0.33%
WESTERN	23.27%	34.78%	30.64%	10.54%	0.77%
TOTAL	38.16%	41.11%	16.60%	3.85%	0.27%

f. The Postal Service will file this information as a library reference in the near future.

Question 29

The following questions pertain to the quality of service link to terminal dues for inbound letter post (Inbound First-Class Mail International).

a. For CY 2010, 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 2011, 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. In response to subparts (a) and (b), above, if the Postal Service files the requested information under seal, please explain why this service performance information for the market dominant Inbound First-Class Mail International product is not filed as a public document.

RESPONSE:

a-b. The requested information is being filed under seal in ChIR1.Q29.Nonpublic.pdf, as part of USPS-FY11-NP31.

c. Pursuant to the terms of the International Post Corporation (IPC) and its UNEX Publication Code of Conduct (Code of Conduct), the quality of service measurements are proprietary, confidential and not meant to be provided to the public. As a member of the IPC, the Postal Service is bound by the Code of Conduct.

In addition, the quality of service measurements designated as non-public consist of information of a commercial nature that would not be publicly disclosed under good business practice. Cross boarder markets are competitive and include both reserve and non-reserve letter post content. Furthermore, competitors could use performance information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment. If the quality of service measurements that the Postal Service determined to be protected from disclosure due to their commercially sensitive nature were to be disclosed publicly, the Postal Service considers that it is quite likely that it would suffer commercial harm.

Accordingly, the Postal Service is filing the data requested in subparts (a) and (b) above, under seal.

Question 30

The following question concerns inbound international mail. For FY 2011, 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 ICs and DCs, if possible).

RESPONSE:

Please see ChIR1.Q30.Nonpublic.xls filed under seal.

Question 31

In Docket No. ACR2009, the Postal Service stated that the new Foreign Payment System (FPS) was implemented effective January 2010. Response to CHIR No. 1, question 22. With respect to international mail, the Postal Service added that the "FPS is not reflected in the Reports.xls file and only partially reflected in the Reports (Booked).xls file." *Id.* Please discuss the implementation status of the FPS during FY 2011 and to what extent the amounts reported in the Excel files Reports.xls and Reports (Booked).xls presented in the International Cost and Revenue Analysis report reflect the implementation of the FPS.

RESPONSE:

FPS was implemented in January 2010, the beginning of the second quarter of FY2010. During the entire fiscal year FY2011, FPS has been the Postal Service's financial application to capture data about inbound and outbound international mailing activity flowing through the Postal Service's international exchange offices and to account for the revenues and expenses associated with the exchange of mail and financial settlement with Foreign posts.

All of the files in the IAB Files as Provided directory in the Supporting Files folder of USPS-FY11-NP2 were generated using FPS reports and data extracts of the inbound and outbound mailings received and dispatched during FY2011. These FPS-based files served as the basis for the calculations described in Chapters 5 and 6 of USPS-FY11-NP5.

Question 32

The following questions concern Inbound Express Mail Service (EMS).

a. Please provide the CY 2010 EMS Cooperative Report Card provided to the Postal Service.

b. Please provide the CY 2011 EMS Cooperative Report Card, if available. If not available, please provide the available quarterly report cards for CY 2011, provided to the Postal Service.

RESPONSE:

a. Please see USPS-FY11-NP31, filed under seal.

b. The CY 2011 Report Card will not be available until at least mid-February 2012. Additionally, the EMS Unit has not distributed Q4-CY2011 report card. Thus, unredacted versions of Quarters 1, 2, and 3 for CY2011 are included as part of USPS-FY11-NP31.

Question 33

Please refer to USPS-FY11-NP2, Excel file Reports (Booked).xls, worksheet A-Pages (c), Table A-1. Also, please refer to the Postal Service's FY 2011 Annual Compliance Report concerning competitive products.

a. For inbound International Expedited Services, please explain why costs exceed revenues. Please explain the improvement in the Inbound Expedited Services cost coverage for FY 2011 compared to FY 2010. Also, 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 outbound International Insurance service. For FY 2011, outbound International Insurance revenues exceed attributable costs. Please explain the substantial improvement in the outbound International Insurance cost coverage for FY 2011 compared to FY 2010, in which costs exceeded revenues.

RESPONSE:

a Despite the [REDACTED] decrease in inbound International Expedited Services volume, Processing unit costs increased [REDACTED] and Domestic Transportation unit costs increased [REDACTED]. The FY 2011 improvement compared to FY 2010 is the result of a [REDACTED] increase in revenue under the Booked methodology. In FY 2012, the Postal Service took steps to increase the prices for inbound Express Mail items. The new prices are effective from January 1, 2012 and are expected to contribute to an improved cost coverage for this product in FY 2012. In the future, the Postal Service will consider additional price increases and will also attempt to make improvements to cost coverage through bilateral agreements with particular foreign postal operators.

b. The FY 2011 improvement compared to FY 2010 was the result of a [REDACTED] decrease in Window Service costs and a [REDACTED] decrease in Indemnities costs for outbound International Insurance.

Question 34

For FY 2011, the ICRA reports that costs exceed revenues for Inbound Express Mail Service based upon both "booked" and "imputed" methodologies. In Docket Nos. CP2009-57 and CP2010-90, the Postal Service presented financial models showing that its proposed EMS rates, effective in CY 2010 and CY 2011, 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 2011 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.

Docket No. CP2010-90 (August 8, 2010) used the FY09 ICRA as the basis to project costs to the CY 2011 time period for Express Mail Service rates and these rates were only in place for the last three quarters of FY 2011. Updating the original financial models with FY 2011 ICRA data for the first three quarters of CY 2011 and projecting the last quarter of CY 2011 using the latest inflation factors and a [REDACTED] contingency yield the following changes from the original models:

[TABLE REDACTED]

Although higher than anticipated costs exacerbated the problem, lower than projected volume, weight and resulting revenue were the major causes of the difference between projected and actual performance.

Question 35

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 2011 Annual Compliance Report. Although the attributable costs for inbound Single-Piece First-Class Mail International (FCMI) at UPU rates exceeded revenues, the loss for FY 2011 was smaller than for FY 2010.

a. Please discuss the reasons for the improvement in the Inbound FCMI product cost coverage for FY 2011 compared with FY 2010.

b. Within the market dominant International Ancillary Services product, which provided a positive contribution, costs for Inbound Registered Mail exceeded revenues. Please explain the increase in negative contribution of Inbound Registered Mail for FY 2011 compared with FY 2010.

RESPONSE:

a. The improvement in the Inbound FCMI product cost coverage for FY 2011 compared with FY 2010 is the result of two factors. One, Target System Countries at UPU rates saw a [REDACTED] in revenue and Transition System Countries at UPU rates saw a [REDACTED] in revenue. Two, there was an [REDACTED] in non-transportation unit costs for Target System Countries at UPU rates, a [REDACTED] in non-transportation unit costs for Transition System Countries at UPU rates and a [REDACTED] in transportation unit costs for Transition Countries at UPU rates.

b. The increase in negative contribution of Inbound Registered Mail for FY 2011 compared with FY 2010 was a [REDACTED] in Mail Processing costs. In FY2009 the Postal Service changed the operating procedures for inbound Registered. International Inbound Registered Mail Procedures, 74 Fed. Reg. 14,932 (April 2, 2009). In particular, these pieces would travel in the regular letter and flat mailstream through mail processing plants, rather than the domestic Registered mailstream. As a result of this operational change, the encirclement rules used in IOCS to assign costs to inbound Registered should be examined to ensure they properly reflect the treatment of this mail. The Postal Service may request a rule-making if a revision to the encirclement rules is deemed appropriate.

Question 36

The following questions concern International Money Transfer Service (IMTS). Please refer to USPS-FY11-NP2, and the Excel file "Reports (Booked).xls," worksheet tab A-Pages (c), Table A-2. Also, please refer to CHIR No. 1, question 2(c) in Docket No. RM2011-5.

a. For FY 2011, no volume amount is reported for the IMTS-Inbound product. Please explain.

b. For FY 2011, the combined revenues of IMTS-Outbound and IMTS-Inbound products exceeded their combined attributable costs. Please discuss the reasons for the substantial improvement in the combined cost coverage of the IMTS-Outbound and IMTS-Inbound products for FY 2011 compared with FY 2010.

c. For IMTS during FY 2011, please provide the total number of IOCS tallies, the coefficient of variation (CV) for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage.

d. In its response to CHIR No. 1, question 2(c), the Postal Service discussed options to minimize volatility and thereby ensure that the unit cost estimates for the IMTS-Outbound and IMTS-Inbound products are statistically reliable. Please explain to what extent the reported FY 2011 attributable costs for the MTS-Outbound and IMTS-Inbound products are based upon those options.

RESPONSE:

a. The ICRA does not report Inbound IMTS transactions because the data are not available. The only available datum is total revenue, which is reported. The revenue reported for this product represents the fees the Postal Service receives from certain foreign postal operators for cashing their inbound international money orders. In most cases, these fees are calculated on the basis of the face value of the money order and not on a per-item basis.

b. The improvement in the combined cost coverage of the IMTS-Outbound and IMTS-Inbound products for FY 2011 compared with FY 2010 is partly due to the decrease in the number of IOCS tallies associated with IMTS. In FY 2010, there were 17 tallies associated with providing service for IMTS. In FY 2011, there were only 8 tallies for IMTS. Please see the responses to parts (c) and (d) below. In addition, the Product Specific Costs assigned to IMTS fell from [REDACTED] to [REDACTED]. An inquiry into the reasons for the decline in the Product Specific Costs for IMTS revealed that, due to a change in the Postal Service's policy of charging internal customers for information technology (IT) resources, the IT costs associated with the ongoing maintenance of the program were not assigned directly to the budget associated with IMTS; rather, they were included in a more-aggregated category that did not permit the immediate assignment of these costs to IMTS. Because these IT costs were not assigned to the IMTS budget in the postal accounting system, they did not flow through to IMTS in the development of the ICRA and Annual Compliance Report. However, although these costs no longer appear in the same accounting line used in the past to develop the ICRA, additional documentation from IT personnel has enabled the Postal Service to identify [REDACTED] that should appropriately be assigned to IMTS as product specific costs. In the event that a formal change in methodology for documenting and assigning these, and potentially other, IT expenses is warranted, the Postal Service will file a proposal with the Commission.

c. In FY 2011 there were only 8 IOCS tallies for IMTS. The coefficient of variation (CV) is 35% using the generalized variance function approach. The 95 percent confidence interval for cost coverage is 37% to 151%.

d. The FY 2011 attributable costs for IMTS were determined in the same manner as in FY 2010. As stated in the Supplemental Response to Order No. 154, Docket No. MC2009-19, the Postal Service undertook several activities in an effort to draw conclusions concerning the measures necessary to address the shortfall in cost coverage reported for IMTS. Upon review of the Postal Service's Annual Compliance Report for 2008, 2009, and 2010, window service costs attributed to the IMTS product represented a significant portion of the volume variable costs associated with this service. However, the relatively small number of tallies for IMTS led to relatively volatile unit costs.

Examination of the variances in the window service costs revealed that the standard deviation around the estimated cost swamped the estimated cost. See, also, the response to part (c) above. For 2008, the implied estimated cost of [REDACTED] fell within a 95% confidence interval that ranged from [REDACTED] to [REDACTED]. In FY 2011, the 95 percent confidence interval for IMTS cost coverage is 37% to 151%. For a product with such low volumes, a range of this size is not likely to be useful in determining the profitability of the product.

The Postal Service investigated the use of heavy sampling in IOCS for IMTS, similar to the technique used to enhance sampling for International Mail. Unlike International Mail, where most processing occurs in relatively few facilities, IMTS activities are widely dispersed at stations and branches. No locations were identified where a reasonable sampling rate would have been likely to generate significant additional IMTS tallies.

In addition, as described at the Technical Conference on Strategic Rulemaking, Docket No. RM2011-3, on January 12, 2012, the Postal Service has been attempting to develop a means of grouping the tallies associated with "small" products and using additional information as a means of distributing those tallies in a more meaningful way. However, to date, no alternative distribution key has been uncovered that does not have other drawbacks (such as failing to reflect the full window transaction activity) and does not embody the same volatility as the IOCS tally system.

As a result, the Postal Service agreed to return to the time-consuming task of accumulating observations of IMTS transactions [REDACTED] to determine more reliably the costs associated with the IMTS product.

Because of the extremely low volume of IMTS transactions, it has not been easy to perform field studies using ordinary means of sampling. Instead, using internal databases that record the locations and dates of Dinero Seguro transactions, the Cost Studies and Support team identified the highest-volume offices and the times of the year which have, in the past, shown the most transactions. The study team visited nine (9) high volume retail units [REDACTED]. The team observed a total of [REDACTED] complete purchase transactions during that week. Some of the transactions were for "new" customers, i.e. customers who did not have a frequent user card that facilitates the data entry process, or customers who forgot to bring the card. Combined with the transactions observed in 2008, 2009 and 2010, the team has collected a total of [REDACTED] transaction observations.

[TABLE REDACTED]

The average transaction time for "new" transactions was [REDACTED], and the average transaction time for all transactions was [REDACTED].

Transaction Type	Average Transaction Time
New Transactions	[REDACTED]
All/Blended Transactions	[REDACTED]

Examination of the variances in the window transaction time revealed that for new transactions, the average transaction time of [REDACTED] fell within a 95% confidence interval that ranges from [REDACTED] to [REDACTED]. According to the "Handbook of Industrial Engineering,1" a sample size of 9 transactions is required in order to be statistically sound.

For all transactions, the average transaction time of [REDACTED] fell within 95% confidence interval that ranges from [REDACTED] to [REDACTED]. The required sample size is 521, and the team has observed only a total of [REDACTED] transactions over the years.

Due to IMTS's declining revenue and volume,it has become increasingly difficult to find and measure IMTS transactions. In addition, because the transactions observed were at the offices in which the most IMTS activity took place, the results are possibly skewed toward a lower transaction time than the national average might be as a result of the window clerks and customers being familiar with the IMTS process. In locations with less IMTS activity, gaps in time between transactions could lead to increased transaction time due to lack of familiarity with the process. Nevertheless, the Postal Service believes the field observations offer understanding about money transfer transactions in general and provides estimation of transaction times for completed transactions. The study does not, however, address the situation of aborted transactions.

A transaction could become an aborted transaction for the following reasons: a) customers made IMTS inquiries only without initiating any steps, (b) customers aborted transactions that had been initiated for some reason (e.g., missing proper personal identification and documentation, etc.), and (c) customers were told to return later because transactions were not possible due to malfunctioning software. These aborted transactions are suspected to contribute to the high transaction time and unit cost implied in the IOCS, CRA, and ICRA. As noted, although the study has helped to increase understanding of the IMTS transaction process, the FY 2011 attributable costs for the IMTS-Outbound and IMTS-Inbound products were not based upon the study described in this response.

Question 37

Please refer to USPS-FY10-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (md), Table A-1. For Outbound Single-Piece First-Class Mail International to Canada, please explain why revenues do not cover attributable costs.

RESPONSE:

When compared to the FY 2010 Booked ICRA, Outbound Single-Piece First-Class mail International to Canada showed a [REDACTED] in volume and a [REDACTED] in revenue. These compared with an [REDACTED] in non-transportation costs and a [REDACTED] in transportation costs. Settlement costs however, increased 73% between FY 2010 and FY 2011 under the Booked methodology. The Booked methodology includes prior period adjustments and in FY 2010, there were adjustments for overpayments of prior years' provisional payments of roughly [REDACTED]. As such, there was a lower FY 2010 base to compare with FY 2011, resulting in a [REDACTED] in unit Settlement costs.

Question 39

In its response to Docket No. ACR2010, CHIR No. 1, question 30, the Postal Service provided a distribution of FY 2010 Market Dominant Mail fees to mail categories.

a. Please distribute the FY 2011 market dominant mail fees provided in Table 1 below to the list of mail categories shown in Excel file CHIR_No.1_Attachment_A.xls, worksheet 'Market Dominant Mail Categories' and the 'Competitive Mail Categories,'. In doing so, please provide all underlying calculations and source workpapers.

b. Please confirm that Table 1 represents the complete list of Special Service fees by mail class.

Table 1: Docket No. ACR2011
FY 2011 Mailing Fees for Market Dominant Mail

Fee Category	Fees Fees (000)
MARKET DOMINANT MAIL	
First-Class Mail Fees:	
Domestic First-Class Mail Fees:	
Business Reply Service	63,007.211
Certificates of Mailing	5,665.168
Merchandise Return Service	0.000
Special Handling	2,959.912
Postage Due	878.178
Address Services	18,200.117
Application and Mailing Permits	54,965.640
Total Domestic First-Class Mail Fees	**145,676.226**
International First-Class Mail Fees:	
Certificates of Mailing International	324.718
Postage Due Foreign Origin Surface LC/AO	0.321
Postage Due Foreign Origin Air LC/AO	12.842
Postage Due First-Class International (Return Mail)	92.106
Total International First-Class Mail Fees	**429.987**
Total First-Class Mail Fees	**146,106.213**
Standard Mail Fees:	
Bulk Parcel Return Service	4,695.303
Address Services	14,641.281
Application and Mailing Permits	48,743.360
Total Standard Mail Fees	**68,079.944**
Periodicals Fees:	
Address Services	8,000.779
Application and Mailing Permits	402.600
Total Periodicals Fees	**8,403.379**
Package Services Fees:	
Certificates of Mailing	122.685
Address Services	1,324.510
Application and Mailing Permits	852.480
Merchandise Return Service	0.000
Parcel Airlift Service	122.065
Special Handling	617.695
Total Package Services Fees	**3,039.435**
Market Dominant Mail Fees	**225,628.971**

RESPONSE:

a. The requested files are filed as CHIR1.Q39.xls.

b. Confirmed.

Question 40

In its response to Docket No. ACR2010, CHIR No. 1, question 31, the Postal Service provided a distribution of FY 2010 competitive mail fees to mail categories. Please distribute the FY 2011 competitive mail fees provided in Table 2 below to the list of mail categories provided in the Excel file CHIR_No.1_Attachment_A.xls, worksheet 'Competitive Mail Categories.' The cell values referenced in Table 2 are located in Excel file "Fy2011_RPWextractfile.xls," worksheet 'Summary Category RPW Data.' In doing so, please provide all underlying calculations and source workpapers.

Table 2: Docket No. ACR2011
FY 2011 Mailing Fees for Competitive Mail

Fee Category	Fees (000)
COMPETITIVE MAIL	
Priority Mail Fees:	
Domestic Priority Mail Fees:	
Business Reply Service	D189
Certificates of Mailing	D190
Merchandise Return Service	D191
Special Handling	D185
Address Services	D188
International Mail Fees:	
Intl Certificates of Mailing-Priority Mail Intl	D222
Postage Due-Priority Mail Intl (Return Intl)	D225
Postage Due Foreign Origin Intl Airmail Parcels	D223
Postage Due Foreign Origin Intl Surface Parcels	D224

RESPONSE:

Please see ChIR1.Q40.Nonpublic.xls, filed under seal.

Question 41

Please provide a listing in Excel form including Office Name (or other appropriate identifier), Unit Type (CPO or CPU), Location (State), and 5-digit ZIP Code for the following:

a. CPUs and CPOs closed in FY 2011.

b. CPUs and CPOs newly established in FY 2011.

RESPONSE:

a-b. Please see ChIR1.Q41-42.xls.

Question 42

Please provide a file in Excel form including Office Name (or other appropriate identifier), Unit Type (CPO or CPU), Location (State), and 5-digit ZIP Code of CPOs and CPUs in existence at the end of FY 2011.

RESPONSE:

Please see ChIR1.Q41-42.xls.