

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 1-2 AND 4-24 OF CHAIRMAN'S INFORMATION REQUEST NO. 4

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 4, issued on January 18, 2013. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**Question 1**

The FY 2012 Annual Compliance Report (“ACR”) states that “only the Postal Service’s Governors have the authority to change prices of postal products. Pricing decisions are based upon the application of statutory and regulatory requirements, taking into consideration the Governors’ independent evaluation of market and business strategy concerns.” 2012 ACR at 16 (footnote omitted). The ACR also states that “strict adherence to above-CPI price increases also impairs the pricing flexibility the Postal Service is guaranteed under the PAEA.” *Id.* at 18.

- a. Please clarify whether the Postal Service takes the position that the Governors’ pricing authority is not subject to the duty to comply with remedial orders of the Commission issued pursuant to 39 U.S.C. § 3662, such as the Standard Mail Flats remedial orders in the FY 2010 Annual Compliance Determination, as affirmed by the U.S. Court of Appeals for the District of Columbia Circuit?

**RESPONSE:**

- a. The Postal Service does not take that position. Rather, the Postal Service’s objective in including the above quoted statement was to point out that it would be impractical for the Governors to approve a fixed schedule of price increases spanning multiple years. Given the constantly changing market and strategic factors that the Governors must consider before approving prices, it could be a breach of their fiduciary duties to approve prices before such considerations are known.

Accordingly, the Postal Service appropriately noted that the schedule of above-CPI price increases for Standard Mail Flats was “speculative,” and that “[p]ricing decisions are based upon the application of statutory and regulatory requirements, taking into consideration the Governors’ independent evaluation of market and business strategy concerns.”<sup>1</sup>

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<sup>1</sup> Docket No. ACR2012, United States Postal Service FY 2012 Annual Compliance Report (Dec. 28, 2012), at 16.

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**Question 2**

Please refer to the FY 2012 ACR, p. 19, Table 3, "Planned Standard Mail Flats Price Increases."

- a. Please confirm that under the Postal Service planned schedule, unless changed, the Governors would increase Standard Mail Flats by 105 percent of CPI, *e.g.*, if the annual price cap were 2.0 percent, the Postal Service would increase Flats by 105 percent of 2.0 percent, or 2.1 percent. If not confirmed, please explain.
- b. Did the Governors give approval to the "three-year schedule of above-CPI price increases for Standard Mail Flats" presented in Table 3 of the ACR? 2012 ACR at 18-19. If not, did the Postal Service submit this schedule pursuant to an earlier delegation of authority to postal management? See, *e.g.*, Docket No. MC2012-14/R2012-8, Notice of the U.S. Postal Service (Apr. 30, 2012), Attachment A, Governors' Resolution.

**RESPONSE:**

- a. The calculation of the above-CPI price increases is confirmed. For the reasons set forth in the response to Question 1 above, it would be speculative to predict with certainty any future pricing action by the Governors.
- b. The Governors did not approve the three-year schedule of above-CPI price increases for Standard Mail Flats presented in Table 3 of the Annual Compliance Report.

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**Question 4**

Please explain how the Postal Service anticipates changes in the Standard Mail Flats mail mix (i.e. weight, presortation level, dropshipping level, etc.) will impact the unit attributable costs and unit revenues of Standard Mail Flats in the future. Provide any available supporting documentation.

**RESPONSE:**

At present, the Postal Service does not anticipate any significant changes in the Standard Mail Flats mail mix. Indeed, the prices approved by the Commission in Docket No. R2013-1 were not designed to encourage Flats mailers to change their current behavior.

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**Question 5**

Please provide any data available that demonstrates a migration of Standard Mail Flats to other products. Please explain how the Postal Service anticipates this migration will impact the Standard Mail Flats cost coverage.

**RESPONSE:**

The Postal Service does not currently possess data that would allow it to identify mail pieces that have migrated from one product to another.

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**Question 6**

The Postal Service notes that the avoided cost estimate for Automation Mixed AADC Letter decreased from 1.8 cents in FY 2011 to negative 0.3 cents in FY 2012. FY 2012 ACR at 21. The Postal Service explains that this is an anomalous result caused by using Proposal 19 from Docket No. RM2012-2 and it does not plan to base future pricing decisions on this anomalous avoided cost. *Id.*

- a. Please confirm that the change is a result of Docket No. RM2012-2 Proposal 17, not Proposal 19. If not confirmed, please explain how Proposal 19, which deals with the First-Class Mail Letter model impacts this Standard Mail avoided cost.
- b. Please explain how the Postal Service plans to address this anomalous avoided cost in the future so that it will be able to set discounts based on appropriate avoided cost estimates in subsequent years.

**RESPONSE:**

- a. Confirmed.
- b. The Postal Service followed the PRC-approved methodology set forth in Proposal 17, Docket No. RM2012-2 (approved in Order No. 1383), when it prepared the letter costs models in the Annual Compliance Report. Following approved methodologies when incorporating the fiscal year productivity data into the cost models does not guarantee that the results will not be anomalous. However, the Postal Service is sensitive to the effect these cost avoidances can have on pricing decisions.

The Postal Service plans to study the effect of deaveraging the productivity data for Multi-mode and the Barcode Sorting (BCS) modes of the letter automation machines. This de-averaging will hopefully enhance the operational realities of the models and address anomalous avoided cost relationships similar to the one in question. The Postal Service does not, however, want to use proxies that will provide desired results unless they are consistent with operational realities. In addition,

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the Postal Service will look at the relationships of downflow operations in the models to evaluate whether enhancements can be made.

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**Question 7**

The following question refers to USPS-FY12-28, Excel filename "AMS2012.xls."

- a. Unlike the other cost calculations in column D, the formula for cell D11 adds an additional \$62,716 to the calculation. Please explain what this additional figure represents and why it was included in the calculation.
- b. Unlike the other cost calculations in column D, the formula for cell D20 adds an additional \$41,197 to the calculation. Please explain what this additional figure represents and why it was included in the calculation.

**RESPONSE:**

a-b. They are piggyback costs that are not directly included in the AMS finance numbers. USPS-FY12-24, at tab PS18, shows the piggyback calculations for Address Management Services. Piggyback costs are applied in USPS-FY12-28. These piggyback costs are labor-related (\$62,716) and equipment-related (\$41,197) costs. That is why \$62,716 was added to D11 (General Management) and \$41,197 was added to D21 (Depreciation and Amortization).



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**Question 8**

Please confirm that the following list of Address Management Services is accurate and complete: (1) Advance Notification & Tracking System, (2) Address Sequencing, (3) Address Element Correction II Service, (4) Address Information System Viewer, (5) Carrier Route Information System (CRIS), (6) Coding Accuracy Support System Certification (CASS), (7) Change-of-Address Customer Confirmation Letter Reprint, (8) Change-of-Address Information for Election Boards & Registration Commissions, (9) City State, (10) Computerized Delivery Sequence (CDS), (11) Correction of Address Lists, (12) Delivery Statistics, (13) Domestic Mail Manual (DMM) Label, (14) Delivery Point Validation (DPV) System, (15) Delivery Sequence File – 2<sup>nd</sup> Generation Service, (16) enhanced Line of Travel (eLOT) Service, (17) Five-Digit Zip, (18) Locatable Address Conversion Service (LACS Link), (19) Manifest Analysis and Certification (MAC) Batch System Certification, (20) MAC Gold System Certification, (21) MAC System Certification, (22) Multiline Accuracy Support System (MASS) Certification, (23) National Change of Address (NCOA) Service, (24) NCOA Link Service – Address Not Known Service Option, (25) Official National Zone Charts, (26) Presort Accuracy, Grading and Evaluation (PAGE) System Certification, (27) Presort Accuracy, Validation, and Evaluation (PAVE) System Certification, (28) Postal Explorer CD-ROM, (29) Residential Delivery Indicator (RDI) Service, (30) Z4Change, (31) Z4INFO, (32) ZIP + 4 Service, (33) ZIPMove, (34) ZIP Code Sortation of Address Lists, and (35) 99 Percent Accurate Method. If you are unable to confirm, please provide a complete and accurate updated list of Address Management Services.

**RESPONSE:**

Not Confirmed. Two of the products in the list have incorrect names, as corrected below in bold:

(13) Domestic Mail Manual (DMM) **Labeling Lists**

(26) **Periodicals** Accuracy, Grading and Evaluation (PAGE) System Certification

Additionally, Address Management Services provides these no fee products and services:

Zone Analysis Program (ZAP) - The Zone Analysis Program (ZAP) measures the quality of Zone assignments, ensuring the accuracy of postage rates claimed in accordance with requirements set forth in the DMM® reference manual.

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Software products that successfully complete the ZAP testing process are identified as ZAP approved.

Barcode Certification – Barcode Certification enables mailers to use appropriate barcodes for services like USPS Tracking.

ZIPSPPLIT – an Excel spreadsheet of ZIP Codes published every year in July on RIBBS.

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**Question 9**

Please refer to USPS-FY12-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (md), Table A-1. For inbound Single-Piece First-Class Mail International (FCMI) at Universal Postal Union (UPU) rates from Target and Transition System Countries, costs exceeded revenues. In FY 2012, the negative contribution was more than double the negative contribution in FY 2011. Please explain the causes of this substantial increase in negative contribution and the decrease in cost coverage for the Inbound FCMI product in FY 2012 compared to FY 2011.

**RESPONSE:**

The following explanation applies equally to USPS-FY12-NP2, Excel file "Reports (Booked).xls", filed on December 28, 2012, and the revised USPS-FY12-NP2, Excel file "Report (Booked).xls", filed on January 17, 2013.

The reason for the increase in negative contribution and the decrease in cost coverage for the Inbound FCMI product in FY 2012 compared to FY 2011 was that costs increased at a faster rate than revenue. Costs increased across Processing, Delivery and Other, with the largest contributor being Mail Processing, which saw an increase in the international proportion of costs. Total attributable mail processing costs decreased about 3.4 percent from FY 2011 to FY 2012, but international mail processing costs increased about 13.6 percent. Within that increase in total international mail processing costs, the Inbound FCMI portion increased from 26 percent to 34 percent. Further, within the Inbound FCMI portion, Target Countries increased from 57 percent to 63 percent of the total.

One reason for the increase in measured costs was the implementation of Proposal Three, Docket No. RM2012-5, as defined in Order No. 1462. As shown in Table 2 of that order, the FY 2011 impact on Dollar-Weight Cost Segment 3 Direct

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Tallies was a 6.5 percent increase in Inbound Surface LC/AO and a 13.8 percent increase in Inbound Air LC/AO. Another reason for the increased Inbound FCMI cost across all functions was the increase in weight per piece. Inbound FCMI weight per piece increased about 16 percent, with about a 7 percent increase for Target Countries and a 32 percent increase for Transition Countries.

The result was that Inbound FCMI unit costs increased about 29 percent for Target Countries and 44 percent for Transition Countries. Target Country volume increased about 6 percent, weight per piece increased about 7 percent, and revenue per piece increased about 5 percent. Transition Country weight per piece increased about 32 percent and revenue per piece increased about 35 percent. The revenue did not keep pace with the cost increases for either category, but the shortfall for the much larger Target Country category was responsible for most of the impact.

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**Question 10**

Please refer to USPS-FY12-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (md), Table A-2. Within the market dominant International Ancillary (Special) Services product, which provided a positive contribution, costs for Inbound Registered Mail exceeded revenues. In FY 2012, the negative contribution decreased substantially from FY 2011. Please explain the causes of this substantial improvement in negative contribution and the increase in cost coverage for Inbound Registered Mail in FY 2012 compared to FY 2011.

**RESPONSE:**

The improvement in the negative contribution and increase in cost coverage for Inbound Registered Mail in FY 2012 compared to FY 2011 is the result of a decrease in mail processing costs with the implementation of Proposal Three, Docket No. RM2012-5, as defined in Order No. 1462. As shown in Table 2 of that order, the FY 2011 impact of the proposal was a 38.3 percent decrease in Dollar-Weighted Cost Segment 3 Direct Tallies.

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**Question 11**

The following questions concern International Money Transfer Service (IMTS). Please refer to USPS-FY12-NP2, and the Excel file "Reports (Booked).xls," worksheet tab A-Pages (c), Table A-2.

- a. For FY 2012, no volume variable or product specific costs are reported for the IMTS-Inbound product. For FY 2011, Library Reference USPS-FY11-NP2, in the Excel file "Reports (Booked).xls," worksheet tab A-Pages (c), Table A-2, reports both volume variable and product specific costs for this product. Please explain the apparent omission of the FY 2012 volume variable and product specific costs for the IMTS-Inbound product, and provide them if they are available.
- b. For FY 2012, no inbound volume is reported for the International Money Transfer Service-Inbound product. Please explain.
- c. In the 2011 Annual Compliance Determination (ACD) Report at page 158, the Commission directed the Postal Service to provide IMTS-Inbound transaction volumes based upon the POS system as proposed by the Postal Service in Docket No. RM2011-5, Proposal Eleven, or otherwise estimate IMTS-Inbound transaction volumes, for reporting in the FY 2012 Annual Compliance Report. Please explain the Postal Service's response to the Commission's directive.
- d. For the combined IMTS-Outbound and IMTS-Inbound products during FY 2012, 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.

**RESPONSE:**

- a. The FY 2012 ICRA continued the existing IMTS methodology that relied on the ratio of Foreign Origin IMTS tallies to Total IMTS tallies to determine the volume variable and product specific costs of IMTS-Inbound. There were no Foreign Origin IMTS tallies in FY 2012; thus, all volume variable and product specific costs were attributed to IMTS-Outbound.
- b-c. The FY 2012 methodology did not differ from FY 2011, and as explained in the response to Question 5 of Chairman's Information Request No. 3 in Docket No.

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ACR2011: "The Inbound IMTS product can be presented at both POS-enabled and non-POS-enabled offices. At this time, the Postal Service has no method for retrieving Inbound IMTS product information from the non-POS-enabled offices. Therefore, volume data for the overall Inbound IMTS product is not available. For this reason, the Postal Service currently has no plans to use the POS System to determine volume data for the IMTS-Inbound product."

d. There were 4 tallies for IMTS in FY 2012. The coefficient of variation is 51 percent using the generalized variance function approach. The 95 percent lower bound for the cost coverage is 273 percent. Because the 95 percent lower bound for costs is zero, there is no upper bound on cost coverage.

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**Question 12**

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

- a. Please identify the foreign postal operators that were members of the Kahala Posts Group during FY 2012.
- b. Please confirm that during FY 2012, the EMS Cooperative Pay-for-Performance Plan was applicable to all members of the Kahala Posts Group. If not confirmed, please explain and provide a copy of the Pay-for Performance Plan that was applicable to the members of the Kahala Posts Group.
- c. To the extent that the EMS Cooperative Pay-for-Performance Plan or any other Pay-for Performance Plan is not applicable to any members of the Kahala Posts Group or EMS Cooperative, please identify such member postal operators and explain.
- d. Please provide the FY 2012 "booked" and "imputed" financial results for EMS entered by the foreign postal operators identified in subpart (a), above.

**RESPONSE:**

- a. The Kahala Posts Group members in FY2012 were: The United States Postal Service, Australian Postal Corporation, China Post Group, Correos Y Telégrafos SAE, Groupe La Poste, Hongkong Post, Japan Post Service Co., Ltd, Korea Post, Royal Mail Group Ltd, and Singapore Post Limited. All of the previously referenced foreign postal operators who were members of the Kahala Posts Group in FY 2012 entered EMS into the United States in FY2012.
- b. During FY2012, the EMS Cooperative Pay for Performance Plan was not applicable to the following KPG members: Australia, China, France and Spain. However, Kahala Post Group Strategic Services Agreement, a copy of which has been provided to the PRC contains the conditions for date-certain delivery performance requirements. Late deliveries will result in incurring penalties in the form of a postage



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refund.

c. The Postal Service filed in Docket Nos. MC2009-10 and CP2009-12 quarterly updates of a list that sets forth which postal administrations have a performance-level agreement, such as EMS Pay-for-Performance Plan participants and Kahala Post Group members. The EMS Cooperative Pay-for Performance Plan or any other Pay-for-Performance plan is not applicable to the postal administrations listed in the Tier 2 column of that list.

d. Please see the Excel file "ChIR4.Q12d.xls," which will be filed under seal in USPS-FY12-NP34 on January 28, 2013.

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**Question 13**

Please refer to the Preface to USPS-FY12-NP10 at 2-3, which displays FY 2012 Competitive Product Incremental and Group Specific Costs. Please explain the derivation of the Group Specific Advertising Costs figure. In the response, please provide an electronic spreadsheet illustrating the disaggregated Advertising costs, as well as the data input sources.

**RESPONSE:**

As reported in the FY 2012 Annual Compliance Report, at page 40, the total Group Specific costs are \$25.9 million. Of that amount, \$455,798 are for Group Specific Advertising as reported in USPS-FY12-NP10. This total is derived from the following two advertising programs: Click-N-Ship (\$149,759.14) and Package Pickup (\$306,038.41). This information is provided by Corporate Advertising. Both of these advertising programs relate to more than one competitive product and are thus Group Specific Costs.

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**Question 14**

According to the Postal Service's FY 2012 Comprehensive Statement on Postal Operations at page 47, many customers "prefer the convenience of alternate access."

- a. Can you confirm that retail customers are currently unable to purchase the following products from the USPS.com website:
  - i. Media Mail
  - ii. First Class Parcels?
- b. For what reasons are those products unavailable on the USPS website?
- c. Are there plans to add those products to the USPS website?
- d. How many APC's are available 24 hours per day?
- e. What is the estimated lifespan of the APC's?
- f. What is the average age of the APC's?
- g. Please identify how many APC's have been installed in the last 5 years?
- h. What are the criteria for selecting a location at which to install an APC?

**RESPONSE:**

- a. Confirmed as to both (i) and (ii).
- b. The selection of the services offered on the USPS website reflects a strategic business decision.
- c. The Postal Service is considering this option.
- d. 2072.
- e. 8 years.
- f. 8 years, 3 months.
- g. 45.

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h. The primary consideration is the self-service eligible revenue at the location, and other factors include Wait Time in Line, the frequency of different payment types (payment card, cash, check), physical space layout, and extended access capability.

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**Question 15**

Based on the MODS operation code changes map the Postal Service provided in RM2012-2 (ChIR\_No\_1\_3.xls), how was the Incoming ISS and Incoming OSS average productivity value of 6,054 pieces per hour derived in USPS-FY12-10.STD.LTRS.xls?

**RESPONSE:**

The calculation is provided in the attached spreadsheet, CHIR4.Q15.xls.

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**Question 16**

Please provide a map of the MODS operations to MODS operation group for the operational groups shown in USPS-FY12-23 for both the mail processing plant and NDC productivities.

**RESPONSE:**

The requested maps are provided in the attached spreadsheet, CHIR4.Q16.xls.

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**Question 17**

If the MODS M-32 Handbook (2009) has been updated or if the MODS operational definitions have changed since the FY 2011 ACR, please provide an electronic copy of the updates.

**RESPONSE:**

The main body of the MODS M-32 Handbook has not been updated. The M-32 Handbook's Appendix A has been updated, and is attached to this response.

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**Question 18**

In the USPS-FY12-23/Programs folder, the FORTRAN program titled modsprod.f contains MODS operation codes (that were not included in the FY 2011 ACR modsprod.f) to account for “default ops.” The specific section of FORTRAN code at issue is extracted from this program and directly follows.

```
if ((oper.eq.'282').or.(oper.eq.'256').or.(oper.eq.'482').or.(oper.eq.'448').or.  
(oper.eq.'101').or. $ oper.eq.'272')) then ! Added more default ops that may only  
have hours if (((tph.gt.0.0).or.(tpf.gt.0.0)).and.(hrs.gt.0.0)) then
```

- a. MODS operation 482 (DIOSS Multimode, Secondary—Outgoing) is not listed as a TACS system default code in the MODS M-32 Handbook (2009). Why is this operation code being screened before aggregation to the operational group level and described as a “default ops” in the program note highlighted above?
- b. MODS operation code 101 (MECHANIZED PARCEL SORTING – SECONDARY) is listed as a deactivated MODS operation code in USPS-FY12-7/USPS-FY12-7 Excel Worksheets, USPS-FY12-7 part 2.xls, worksheet titled “Modified Deleted Operations.” However, this MODS operation code 101 is included in the modprods.f program scrub before operation group aggregation code. Please resolve and explain this apparent discrepancy.

**RESPONSE:**

- a. During FY2012, MODS operation 282 was discontinued, and its workhours shifted to operations 272 and 482. Had operation 482 not been included in the screen for operations that serve as TACS defaults, a large number of workhours that previously were excluded would have been included in the outgoing secondary BCS group. That, in turn, would have caused a large downward bias in the measured productivity. See also the response to Question 22 below.
- b. The inclusion of MODS operation 101 was inadvertent. Since the operation was discontinued and has no associated data in FY2012, its inclusion in the referenced code has no effect on the USPS-FY12-23 results. See also the response to Question 20 below.



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**Question 19**

For any MODS operation code used in the USPS-FY12-23/Programs folder files modspod.f and bmcprod.f that does not map to an operational group provided in response to Question 2 above, please explain its use in the USPS-FY12-LR-23 output and/or calculations (e.g., MODS code '02B' –meter preparation).

**RESPONSE:**

MODS operation codes that do not map to an operational group reported in USPS-FY12-23 are not used in the USPS-FY12-23 calculations or output.

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**Question 20**

In the USPS-FY12-23/Programs folder, the FORTRAN program titled bmcprod.f contains a note related to MODS operation code 101. That note states:

*"if (oper.eq.'101') then ! 101 is now a 'Default' Operation."*

Why was this specific line of Fortran code included/applied to the NDCs MODS data in the USPS-FY12-23 bmcprod.f program and not in the FY11-23 bmcprod.f code?

**RESPONSE:**

MODS operation 101 had been a TACS default code for NDCs, but was discontinued and has no workhours or workload in FY2012. The code referenced in the question was inadvertently carried over from a test version of the bmcprod.f program. Since there is no data for operation 101 in FY 2012, the referenced code has no effect on the USPS-FY12-23 results.

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**Question 21**

In RM2012-2, CHIR 3, question 3, the Postal Service explained that the facility observation from MODS operation 282 with positive work hours and a zero workload is screened out prior to aggregation in the modsprod.f program in USPS-FY11-23 to minimize potential bias in operation/productivity groups where default operation codes may be assigned. In USPS-FY12-23, this modsprod.f data screen appears to be applied after the facility's MODS daily tour work hours and volume are grouped for the entire month.

- a. Has the Postal Service evaluated whether the grouped month facility data, particularly for the dual use "default ops" MODS operations, mask daily clock-ring errors that could also potentially bias the productivities downward? If so, please explain the USPS' Headquarters evaluation process.

**RESPONSE:**

- a. The input data employed in USPS-FY12-23 and its predecessors are by month (or accounting period, for postal fiscal years based on the former 52 week/13 accounting period Postal Service fiscal calendar), operation, and facility. The aggregation referenced in the response to Question 3, Chairman's Information Request No. 3, Docket No. RM2012-2, is from three-digit MODS operation to the operational groups for which productivity statistics are calculated.

The Postal Service has examined whether the use of higher-frequency MODS data could improve the quality of MODS-based productivity data. This has included tabulating MODS data anomalies such as observations with zero workload and positive workhours (in operations where workload reporting is required), investigating the anomalies for selected operations, and calculating the effects of alternative data screening procedures.

The Postal Service has observed that in high-frequency MODS data, anomalous observations may arise due to minor timing issues involving the volume and work hour

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measurement systems. In many such cases, the anomalous data will be valid. Consequently, tabulations of anomalous observations in the tour-level data are not generally valid indicators of MODS data quality.

The Postal Service's analysis has also shown that screening anomalous observations in the tour-level data will tend to drop large quantities of data that are likely to be valid, in addition to erroneous data. In particular, screening "default" operations at the higher frequencies than monthly data does not appear to have a systematic effect on screened productivities, and the Postal Service believes that the current screening procedures are effective at avoiding downward bias of the USPS-FY12-23 productivities due to TACS default operations.

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**Question 22**

Please describe the reasons for the changes identified in the chart below between FYs 2011 and 2012 in the work hours logged to the MODS operation codes that may also contain default work hours.

<b>MODS Operation or TACS Default Code*</b>	<b>FY 2011 Operation Work hours</b>	<b>FY 2012 Operation Work hours</b>	<b>Operation Maps To LR-23 Operational Productivities Group</b>
256 LIPS, Preferential — Incoming <i>[TACS system default for P&amp;DC LDC 13]</i>	114,630	61,211	67-LIPS Incoming
282 DBCS/DIOSS ISS O/G SECONDARY <i>[ TACS system default for LDC 11 ]</i>	778,529	35,361	8-Out BCS Secondary
272 DBCS/DIOSS OSS O/G SECONDARY <i>[ TACS system default for LDC 11 ]</i>	8,203	364,801	8-Out BCS Secondary
448 FSS PHASE 2 PROTOTYPE <i>[ TACS system default for P&amp;DC LDC 12]</i>	46,167	114,300	Unknown
482 DIOSS Multimode, Secondary — Outgoing	46,837	251,286	8-Out BCS Secondary
*If an employee has not been assigned a base operation number. Work hours: USPS-LR-7/EXCEL Worksheets/Part 1.xls (worksheet tabs titled: "Cost Segment I-2B. CPool Hrs by Ops&LDC-MODS worksheets") shown in USPS-FY11-7 part 1.xls, and USPS-FY12-7 part 1.xls.			

**RESPONSE:**

Regarding the specific operations listed in the table, MODS operation 282 was discontinued in FY 2012, and its workhours shifted to operations 272 and 482. MODS operation 272 was redesignated as the TCS default code for LDC 11 at P&DCs, and would accrue default hours previously appearing under operation 282. Additionally, the use of multimode processing (recorded in the MODS 48X operation numbers) instead of ISS and OSS modes on DIOSS equipment was mandated effective June 27, 2011. This mandate shifted hours from former ISS and OSS operations (including, but not limited to, MOD 282) to the 48X range. The shift appears to have caused a spike in

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workhours for operation 482. Also, a portion of the increase in operation 482 workhours is due to an increase in operation 482 workload, from 208 million total pieces fed (TPF) in FY 2011 to 341 million TPF in FY 2012.

For MODS operation 256, a portion of the decrease in workhours is due to a decrease in workload, from 9.7 million TPF in FY2011 to 6.8 million TPF in FY2012. No specific MODS system change affected the default hours in operation 256.

For MODS operation 448, a portion of the increase in workhours (approximately 7,700 hours) reflects the operations of a prototype FSS machine at one P&DC. The remaining hours in the operation are "default" workhours.

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**Question 23**

In Footnote 19 of the FY2012ACR.pdf, the Postal Service explained:

“It appears that, as a result of Proposal 19, Docket No. RM2012-2, ISS productivities increased by 112 percent, thereby reducing the cost of applying a barcode to a Mixed ADC Nonautomation Machinable piece, while at the same time Outgoing BCS secondary productivity dropped 30 percent, thereby increasing the cost of sorting Automation Mixed AADC pieces.”

What factors does the Postal Service believe have contributed to the decrease in productivities seen below for the Outgoing BCS Secondary productivity group?

MODS Productivity Group 8 – Outgoing BCS Secondary	FYs		
	2010	2011	2012
“Scrubbed” TPF/Hour Ratio	10,103	8,576	6,119
“Raw” TPF/Hour Ratio	9,787	8,000	5,836
Source: MODS Group 8 in USPS-FY10-23/Yrscrub2010.xls, USPS-FY11-23/Yrscrub2011.xls, and USPS-FY12-23/Yrscrub2012.xls.			

**RESPONSE:**

The decrease in the measured productivity for the Outgoing BCS Secondary group is driven largely by a decrease in productivity for MODS operation 892 (“DBCS/DIOSS BCS O/G SECONDARY”). Volume (workload) in operation 892 has declined sharply from FY 2010 to FY 2012, but workhours have not declined proportionally.

The primary underlying factor is a Sort Program Optimization (SPO) program, which involves changes to outgoing primary and secondary sort plans, with the intent of improving productivity in outgoing primary processing and reducing downflows to outgoing secondary processing. National compliance with SPO was completed in November, 2011 (month 2 of FY2012).

The table below shows that, while operation 892 productivity has fallen from FY

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2010 to FY 2012, productivity in the outgoing primary BCS operation (MODS operation 891) has improved, and the productivity for combined outgoing primary and secondary BCS operations improved from FY 2011 to FY 2012, though it is 3 percent lower than the FY 2010 productivity. Overall, outgoing BCS workhours declined by 13.7 percent, while total pieces fed declined by 16.3 percent. The Postal Service anticipates that there may be further adjustment of workhours, including operation 892, in line with the decline in workload.

**“Raw” productivity for outgoing BCS MODS operations**

<b>Op.</b>	<b>Operation Name</b>	<b>Productivity</b>		
		<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
891	DBCS/DIOSS BCS O/G PRIMARY	8,457	8,305	9,036
892	DBCS/DIOSS BCS O/G SECONDARY	9,721	8,553	6,621
	Combined 891 and 892	8,727	8,363	8,463



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**Question 24**

Between FYs 2011 and 2012, two MODS operation code work hours identified as TACS errors increased. Uncorrected LDC 18 TACS work hour errors automatically default to MODS operation code 565 and uncorrected LDC 48 TACS work hour errors automatically default to MODS operation code 756. In the cost segment 3 mail processing SAS program (USPS-FY12-7/ MODS12.txt), MODS operation code 565 is added to the "1Support" cost pool and MODS operation code 756 is added to the "LD48\_ADM" Cost Pool.

- a. Is the Postal Service able to assess what portion of these TACS work hour errors are in other MODS cost pools? If so, please explain these assessments.
- b. What factors have contributed to the increase for each type of TACS work hour error shown below?

<b>TACS Errors Default to MODS Operation Code</b>	<b>LDC</b>	<b>FY 2011 Work hours*</b>	<b>FY 2012 Work hours*</b>	<b>Cost Pool Assignment**</b>
565	18	787,110	1,018,892	"1Support" (mail processing support)
756	48	396,301	488,983	"LD48_ADM" (other LDC 48)

\*All appear to be work hour errors.  
See MODS M-32 Handbook (2009): "**These hours need to be moved from the bad operation number into an accurate account of where the hours were worked; otherwise, the hours remain in 565 for function 1 or 756 for function 4.**" MODS Handbook at 105 (emphasis added).  
\*\* USPS-FY12-7 SAS Programs/% include/MODS12.txt.  
Work Hours:  
USPS-FY11-7 Excel Worksheets/USPS-FY11-7 part 1.xls and USPS-FY12-7 Excel Worksheets/USPS-FY12-7 part 1.xls, worksheets titled: "I-2B. CPool Hrs by Ops&LDC-MODS."

**RESPONSE:**

- a. The workhours in question may arise from a variety of activities, but there is no available data to identify the specific activities for the TACS work hour errors.
- b. The TACS work hour errors are due to employees not being assigned the correct Base Operation Number, and/or valid operation numbers not being set as active at the site (finance number) level.

In FY2012, Function 1 and Function 4 offices in the Western Area were

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consolidated. This caused conflicts with MODS operation numbers, as one finance number cannot be both a Function 1 and a Function 4 office. The Postal Service opened new operation numbers and conducted training to reduce hours going into default operations, and continues to monitor default hours by sending out monthly reports and providing field units with additional support.

Another contributing factor is that the base operation number for new employees may not be updated in a timely manner. If employees are assigned a base operation number that is not a valid operation at the finance number where the employee works, then that employee's workhours will appear in either the Function 1 or Function 4 default operations until corrected.