

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

ANNUAL COMPLIANCE REVIEW, 2012

Docket No. ACR2012

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-9 AND 12-15 OF CHAIRMAN'S INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 1, issued on January 4, 2013. Each question is stated verbatim and followed by the response. Responses to Questions 10 and 11 will be filed later this week.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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January 14, 2013

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Question 1

In the FY 2011 ACD, the Commission stated that it “expects that in the Postal Service’s FY 2012 ACR it will identify and report on actions taken to reduce the costs of handling flats, and the impact of those actions on the cost of handling flats and the service received by Periodicals.” FY 2011 ACD at 106. In its FY 2012 ACR, the Postal Service states the following:

The Postal Service shares the Commission’s concern about Periodicals cost coverage, and, as stated in the *Periodicals Mail Study*, ‘the Postal Service and the Commission will continue to work together to identify and address challenges related to Periodicals.’ That Study outlined the continuing steps that the Postal Service is taking to reduce costs. While the Postal Service believes that some of the savings from those steps began to accrue in FY 2012, it is clear that they did not impact the cost coverage appreciably. Of course, some of the initiatives are longer-term than one year, and in some instances costs from the changes associated with those initiatives have been incurred while the associated savings may take longer to realize. FY 2012 Annual Compliance Report at 27 (footnote omitted).

- a. Has the Postal Service identified the actions taken to reduce Periodicals flats costs in FY 2012? If so, please provide a list and explanation of these actions.
- b. Has the Postal Service quantified the cost impact of the actions taken to reduce Periodicals flats costs in FY 2012? If so, please provide the calculations and underlying information used to quantify the cost impact of the actions used to reduce flats costs in FY 2012.
- c. Has the Postal Service measured the impact of the actions taken to reduce Periodicals flats costs on the service received by Periodicals in FY 2012? If so, please provide the results and underlying information used to measure the impact of these actions.

RESPONSE:

- a. Described below are the steps that the Postal Service has taken to make its processing of flats more efficient. With the exception of the first item, the Periodicals Processing Policy, the items below apply to both Periodicals and Standard Mail Flats.

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▪ **Periodicals Processing Policy**

In July 2011, the Postal Service published a revised Periodicals Processing Policy. The new procedures embodied in the revised policy were implemented in Quarter 4 of FY 2011, so they began to take effect in FY 2012.

The primary objectives of the revised policy were to process Periodicals on automation equipment, standardize Periodicals operations, and improve Periodicals service. The key areas covered by the revised policy include: origin and destination entry process; current service standards; container identification; service visibility requirements; merging of mail classes to gain efficiency and reduce cost; dispatch and routing; letter mail processing; and consolidation of facilities. The revised policy specifically eliminated "Hot2C" practices, as it mandated that Periodicals be worked on automated equipment, versus a prioritized handling by a list of publication titles.

▪ **FSS Scorecard**

The Postal Service began using an "FSS scorecard," which measures critical aspects of FSS performance by site. The scorecard was used to develop a list of specific sites to improve. Managers at those sites were then required to attend biweekly teleconferences to discuss their action plans to improve performance.

▪ **Moving Mail Up the Ladder**

With the implementation of new Critical Entry Times (CETs), the Postal Service has focused on moving candidate mail up the ladder, resulting in increased processing on automated equipment and a reduction in manual processing. In addition, Standard Mail mailings arriving at DDUs having machinable characteristics are dispatched to FSS sites if service will not be compromised. Within calendar year 2012, the volume of mail

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processed on FSS increased 6 percent, processing on AFSM100 decreased 2 percent, and manual processing decreased 4 percent. The Postal Service monitors these processing trends on a biweekly basis. With continued focus from Tiger Teams, coupled with more experience with the new policies among processing and maintenance employees, the trend toward more automated processing should continue.

▪ **Mail Preparation**

The following three FSS bundle and container preparation options were introduced in January 2011:

- FSS Scheme bundle – contains all pieces belonging to the same FSS sort program.
- FSS Facility pallet – contains only FSS Scheme bundles belonging to the same FSS site.
- FSS Scheme pallet – contains all FSS Scheme bundles for the same FSS sort program.

FSS Scheme bundles provide mutual benefit to mailers and the Postal Service, as pieces from several Carrier Route bundles are commingled into a single bundle rather than being in separate Carrier Route bundles. FSS Facility pallets containing FSS Scheme bundles can be identified and managed through bundle operations to ensure that mail is flowed timely to prepare for the FSS operation. The greatest time and cost advantage is from FSS Scheme pallets, which can bypass bundle sort and be flowed to non-located FSS sites or be dropped by mailers directly to the FSS site. While use of the new preparation options has been limited among mailers thus far, their use is

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growing and the Postal Service expects that greater use of these options among mailers will lead to more efficient processing.

Additionally, the Postal Service has continued to work with the mailing industry to identify mailing requirement changes that would increase efficiency, for example by allowing for movement away from sack preparation and toward more bundles on pallets. In FY 2012, the Postal Service modified the requirements for Origin Mixed and Mixed ADC flats; the modification made both pallet levels required rather than optional. Effective in FY 2013, this change is expected to increase efficiency by streamlining the mail flow into the proper channel at first handling, which should also result in improved service.

- **Mail Entry**

The Postal Service has modified mail entry requirements and the Facility Access and Shipment Tracking (FAST) system to allow mailers to drop ship FSS Scheme or 5-Digit FSS zone pallets at FSS sites that are not collocated with APPS operations. This reduces the handling cost of those pallets, reduces transportation, and improves service. However, with limited mailer adoption of FSS optional preparation, the benefits of reduced handlings and cycle times have not been fully realized.

- **Bundle Operation**

The Postal Service converted 198 SPBS to APBS as of December 2011, and plans to convert an additional 17 machines. These conversions reduce operating costs and improve operational efficiency by replacing aging equipment with newer technology that includes more advanced Optical Character Reader (OCR) capabilities. The conversions also provide for higher throughput and more productivity overall.

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Efforts to reduce bundle breakage through more training and better technology also continue. Concurrently, Tiger Teams have monitored unloading at APPS and APBS and worked with sites to ensure the usage of established best practices.

- **Service Performance Diagnostics Tool**

A diagnostic software tool termed Service Performance Diagnostics (SPD) was released in January 2012. For full service mailings, SPD measures mailings' cycle times, from arrival to the first automated operation to delivery. SPD provides an early warning for mailings that have been accepted into a plant but have not yet been worked on automation. This increases efficiency by focusing on machine capacities and zero day processing.

- **Visibility**

The Postal Service is using information from IMb to develop scorecards and other tools to make operations more efficient. The next phase of the IMb strategy sunsets POSTNET barcodes effective January 27, 2013. With increased IMBs in the system, the Postal Service will pursue additional opportunities to use enhanced visibility and transparency to better manage operations. The Postal Service is researching software enhancements to improve the recognition and distribution of flats pieces and bundles, with initial focus given to those containing dual IMBs.

- **Future Enhancements**

In addition to the items discussed above, the Postal Service is pursuing other enhancements that may result in greater efficiency gains in the future. For example, the Postal Service is pursuing retrofit design strategies that impede the tumbling effect at the incline section of the APPS distribution that results in the breakage of bundles. A

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final design solution has not yet been determined. Also, a high-speed flats feeder is being developed as an enhancement to improve the efficiency of the FSS sort operation and respond to the decline of flats volume.

More generally, the Postal Service began implementation of Network Rationalization in FY 2012 and expects the initiative to result in less redundancies and a better match with mail volumes across the mail processing system. The Postal Service continues to invest in Lean / Six Sigma projects, the Breakthrough Productivity Initiative (BPI), and maintenance initiatives to improve the care and operation of MPE and facilities.

b. No. While the joint *Periodicals Mail Study* estimated the maximum potential savings from some of the initiatives described above, no analysis has been performed to isolate the cost savings resulting from the above initiatives, assuming such an analysis were even possible with available data. See also the Postal Service's response to Question 7(b) of Chairman's Information Request No. 1 in Docket No. ACR2011, filed on February 8, 2012.

c. No. As with cost savings, it may not be possible to isolate the effects on service of the items discussed above.

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Question 2

As required by the FY 2010 Annual Compliance Determination (at 107), please provide the following information regarding the Standard Mail Flats product.

- a. Describe all operational changes designed to reduce flat costs in FY 2012 and estimate the financial effects of such changes.
- b. Describe all costing methodology or measurement improvements made in FY 2012 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.

RESPONSE:

- a. Please see the Postal Service's responses to parts (a) and (b) of Question 1 above.
- b. Three costing methodology changes affected Standard Mail Flats costs in FY 2012: Proposal Two, Docket No. RM2012-5; Proposal Five, Docket No. RM2012-5; and Proposal Seven, Docket No. RM2012-7. As the subsequent table shows, however, the effects of the changes were minimal.

Proposal	Topic	FY 2011 Estimated Impact (\$000) ¹
Two	Calculation of Scanning Costs for All Non-Accountable Delivery Scans	(216)
Five	Change to Methodology of Distributing Costs Incurred by Vehicle Service Drivers	7,102
Seven	TRACS Change to Parcel Density Process	(496)
Total		6,390

¹Piggyback factors included

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The additional \$6.4 million in relevant costs accounted for only 0.20 percent of the FY 2011 total attributable costs for Standard Mail Flats (\$3.14 billion). In FY 2012, the unit cost of Standard Mail Flats was 46.5 cents. Of the 46.5 cents unit cost, then, 0.09 cents (or 0.20 percent of 46.5 cents) was associated with the three methodology changes listed above.

c. The table below lists the historical and current shortfall of Standard Mail Flats.

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
2012	\$ 2,230	\$ 2,762	\$ 532

On pages 16-19 of the FY 2012 Annual Compliance Report, the Postal Service discussed some of the factors that make projections regarding future pricing decisions highly speculative. Similarly, it is very difficult to predict when the shortfall for Standard Mail Flats will be phased out. Given the product's low cost coverage and the limitations of the price cap system, the shortfall is unlikely to be eliminated by the end of 2016, when the Commission will commence a comprehensive review of the present regulatory system. The prospects for eliminating the shortfall thereafter will depend not only on pricing and cost saving initiatives, but also on any changes made to applicable regulations by the Commission.

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Question 3

Please identify each Standard Mail nonprofit workshare discount that differs from its commercial counterpart. In addition, calculate its passthrough and, if necessary, provide a justification pursuant to 39 U.S.C. 3622(e).

RESPONSE:

The Standard Mail nonprofit workshare discounts that differ from their commercial counterparts are listed below, along with their passthroughs.

<u>Nonprofit Discounts that Differ from Commercial Discounts</u>	<u>Discount</u>	<u>Passthrough</u>
<i>Letters</i>		
Pre-barcoding Automation Mixed AADC Letters	\$ 0.006	-200.0%
<i>Flats</i>		
Presorting Automation 5-Digit Flats	\$ 0.076	87.4%
Presorting Nonautomation 3-Digit Flats	\$ 0.048	78.7%
Presorting Nonautomation 5-Digit Flats	\$ 0.081	139.7%
<i>Parcels</i>		
Presorting NDC Marketing Parcels	\$ 0.376	122.1%
Presorting SCF Marketing Parcels	\$ 0.344	125.1%
Presorting 5-Digit Marketing Parcels	\$ 0.022	4.8%
<i>High Density/Saturation Letters</i>		
Presorting High Density Letters	\$ 0.069	25.2%
<i>High Density/Saturation Flats and Parcels</i>		
Presorting High Density Flats	\$ 0.045	83.3%
Presorting High Density Parcels	\$ 0.174	12.3%

As noted above, the presorting Nonautomation 5-Digit Flats passthrough is 139.7 percent. On January 27, 2013, the discount will fall from 8.1 cents to 7.8 cents, matching the FY 2011 cost avoidance of 7.8 cents. In FY 2012, the cost avoidance fell significantly, to 5.8 cents, meaning that the passthrough will likely remain above 100 percent in FY 2013. The Postal Service intends to continue moving the discount in line with the cost avoidance; if the cost avoidance stabilizes, this should occur over time.

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Moving the discount in line with the cost avoidance immediately could lead to rate shock, and would further be inadvisable given that the significant one-year reduction in the cost avoidance could be short-lived. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B).

The presorting passthrough for NDC Marketing Parcels is 122.1 percent, down from 158.3 percent in FY 2011. In FY 2012, the cost avoidance increased significantly, to 30.8 cents from 23.0 cents in FY 2011. On January 27, 2013, the discount will increase from 37.6 cents to 41.4 cents. While this will likely cause the passthrough to increase, it will make the nonprofit discount match the commercial discount. The Postal Service intends to move the discount in line with the avoided costs over time, while avoiding any drastic changes that could lead to rate shock. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B).

The presorting passthrough for SCF Marketing Parcels is 125.1 percent, down from 126.2 percent in FY 2011. The cost avoidance increased from 26.7 cents in FY 2011 to 27.5 cents in FY 2012, and the discount will be reduced from 33.7 cents to 31.2 cents on January 27, 2013, thereby bringing the passthrough close to 100 percent. The Postal Service intends to close the remaining gap by further reducing the discount over time. The Postal Service therefore justifies this passthrough pursuant to section 3622(e)(2)(B).

Furthermore, with respect to both the NDC Marketing Parcels and SCF Marketing Parcels presorting passthroughs, the Postal Services notes that the recent substantial changes in the definition of Standard Mail Parcels, with the reclassification in FY 2012 of the majority of the product to the competitive product list, introduce some

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uncertainty as to whether the Standard Mail Parcels cost avoidances will remain steady in FY 2013. This underscores the need to move deliberately and gradually with respect to the corresponding discounts.

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Question 4

Please refer to USPS-FY12-30, Excel file: ACR_NSA_FY12_report.xls, tab: MC2011-19 Discover NSA. Please provide the underlying calculations for the \$2,571,996 in rebates paid for First-Class NSA mailpieces and the \$3,051,958 in rebates paid for Standard Mail NSA mailpieces.

RESPONSE:

These calculations were provided by the Postal Service in Docket No. MC2011-19.

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Question 5

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 2011, 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 2012, 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.

RESPONSE:

The requested information is filed under seal in USPS-FY12-NP31. It should be noted that the Postal Service changed its service standards as of July 1, 2012, and informed the UPU IB of this change at that time. These new standards, however, are not yet reflected in the quality of service measurements and are pending a decision by the April 2013 UPU POC on retroactive application.

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Question 6

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

- a. In Docket No. ACR2011, the Commission requested the CY 2011 EMS Cooperative Report Card. The Postal Service's response stated that the CY 2011 EMS Cooperative Report Card would not be available until at least mid-February 2012. Postal Service Response to CHIR No. 1, question 32. The CY 2011 EMS Cooperative Report Card was not filed in Docket No. ACR2011. With respect to CY 2012, please provide the CY 2012 EMS Cooperative Report Card by filing it in the instant docket when it is provided to the Postal Service.
- b. Please provide the available EMS Cooperative quarterly report cards for CY 2012 provided to the Postal Service.

RESPONSE:

- a. The CY 2011 EMS Cooperative Report Card is filed under seal in USPS-FY12-NP31. A public version of the CY 2011 EMS Report Card, with redactions, is filed in USPS-FY12-44. The CY 2012 Report Card will not be available until at least mid-February 2013.
- b. Unredacted versions of the EMS Cooperative quarterly report cards for Quarters 1, 2, and 3 for CY2012 provided to the Postal Service are filed under seal in USPS-FY12-NP31. Public versions of these report cards are filed in USPS-FY12-44. The EMS Unit has not distributed the Q4-CY2012 report card.

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Question 7

The following question concerns inbound international mail. For FY 2012, please provide the number of cubic feet separately for inbound Air LC/AO,¹ Surface LC/AO, Surface Parcel Post, Air Parcel Post, and EMS from Canada and the rest of the world (separated by Industrialized Countries (ICs) and Developing Countries (DCs), if possible).

RESPONSE:

The requested information is filed under seal in USPS-FY12-NP31.

¹ LC/AO—(French) *lettres et cartes* and *autres objets*; literally “letters and cards” and “other objects.”

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Question 8

The following questions concern international mail and the Foreign Postal Settlement (FPS) system. In Docket No. RM2012-7, the Postal Service presented Proposal Seven, and stated that for FY 2012, inbound revenue reported in the International Cost and Revenue Analysis (ICRA) Imputed version will not be the same as inbound revenue reported in the ICRA Booked version, or the Revenue, Pieces and Weight (RPW) report. Response to CHIR No. 1, question 1. The Postal Service also stated that Proposal Seven did not entirely eliminate the need for the ICRA Booked and Imputed versions because the proposal did not address outbound international cost calculations. Petition at 4.

- a. Please identify and explain all technical and other issues that precluded the Postal Service from reporting international revenues and costs by product in a single or unified version of the FY 2012 ICRA that is consistent with the Postal Service's financial statements.
- b. Please discuss Postal Service plans to address the technical and other issues identified in subpart (a), and provide a schedule for completing any necessary work, to permit the reporting of international revenues and costs by product in a single or unified version of the ICRA that is consistent with the Postal Service's financial statements.

RESPONSE:

- a. As explained in Docket No. RM2012-7, Response to CHIR No. 1, Question 1, FY 2012 was a transition year for the ICRA. For the Inbound portion, maintaining the Imputed version had less to do with technical reasons and more to do with the fact that the Imputed version would still be necessary for Outbound calculations. One of the ideas behind FPS was to employ an imputed-type methodology similar to the ICRA, and the transition year allowed the Postal Service to test that for Inbound by going through an entire ICRA process. That test was successful and the imputations for Inbound categories are no longer necessary.
- b. As explained in Docket No. RM2012-7, Response to CHIR No. 1, the ICRA uses data from a variety of departments or functions, such as Accounting, FPS, and RPW, all

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of which would need to devote resources to investigate the issue, devise a plan, and implement a coordinated solution that overcomes numerous technical obstacles.

FPS settlement data are not sufficient to distinguish the various Outbound products required for reporting. For instance, FPS does not distinguish between items that are settled as ordinary Letter-Post: First Class Mail International Letters and Cards, Priority Mail International Small Flat Rate Boxes and Envelopes and International Priority Airlift. However, each of those products is required to be separately reported in the ICRA, so the ICRA relies on the SIRVO/RPW system as its source for ICRA outbound data. SIRVO/RPW reports revenue, pieces, and weight by product tying out to known dispatch weight. FPS pieces and revenue are determined by settlement IPKs, exchange rates, and the like, tying out to settlement weight (which is close, but may not tie out exactly to dispatch weight). Additionally, the RPW reporting of international mail uses revenue reporting systems other than SIRVO, such as PostalOne for bulk mail entered data, and EDW or special reports for reporting Negotiated Service Agreement activity. Finally, for the Letter-Post items that are settled by weight only (most Transition System countries), FPS only retains the weight information needed to compute the settlements and does not provide piece counts. Since the settlement process does not require piece counts, there is no reason for FPS to even track them. Opening all of the mail would be impractical, so SIRVO handles the issue with statistical samples.

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Question 9

The following question refers to the Postal Service Library Reference "USPS-FY 12-4," filename "FY 2012 Special Services.xls." Money Order revenue is reported as \$165,092,887. However, Money Order revenue differs from that reported in the United States Postal Service FY 2012 Annual Compliance Report, Table 6 at 31.

- a. Please confirm that the difference between the revenue shown in USPS-FY12-4 and the revenue shown in Table 6 is the interest income from the Money Order float. If not confirmed, please provide the correct FY 2012 Money Order float and provide a detailed explanation of the difference between the Money Order revenue shown in the FY 2012 Annual Compliance Report and what is shown in USPS-FY12-4.
- b. Please include in your response the workpapers used to calculate the Money Order float.

RESPONSE:

- a. Confirmed.
- b. See USPS-FY12-28.

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Question 12

The following table presents the volume and attributable cost of "Stamp Fulfillment Services Philatelic Products" as reported in USPS-FY12-4 worksheet "SFS," USPS-FY12-28 spreadsheets "Summary" and "Order Type & Rev," and the United States Postal Service FY 2012 Annual Compliance Report Table 6 at 31. Please identify the correct volumes and attributable costs for "Stamp Fulfillment Services Philatelic Products" and/or explain the differences between the figures presented in each source.

Reference	Volumes	Attributable Costs
FY12 ACR, table 6 at 31	2.7 million	\$5.6 million
USPS-FY12-28	2,867,559	\$6,523,854
USPS-FY12-4	2,604,390	N/A

RESPONSE:

The Stamp Fulfillment Services (SFS) volume contained in USPS-FY12-4 differs from the SFS Total volume in USPS-FY12-28, and will continue to differ in the future. USPS-FY12-4 provides data for the SFS **product** (MCS 1560), which involves the fulfillment of stamp orders by the SFS **organization**. The SFS Total volume in USPS-FY12-28 includes data for all shipments by the SFS organization, including shipments of stamp orders and shipments of philatelic items (under MCS 1702). USPS-FY12-28 uses the larger volume number because, for costing calculations, all orders must be considered. USPS-FY12-28 also includes the same volume number for the SFS product as USPS-FY12-4, in cell C5 of tab "Order Type & Rev," under the "Stamps" category.

The SFS volume reported in Table 6 (which applies to the SFS product) was rounded incorrectly; it should have been 2.6 million, to match the 2,604,390 volume contained in USPS-FY12-4. The SFS cost of \$5.6 million reported in Table 6 is correct; it matches the \$5,566,808 cost contained in USPS-FY12-28 (in the workbook StFS2012.xls, tab "SFS Summary," cell B6).

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Question 13

Please provide the daily Management Operating Data System (MODS) volumes and workhours for FY 2012 by plant, operation, and tour. Please provide the FY 2012 data in a similar format as that provided to the Commission in Docket No. N2012-1, USPS-LR-NP10. For each record, include:

- a. Finance number – (plant finance number, 6 digits),
- b. Date – (YYYYMMDD format),
- c. MODS tour – (1, 2, or 3),
- d. operation – (3-digit MODS operation),
- e. FHP – (MODS First-Handling Pieces),
- f. TPH – (MODS Total Pieces Handled),
- g. TPF – (MODS Total Pieces Fed),
- h. nonaddtph – MODS Non-Add TPH,
- i. hours – MODS workhours, and
- j. facility-type – e.g., MODS facility (used to calculate ACR 2012/USPS-FY12-LR-23 MODS productivities), NDC, REC, ISC, etc.

RESPONSE:

The requested data are filed under seal in USPS-FY12-NP31.

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Question 14

In its response to CHIR No. 1, question 38, in Docket No. ACR2011, and also CHIR No.1, question 29 in Docket No. ACR2010, the Postal Service submitted the RPW Extract File. See Excel file CHIR1.38.XLS in Docket No. ACR2011 and Library Reference USPS-FY10-NP30, Excel file "CHIR.1.Q.20.NONPUBLIC.FY2010_RPWextractfile.xls" in Docket No ACR2010. These files consist of the following three worksheet tabs containing comprehensive mail category revenue, pieces, and weight data for FY 2011: "Summary Category RPW Data", "Rate Category RPW Data", and "RPW Report". Please provide an Excel file that includes the aforementioned worksheet tabs and the same comprehensive mail category data from the RPW, updated for FY 2012.

RESPONSE:

The requested Excel workbook is filed under seal in USPS-FY12-NP31.

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Question 15

Please provide the spreadsheets which calculate the workyears and the workyear conversion factor found in USPS-FY12-7 Part VIII, Productive Hourly Rates. Identify all data sources and include all data used to compute the workyears and conversion factor.

RESPONSE:

The requested spreadsheets are filed in USPS-FY12-44.