

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 1-18 and 26-27 OF
CHAIRMAN'S INFORMATION REQUEST NO. 2
(February 7, 2012)

The United States Postal Service hereby provides its responses to the above-listed questions from Chairman's Information Request No. 2, issued on January 31, 2012. Responses are due by today. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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

David H. Rubin

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -6187
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RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2

Question 1

In response to CHIR No. 1, questions 9(d) and (e), the Postal Service provided an estimate of the FY 2012 contribution and cost coverage for Standard Flats as a result of the recent Docket No. R2012-3 price adjustments. Please provide estimates of the contribution and cost coverage for each of the other Standard Mail products for FY 2012 using the same methodology. Please provide the supporting calculations in an electronic spreadsheet including those supporting the Postal Service's response to CHIR No. 1, questions 9(d) and (e).

RESPONSE:

Please see CHIR2.Q1.xls in USPS-FY11-45.

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

Question 2

Please refer to USPS-FY11-4, file FY 2011 Standard Mail.xls, tab ECR FLATS P. C2-2, row 51, which reports the revenues, pieces, and weights for Every Door Direct Mail ("EDDM").

- a. Please confirm that this row reports data for both EDDM-BMEU and EDDM-Retail (which is the subject of the Market Test of an Experimental Product, Docket No. MT2011-3). If you do not confirm, please identify which product is included in that row, and explain where revenue, pieces, and weights for the other EDDM product is reported.
- b. Please also refer to USPS-FY11-4, folder Supplemental, files SM 2011Q3.xls and SM 2011Q4.xls, each of which has tab ECR FLATS P. C2-2, row 51, reporting the revenues, pieces, and weights for EDDM for FY 2011, quarters 3 and 4, respectively. All data reported for EDDM in the annual report equal the data in the report for quarter 3, but the revenue and volume in quarter 4 is zero. Please confirm that there was no revenue or volume for EDDM in quarter 4, and if so, explain whether the EDDM program has been terminated. If not confirmed, please provide the data for quarter 4 or indicate whether and where the quarter 4 data can be found in the Postal Service's Docket No. ACR2011 filing, and correct EDDM revenue and volume data as may be required.

RESPONSE:

- a. Not confirmed. Row 51 of tab ECR FLATS P. C2-2 reports data for EDDM-Retail only. EDDM-BMEU data are included in the data for Saturation Piece-Rated Flats, DDU Destination Entry. EDDM-BMEU data started being tracked separately on January 22, 2012, and will be reported separately beginning in FY2012, Quarter 2.
- b. Not confirmed. The Quarter 4 data for EDDM-Retail were inadvertently reported as zero in the RPW, so quarter 4 data were also omitted from the Annual Report and the Docket No. ACR2011 filing. The correct data for EDDM-Retail in Quarter 4 are as follows:

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

Revenue	Pieces	Weight
\$4,237,882	29,844,239	3,785,433

Note that these data are slightly higher than the EDDM-Retail data collection report data for Quarter 4, because they correctly include some data that were omitted from the data collection report. The data collection reports will be corrected.

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

Question 3

In response to ACR2010, CHIR 4, question 5 and as noted in Docket No. MC2009-19, the Postal Service explained that it is working on a methodology to allocate revenues and expenses between Stamped Fulfillment Services and Philatelic Sales products when it receives combined orders for stamps and philatelic items. For FY 2011, please provide an update on the Postal Service's efforts to develop a methodology to allocate the revenue and expenses for combined orders. If a methodology has not been developed, please approximate the allocation of revenue and expenses for combined orders of stamps and philatelic items.

RESPONSE:

In response to ACR2010, CHIR 4, question 5, the Postal Service presented the methodology for revenue and costs estimation for the Stamp Fulfillment Services (SFS) organization. The Postal Service used the same methodology for FY2011. Based on SFS's best knowledge and experience, SFS revenue can be estimated as follow: Approximately 90 percent to Stamps (philatelic or mail use), 5 percent to Philatelic Sales (First Day Covers, Digital Color Postmarks, Yearbooks, etc.) and 5 percent to combined orders that include both Stamps and Philatelic items.

SFS expenses are distributed somewhat differently. Approximately 80 percent of total SFS expenses can be attributed to Stamps (mail use and philatelic), with 15 percent attributed to Philatelic Sales, and 5 percent to combined orders. This is due in large part to the manual processes and therefore the relatively high costs for producing and handling these items.

The combined orders revenue can then be allocated between Stamps and Philatelic Sales in the 90/5 revenue ratio identified above, while the combined orders expense can be allocated between Stamps and Philatelic Sales in the 80/15 expense ratio identified above. Based on this methodology, the fulfillment revenues for the

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

Stamp Fulfillment Services and Philatelic Sales products for FY2011 are \$2,954,491 and \$171,954, respectively. The fulfillment costs for the Stamp Fulfillment Services and Philatelic Sales products are \$4,400,360 and \$838,164, respectively.

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

Question 4

Please refer to USPS-FY10-NP2, Excel file Reports (Booked).xls. In worksheet tab A Pages (md), please confirm that the "imputed" amount shown in cell D110 should be the "booked" amount shown in worksheet tab Pivot3, cell AE61. If not confirmed, please explain.

RESPONSE:

Confirmed.

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

Question 5

Please refer to USPS-FY10-NP2, Excel file Reports (Booked).xls. In worksheet tab A Pages (md), the cost coverage for Inbound Single-Piece First-Class Mail from target system countries paying UPU rates exceeds the cost coverage for inbound letter post items entered pursuant to the inbound multi-service agreement identified in worksheet tab Pivot3, cell AC62. In its request seeking approval of this agreement, the Postal Service maintained that the negotiated rates would result in an improvement over the default rates established under the UPU Acts for inbound letter post items. Please explain why the cost coverage for the inbound multi-service agreement did not exceed the cost coverage for inbound letter post items at UPU target system rates. What steps does the Postal Service plan to take to improve cost coverage for letter post items entered pursuant to the agreement.

RESPONSE:

Hong Kong is a 'New Target System' country not a 'Target System' country. The UPU alternative for Inbound Market Dominant mail from Hong Kong is not the Target System rates. This information was confirmed to the Commission in the USPS response to Chairman's Information Request No. 1, Question 2, concerning the Docket No. R2011-4 Hongkong Post Agreement. Hong Kong would have continued to pay Transition Country rates. Thus, comparison with the cost coverage for Inbound Single-Piece First-Class Mail from target system countries paying UPU rates, as expressed in worksheet tab A Pages (md), is not a valid comparison.

The USPS entered into a new bilateral agreement, effective January 1, 2012, through which the USPS hopes to improve the cost coverage. This bilateral agreement was the subject of PRC Docket No. R2012-4.

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

Question 6

The following questions pertain to the stand-alone international special services International Reply Coupon Service and International Business Reply Mail Service. Please refer to the FY 2011 Annual Compliance Report.

- a. At page 45, for International Reply Coupon Service, the Postal Service states that the "ICRA does not report costs for this service." Please explain why these costs cannot be reported and in what product(s) the costs for International Reply Coupon Service are located.
- b. At page 46, for International Business Reply Mail Service, the Postal Service states that the "ICRA does not report costs for this service." Please explain why these costs cannot be reported and in what product(s) the costs for International Business Reply Mail Service are located.

RESPONSE:

- a. The ICRA does not report International Reply Coupon Service costs because data for this service is not separately collected. The costs are reported in Inbound Air LC/AO.
- b. The ICRA does not report International Business Reply Mail costs because these costs are reported as part of the parent product, Inbound Air LC/AO. Upon review, the costs associated with two IOCS tallies for IBRM were incorrectly encircled to domestic Ancillary Other Services, but the impact is minimal. The Postal Service will propose a change to the encirclement methodology to correct this.

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

Question 7

The following question concerns market dominant inbound international negotiated service agreements (NSAs). Please refer to USPS-FY11-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 cost, product specific costs (if any), pieces, and net/gross pounds for each agreement/contract (identified by name, docket number and, if applicable, agreement/contract 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 Question 7 tab of Chir2.Q7.8c.Nonpublic.xls filed under seal in USPS-FY11-NP32.

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

Question 8

The following questions concern Express Mail Service (EMS) and the Kahala Posts Group.

- a. Please provide copies of any agreement, including any Pay-for-Performance Plan, applicable to the Postal Service governing the exchange of EMS during FY 2011 between the Postal Service and foreign postal operators that are members of the Kahala Posts Group.
- b. Please identify the foreign postal operators that were members of the Kahala Posts Group during FY 2011, and which of the identified foreign postal operators entered EMS into the United States pursuant to the agreement and Pay-for-Performance Plan provided in response to subpart a, above.
- c. Please explain where the FY 2011 financial results for EMS entered by the foreign postal operators identified in subpart b, above, are separately reported in the ICRA. If not separately reported, please provide the EMS financial results.
- d. For FY 2011, please provide any reports applicable to the Postal Service measuring the service performance of EMS that are used as the basis for establishing EMS rates under the Pay-for-Performance Plan identified in subpart (a), above

RESPONSE:

- a. The following are applicable to the exchange of EMS during FY 2011 between the Postal Service and foreign postal operators that were members of the Kahala Post Group: 1) **[REDACTED]**.
- b. The Kahala Posts Group members in FY 2011 were: The United States Postal Service, **[REDACTED]**. All of the previously referenced foreign postal operators who were members of the Kahala Posts Group in FY 2011 entered EMS into the United States in FY 2011.
- c. Please refer to the Question 8c tab of ChIR2.Q7.8c.Nonpublic.xls filed under seal in USPS-FY11-NP32.

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

- d. The applicable reports were previously filed under seal in response to
[REDACTED].

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

Question 9

The revenues for both the Philatelic Sales and Electronic Postmark services failed to cover costs. Please explain why the services had net losses for FY 2011. How will the Postal Service ensure that these services cover their costs in the future?

RESPONSE:

As noted in FY11-NP27, the shortfall shown for Philatelic Sales reflects revenue and expense for fulfillment of orders only. The Postal Service believes that the addition of revenue and expense for the actual sales of philatelic items would show that there is no overall shortfall. Moreover, the Postal Service substantially increased the fees for fulfillment of orders on January 22, 2012.

Electronic Postmark had no sales in FY 2011 and therefore no revenue. However, the Postal Service incurred costs in maintaining it. The Postal Service must maintain the product even when there are no sales because, for seven years from the date of purchase, a customer can return and re-authenticate their electronic postmark. The Postal Service expects to have new sales in the future which would help cover costs.

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

Question 10

Please provide the average customer wait time in line for retail service pursuant to 39 CFR § 3055.91(d).

RESPONSE:

In FY 2011, the national average customer wait time in line was 2 minutes and 45 seconds, down 12 seconds from last year. The average customer wait time in line for each area was:

- Capital Metro — 2 minutes and 40 seconds, down 21 seconds from last year
- Easter — 2 minutes and 26 seconds, equal to last year
- Great Lakes — 2 minutes and 5 seconds, down 12 seconds from last year
- Northeast — 2 minutes and 35 seconds, down 13 seconds from last year
- Pacific — 3 minutes and 16 seconds, down 9 seconds from last year
- Southwest — 3 minutes and 3 seconds, down 25 seconds from last year
- Western — 3 minutes, down 7 seconds from last year

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

Question 11

For FY 2011 and for all 3-digit ZIP Code pairs, please identify the number of days-to-deliver upgrades and the number of days-to-deliver downgrades, including an explanation of why each change was necessary, for:

- a. First-Class Mail by product.
- b. Periodicals by:
 - i. Origin entered (end-to-end); and
 - ii. Dropshipped mail.
- c. Standard Mail by:
 - i. Origin entered (end-to-end); and
 - ii. Dropshipped mail.
- d. Package Service by product

RESPONSE:

a.-d. Statistics for days-to-deliver upgrades and downgrades are filed in USPS-FY11-45. Changes that have been made throughout FY 2011 were a result of local operational changes. These included consolidation of operations and labeling list adjustments due to Area Mail Processing changes as part of the Postal Service's Network Plan for rationalizing its processing, transportation and distribution networks required by the Postal Accountability and Enhancement Act. Labeling list adjustments also occurred during FY 2011 due to local operational changes to improve the flow of mail through the network.

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

Question 12

Please provide the summary statistics for calls received by the Postal Service Customer Service number, call 1-800-ASK-USPS (1-800-275-8777), during FY 2011. Include in your response the total number of calls received for each category of information recorded, and the number of comments and/or complaints received per recorded category.

RESPONSE:

Responsive statistics are provided in USPS-FY11-45.

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

Question 13

For Standard Mail, please provide:

- a. The total number of Standard Mail mailers using IMb as of the end of FY 2011, broken out between Basic and Full Service.
- b. The total volume of Standard Mail IMb mail, broken out between Basic and Full Service, mailed in FY 2011.
- c. The percentage of Full Service IMb Standard Mail that was used to evaluate Standard Mail service performance in FY 2011.

RESPONSE:

- a. As of the end of FY 2011, 81,581 Standard Mail mailers were participating with 80,176 using Basic and 3,848 using Full Service (note that some Standard Mail mailers utilize both Basic and Full Service). This data are based on mailer and permit number combinations, and some mailers may use multiple permits and sites.
- b. For FY 2011, total volume of Standard Mail IMb mail was 51.9 billion, with 27.4 billion for Basic and 24.5 billion for Full Service.
- c. For all of FY 2011, 11.4% of the Full-Service Standard Mail volume was used to evaluate service performance. Due to the mailer certification process, no results were reported in Quarters 1 and 2, resulting in 0% of the volume being used. In Quarter 4 FY 2011, 33.8% of the Full Service Standard Mail volume was used to evaluate service performance.

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

Question 14

For Presort First-Class Mail, please provide:

- a. The total number of Presort First-Class Mail mailers using IMb as of the end of FY 2011, broken out between Basic and Full Service.
- b. The total volume of Presort First-Class IMb mail, broken out between Basic and Full Service, mailed in FY 2011.
- c. The percentage of Full Service IMb Presort First-Class Mail that was used to evaluate Presort First-Class Mail service performance in FY 2011.

RESPONSE:

- a. As of the end of FY 2011, 24,280 Presort First-Class Mail mailers were participating with 23,792 using Basic and 1,626 using Full Service (note that some Presort First-Class Mail mailers utilize both Basic and Full Service). This data are based on mailer and permit number combinations, and some mailers may use multiple permits and sites.
- b. For FY 2011, total volume of Presort First-Class IMb mail was 37 billion, with 12.8 billion for Basic and 24.2 billion for Full Service.
- c. For all of FY 2011, 22.5% of the Full-Service Presort FCM volume was used to evaluate service performance. Due to the mailer certification process, Quarters 1 through 3 used significantly lower percentages of the total volume. In Quarter 4 FY 2011, 53.1% of the Full Service Presort First-Class Mail volume was used to evaluate service performance.

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

Question 15

Page 61 of the FY 2009 ACD states, "the Postal Service must provide the targets it strives to achieve with regard to its customer satisfaction survey results in [future] Annual Compliance Reports." In the 2011 ACR, no customer experience targets have been provided with the customer experience survey results. Please provide targets for each customer experience measurement.

RESPONSE:

The Postal Service is under no specific statutory obligation to establish goals or targets for customer satisfaction, and the Commission can point to no statutory authorization to require the Postal Service to report on the establishment of such goals or targets (which would imply a duty for the Postal Service to establish them). Absent such statutory requirements, any goals or targets for customer satisfaction are a matter for internal Postal Service management, and not a statutorily-defined subject for regulatory review. The Postal Service must report on the degree of customer satisfaction with the level of service it provides, and the reporting of customer survey results in accordance with the Commission's rules clearly fulfills that obligation.

There were no goals for CEM experiences in FY 2011. In FY 2011, baselines were established to set future targets.

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

Question 16

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 was to have 90 percent of mail contain either a Full-Service or Basic IMb barcode.

- a. Please provide the percentage of mail, by Class, that is expected to be Full-Service IMb compliant by the end of FY 2012.
- b. Please identify the percentage of mail, by Class, that is expected to be Basic IMb compliant by the end of FY 2012.
- c. Please specifically identify the steps the Postal Service plans to take in order to increase the usage of full service IMb in FY 2012

RESPONSE:

- a. By the end of FY 2012, the Postal Service expects 55% of First-Class Mail, 38% of Standard Mail, and 55% of Periodicals to be Full-Service IMb compliant.
- b. By the end of FY 2012, the Postal Service expects 34% of First-Class Mail, 38% of Standard Mail, and 13% of Periodicals to be Basic IMb compliant.
- c. The Postal Service is taking several steps to increase Full Service IMb usage in FY 2012. Providing free visibility (container, tray, and piece level scans) for Full Service IMb mailings was implemented in January 2012. This information enables mailers to monitor the movement of mailings throughout the Postal Service network and determine where their mail is in the processing and delivery lifecycle. The Postal Service anticipates that the incentive of free visibility will entice mailers who are currently using basic IMb to move to Full Service. Additionally, the Postal Service is implementing an IMb Small Business tool that will enable small mailers to generate Full Service mailings through an easy to use web based tool. This tool is planned for implementation at the end of Q3.

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

Question 17

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

- a. First-Class Mail Bulk Letters/Postcards
 - i. Overnight
 - ii. Two-day
 - iii. 3/4/5-day

- b. First-Class Mail Flats
 - i. Overnight
 - ii. Two-day
 - iii. 3/4/5-day

- c. Standard Mail Destination Entry
 - i. High Density and Saturation Letters
 - ii. High Density and Saturation Flats/Parcels
 - iii. Carrier Route
 - iv. Letters
 - v. Flats
 - vi. Not Flat-Machinables (NFMs)/Parcels

- d. Standard Mail End-to-End
 - i. High Density and Saturation Letters
 - ii. High Density and Saturation Flats/Parcels
 - iii. Carrier Route
 - iv. Letters
 - v. Flats
 - vi. Not Flat-Machinables (NFMs)/Parcels

- e. Periodicals
 - i. Within County
 - ii. Outside County

RESPONSE:

In the category of First-Class Mail Flats, the estimated number of usable pieces to measure the single-piece portion at +/-3% margin of error with 95% confidence level is 875 pieces per destination district each quarter. The measurement

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

approach for that would be the EXFC system.

Achieving a +/-3% margin of error at the district level for origin/destination composite on time service performance estimates using the hybrid measurement approach relied upon for measuring Presort First-Class Mail, Standard Mail, and Periodicals (beginning in FY 2012) is dependent upon both having sufficient usable IMb pieces available for measurement of Leg 1, from start-the-clock to the anticipated delivery date based on final automated processing, and sufficient pieces available for measurement of Leg 2 or the last mile, the time from anticipated delivery to actual delivery. The combination of these two legs into end-to-end scores and service variances requires complex calculations that make it difficult to estimate a precise number of pieces required to achieve a +/-3% margin of error for every case as requested.

In the case of commercial mail products being measured through this hybrid approach, there is rarely the situation in which there are some mail pieces available for measurement for a particular reporting level but the volume of pieces does not achieve a +/-3% or lower margin of error at a 95% confidence level. Typically there are tens of thousands and in many cases, millions of pieces available for measurement of Leg 1. However, there are some cases where there is currently no data available for a particular service standard group and district due to a lack of participating mailers sending a certain type mail from a particular location. For example, in FY 2011 there were no mailers participating in full-service Intelligent Mail sending presort First-Class Mail from the Caribbean district, and thus there were no available data on which to report Caribbean overnight or Two-Day service performance results for presort First-

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

Class Mail and the Three-to-Five-Day results for the district are based solely on mail destinating to the district. Similar situations existed in Standard Mail categories for several products in FY 2011. For Standard Mail, the requirement to report service by product category poses the additional complication that in many cases the electronic documentation currently submitted by the mailers does not support attributing the exact product category to each piece of mail. In some cases, due to the scarcity of measurable Full-Service mail for which the exact product is known, the number of pieces available for measurement was limited to only a few thousand, resulting in margins of error exceeding +/-3.0%.

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

Question 18

On page 16 of the Annual Report on Service Performance for Market-Dominant Products, the Postal Service states the low service performance results for Standard Mail are “expected to improve as more customers adopt Full Service Intelligent Mail...”

- a. Please explain why and how service performance results will improve as more customers adopt Full Service Intelligent Mail.
- b. Please explain in detail how low Full Service Intelligent Mail customer participation correlates to low service performance results. For example, does the Postal Service believe that presort mailers in the current IMb sample population receive poorer service than the general population of presort mailers?

RESPONSE:

- a. The lack of mailers participating in Full Service Intelligent Mail has the risk of providing service scores that are not representative of system-wide service performance. Having all mailers adopt Full Service Intelligent Mail provides more robust service performance data that are representative across all Districts, Areas and Nationally.
- b. The Postal Service does not believe presort mailers in the current IMb sample population receive poorer service than the general population of presort mailers. As mentioned above, the lack of Full Service Intelligent Mail participation has the risk of providing service scores that are not representative of system-wide service performance.

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

Question 26

In the CPMS (Collection Point Management System) Database, which combination of "box type"(s) , "location type"(s), or any other appropriate combination of data fields, does the Postal Service consider to be "collection boxes" (as versus *collection points*) consistent with the Postal Service's response to Docket No. ACR2010, CHIR No. 3, Question 2?

RESPONSE:

Collection boxes are identified through the Box Type. Box Types for collection boxes include: Express, Express Snorkel, High Density, High Density Snorkel, Jumbo Snorkel, Jumbo Standard, Post, Priority, Priority Snorkel, Snorkel and Standard. All other Box Types are collection points.

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

Question 27

If blue collection boxes exist outside a Post Office which is subsequently discontinued, do the collection boxes remain? Please explain.

RESPONSE:

Most commonly, blue collection boxes once located outside a Post Office are removed and relocated to alternate locations. But the critical driver is customer need. If a landowner agrees, a ready means for retrieving mail from the collection box can be found, and customer need exists, the collection box may be retained at the discontinued office location.