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

ANNUAL COMPLIANCE REVIEW, 2012	Docket No. ACR2012

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTION 1-6 AND 8-13 OF CHAIRMAN'S INFORMATION REQUEST NO. 8

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 8, issued on February 8, 2013. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1

The following question concerns the Canada Post—United States Postal Service Contractual Bilateral Agreement for Inbound Market Dominant Services, which governs the entry of letterpost at negotiated rates. Refer to USPS-FY12-NP2 (Revised), Excel files Reports (Booked).xls (Revised 1-14-13) and Reports.xls (Revised 1-14-13), worksheet tabs A Pages (c), Table A-2 in each file. For FY 2012, revenues reported for the Canada Post—United States Postal Service Contractual Bilateral Agreement for Inbound Market Dominant Services did not exceed attributable costs under either the booked or imputed methods. This stands in marked contrast to FY 2011, when revenues exceeded attributable costs under both methods. Please identify and explain the causes of the below 100 percent cost coverage for the Canada Post—United States Postal Service Contractual Bilateral Agreement for Inbound Market Dominant Services compared to FY 2011.

RESPONSE:

The following explanation applies equally to USPS-FY12-NP2, Excel file "Reports (Booked).xls (Revised 1-14-13)" filed on January 17, 2013 and the further revised USPS-FY12-NP2, Excel file "Report (Booked).xls (Revised 02-08-13)" filed February 12, 2013. Additionally, for clarification, the page citation for the Market Dominant products is worksheet tabs A Pages (md).

Focusing solely on the year-to-year changes in the total amounts for the Canada Post—United States Postal Service Contractual Bilateral Agreement for Inbound Market Dominant Services does not provide a complete picture. The Canada Post – United States Postal Service Contractual Bilateral Agreement for Inbound Market Dominant Services (Docket Number R2010-2) was in effect for the entire FY 2011 period and only in effect for Quarter 1 of FY 2012. Quarters 2 – 4 of FY 2012 were included as part of the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 (Docket Number R2012-5). For a consistent year-to-year comparison between FY

2011 and FY 2012, FY 2012 will include all four quarters by combining the FY 2012 results for Docket Numbers R2010-2 and R2012-5.

ChIR8.Q1.2.Nonpublic.xls, filed under seal in USPS-FY12-NP38, shows the year-to-year comparison for Inbound Market Dominant Letterpost from Canada. The FY 2012 Canada totals and percent change from FY 2011 are shown in cells c27 through j28. The corresponding per piece amounts are shown in cells p27 through w28. Although total revenue and pieces increased between FY 2012 and FY 2011, unit revenue did not keep pace with the increased unit costs.

Increased Canada costs can be explained in part by the response to ChIR 4, Question 9, which is repeated in part below. 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 FY11 to FY12, 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.

Another factor contributing to the increase in measured costs was the implementation of Proposal Three of Docket No. RM2012-5 as defined in Order No. 1462. As shown in Table 2 of that order, the FY11 impact on Dollar-Weight Cost Segment 3 Direct Tallies was a 6.5 percent increase in Inbound Surface LC/AO and a 13.8 percent increase in Inbound Air LC/AO.

Question 2

The following questions concern the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product, which is comprised of a number of negotiated service agreements (NSAs) with foreign postal operators governing the entry of inbound letterpost. Refer to USPS-FY12-NP2 (Revised), Excel files Reports (Booked).xls (Revised 1-14-13) and Reports.xls (Revised 1-14-13), worksheet tabs A Pages (c) and Pivot3 in each file.

a. For the first time in FY 2012, revenues reported for the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product did not exceed collective attributable costs under either the booked or imputed methods. Please explain the causes of the below 100 percent cost coverage for the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product compared to FY 2011.

b. In Docket Nos. MC2010-35/R2010-5, the Postal Service maintained that the negotiated rates in the agreement with TNT Post (Netherlands), renamed Post NL, would result in an improvement compared to the rates established by the Universal Postal Union (UPU) for inbound letterpost. For FY 2012, as in FY 2011, the cost coverage for Inbound Single-Piece First-Class Mail from target system countries paying the UPU-established rates exceeds the cost coverage for inbound letterpost entered pursuant to the inbound multi-service agreement with Post NL under both the booked and imputed methods. Please explain why the cost coverage for the Post NL agreement did not exceed the cost coverage for inbound letterpost at UPU target system rates, and what steps the Postal Service plans to take to improve cost coverage for letterpost entered pursuant to the agreement.

c. Under both the booked and imputed methods, the cost coverage for Inbound Single-Piece First-Class Mail from countries paying rates established by the UPU exceeds the cost coverage for inbound letterpost entered pursuant to the inbound multi-service agreement with Hongkong Post. In Docket No. R2012-4, the Postal Service maintained that the negotiated rates in the Hongkong Post agreement would result in an improvement compared to the UPU-established rates for inbound letterpost. Please explain why the cost coverage for the Hongkong Post agreement did not exceed the cost coverage for inbound letterpost at UPU target or transition system rates, and what steps the Postal Service plans to take to improve cost coverage for letterpost entered pursuant to the agreement.

RESPONSE:

a. For clarification, the page citation for the Market Dominant products is worksheet tabs A Pages (md). As with the response to Question 1 of this Information Request, focusing solely on the year-to-year change in the reported total amounts for Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 does not provide a complete picture. A more complete picture is provided in ChIR8.Q1.2.Nonpublic.xls, filed under seal in USPS-FY12-NP38. These data were taken from the FY 2011 and FY 2012 NSA Summary (Booked) files and cells c24 through i24 show the large changes that occurred within the product between the two years. For instance, total revenue increased about 177 percent, and of the total FY 2012 revenue, nearly one-third was due to the addition of three new contracts, with a single contract, R2012-5, contributing about 28 percent.

Such dramatic changes make any year-to-year explanation difficult at the grand total level, but the right side of ChIR8.Q1.2.Nonpublic.xls showing the per piece changes by contract is helpful. In FY 2011, only one contract, R2010-6 had cost coverage over 100 percent and that contract dominated the total results. In FY 2012, the addition of R2012-5 contributed about 28 percent of total revenue, but at lower unit revenue. As such, the unit revenue decreased between the two years.

Additionally, the cost increases discussed in Question 1 of this Information Request negatively impacted the contribution of all Inbound Letterpost, including those that are part of the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product.

b. The Inbound Single-Piece First-Class Mail from Target System countries cost coverage contains all countries which are settled based upon UPU rates. Some countries will naturally have a higher or lower cost coverage than average based upon their individual volume profile. While the Post NL agreement has a lower cost coverage than all other UPU Target System countries in aggregate, it has a higher cost coverage than if the volume governed by the Post NL agreement were to be charged UPU rates.

c. The Inbound Single-Piece First-Class Mail from Transition or Target System countries cost coverage contains all countries which are settled based upon UPU rates. Some countries will naturally have a higher or lower cost coverage than average based upon their individual volume profile. While the Hongkong Post agreement has a lower cost coverage than all other UPU Transition or Target System countries in aggregate, it has a higher cost coverage than if the volume governed by the Hongkong Post agreement were to be charged UPU rates.

For FY12, contract-specific rates for both the NL Post and Hongkong Post bilateral agreements are providing above-UPU cost coverage for the actual volumes exchanged. We expect this to continue and anticipate the reports at the end of the contract period will confirm this result.

Question 3

The following question concerns Inbound Air Parcel Post (at non-UPU rates). Refer to the United States Postal Service FY 2012 Annual Compliance Report (ACR) at page 41 where it states that "The booked and imputed versions of the ICRA report a negative contribution of $912,000 for inbound Air Parcel Post (at non-UPU rates)." Please confirm that in the booked version of the ICRA (Excel file Reports (Booked).xls), revised January 14, 2013, Inbound Air Parcel Post (at non-UPU rates) shows a negative contribution of $912,000 while in the imputed version of the ICRA (Excel file Reports.xls), revised January 14, 2013, contribution for Inbound Air Parcel Post (at non-UPU rates) is positive. If not confirmed, please explain.

RESPONSE:

Confirmed. In both the filed and revised versions, Booked contribution is negative $912,000 and Imputed contribution is positive.

Question 4

The following questions concern Global Direct Contracts.

a. Please reconcile the revenue, pieces, pounds, volume variable cost, and contribution for the Global Direct Contracts shown in USPS-FY12-NP2 (Revised), Excel file NSA Summary (Booked).xls (Revised 1-14-13), worksheet tab Summary, to the revenue, pieces, pounds, volume variable cost, product specific costs (if any), and contribution provided for Global Direct Contracts shown in Excel file Reports (Booked).xls (Revised 1-14-13), worksheet tab A Pages (c), Table A-2.

b. Please respond to subpart (a), above, with reference to the Excel file NSA Summary (Imputed).xls (Revised 1-14-13), worksheet tab Summary and the Excel file Reports.xls (Revised 1-14-13), worksheet tab A Pages (c), Table A-2.

RESPONSE:

a. The Global Direct contract filed in Docket No. CP2012-9 was reported as part of GEPS in NSA Summary (Booked).xls (Revised 1-14-12). However, this contract was moved to Global Direct Contracts in NSA Summary (Booked).xls (Revised 2-8-13). No subtotals are provided for Global Direct contracts in either Excel sheet, but the sum of the entries for GEPS contracts and Global Direct contracts in NSA Summary (Booked).xls (Revised 1-14-13), is equivalent to the sum of the entries for GEPS contracts and Global Direct contracts in Reports (Booked) (Revised 2-8-13), taking into consideration the other adjustments noted in Reports (Booked) (Revised 2-8-13).

b. The same explanation applies to the Imputed version shown in NSA Summary (Imputed) (Revised 2-8-13) and Reports (Revised 2-8-13).

Question 5

The following question concerns the Global Plus 2B and 2C products. Refer to USPS-FY12-NP2 (Revised), Excel files NSA Summary (Booked).xls (Revised 1-14-13). In the worksheet tab Summary, costs exceeded revenues for the Global Plus 2B and 2C products. Please explain.

RESPONSE:

Global Plus 2B concerns the Global Plus 2B agreements filed in Docket Numbers CP2011-41 and CP2011-42. Global Plus 2C concerns the Global Plus 2C agreements filed in Docket Numbers CP2012-10 and CP2012-11. Each of these four agreements include GBE (non-M Bag and M Bag) and Global Direct Entry Outbound (Lettermail, Admail and Pubmail). In addition, the CP2012-10 and CP2012-11 agreements include IBRS. Costs exceeded revenues for Global Direct Entry Outbound Admail. The Canada Post Corporation (CPC) rate schedules applicable to payments for Global Direct Entry Outbound Admail have detailed structures (such as per-piece charges that vary depending upon piece weight as well as machinability and presort incentives) that are not able to be explicitly considered in estimating the costs in the ICM Costing module of USPS-FY2012-NP2. As such, the treatment of the CPC charges was oversimplified; thus, the evaluation of costs for Global Direct Entry Outbound Admail was less accurate than would otherwise have resulted from a detailed analysis of mail tendered. The Postal Service is aware of the issue and plans to investigate options for obtaining better data or refining the calculations.

Question 6

In response to CHIR No. 5, question 1 in Docket No. CP2013-3, dated November 7, 2012, the Postal Service indicated that "the information technology costs to enable RMN were . . . about $7500" and the "cost of the time of the contractors to monitor and upgrade the databases was less than $54,000." Please explain the discrepancy between these costs and the "Information Technology Costs" listed in USPS-FY12-NP26, Attachment 4, Excel Spreadsheet "Competitive and Market Dominant PO Box Attributable Costs 2012," tab Comp. & MD POBox Costs, cell E26.

RESPONSE:

The Information Technology costs listed in USPS-FY12-NP26, Excel Spreadsheet "Competitive and Market Dominant PO Box Attributable Costs 2012," tab Comp. & MD POBox Costs, cell E26 are $250,016. The difference between this and what was reported in CHIR No. 5, question 1 in Docket No. CP2013-3, dated November 7, 2012 ($61,500) is mostly due to costs for the internal Move To Competitive (MTC) website, as indicated on page 3 of the preface for USPS-FY12-NP26.

Question 8

As of the end of FY 2012, Table III in the Monthly Statement of the Public Debt of the United States shows the value of the debt held by the Postal Service in three different accounts. Two of these accounts, the Postal Service Fund, and the Competitive Products Fund, were accounted for within the Books of Account of the Postal Service. The Postal Service Retiree Health Benefits Fund was accounted for in the records of the United States Office of Personnel Management (OPM). The Competitive Products Fund shows a balance for September 2012 of $1,057,049,990.21 in the National Trial Balance (Account Number 12010.000), Table III of the Monthly Statement of the Public Debt of the United States, and the U.S. Treasury-Special Issues.

Beginning in October, 2012 (FY 2013), the National Trial Balance shows a zero balance for the Competitive Products Fund (account number 12010.000) and the Competitive Products Fund line item has been eliminated from Table III of the Monthly Statement of the Public Debt of the United States. That table now only shows the balance of Federal Securities within the Postal Service Fund and the Postal Service Retiree Health Benefits Fund.

a. Please discuss in detail how the requirements of 39 U.S.C. § 2011(a)(2) will be met with a zero balance/non-existent Competitive Products Fund.

b. Please discuss in detail any agreement with the Department of Treasury concerning the accounting of excess funds from competitive products. Please consider 39 U.S.C. § 2011(d) in your answer.

c. Please provide a thorough explanation of any change in accounting methodology that resulted in a zero balance in the Competitive Products Fund in the National Trial Balance (October 2012) and a removal of the Competitive Products Fund from the Monthly Statement of the Public Debt of the United States (October 2012).

RESPONSE:

a. The Competitive Products Fund was established shortly after enabling legislation and continues to be in existence. A zero balance at a single point in time does not equate to the Fund being non-existent. The requisite sums will be transferred from GL account 12020 overnight investments to GL account 12010 competitive products investments fund as necessary.

b. There is no arrangement with the Department of Treasury concerning the accounting of excess funds from competitive products beyond statutory elements.

c. As the Postal Service noted in its response to Question 1 of Chairman's Information Request No. 1 in Docket No. RM2012-3 (May 23, 2012), "… in keeping with section 2011 (a)(2), the Postal Service can use the Competitive Products Fund to prepay competitive products' shares of future years' institutional costs." On 10/12/2012, as a prepayment of competitive products' shares of future years' institutional costs, the Postal Service transferred the balance of account 12010 to account 12020. The fact that the Competitive Products Fund may not have been listed on the Monthly Statement of the Public Debt of the United States (October 2012) does not reflect any action on the part of the Postal Service to eliminate the Fund but instead likely resulted from a zero balance.

Question 9

The transfer of income tax due on competitive products pretax income for Fiscal Year 2012 was required to be made on or before January 15, 2013 from the Competitive Products Fund to the Postal Service Fund. *See* 39 U.S.C. § 3634(c); 39 C.F.R. §§ 3060.40, 3060.43. However, it appears that either the balance in the Competitive Products Fund was zero during the month of January or the Fund was eliminated.

a. Please identify when the transfer of income tax from Competitive products to the Postal Service fund was made.

   i. Identify which accounts were impacted.

   ii. If no transfer was completed, please explain how this complies with 39 U.S.C. § 3634(c).

b. Please describe in detail how the transfer of income tax from Competitive products to the Postal Service fund will be accomplished in subsequent years.

RESPONSE:

a. The transfer occurred on 1/10/2013. The practice for operation of the Fund since the first required transfer has been to make an annual transfer of the amount representing Net Income after Tax from account 12020 to account 12010. Mathematically, the outcome is exactly the same as would be accomplished by transferring the Net Income before Tax amount from 12020 to 12010 so that the Assumed Tax amount could be transferred back from 12010 to 12020. The transfer on 1/10/2013, from account 12020 to 12010, included the FY 2012 Net Income after Tax amount of $525,564,000.

On 1/11/2013, as a prepayment of competitive products' shares of future years' institutional costs, the Postal Service transferred the balance of account 12010 to account 12020.

b. Future transfers will continue to be performed in accordance with the law.

Question 10

There were 20 First-Class Package Service (FCPS) Contracts in effect during FY 2012. However, Library Reference USPS-FY12-NP27, which presents domestic 2012 Competitive NSA data, does not include these 20 contracts.

a. Please provide contract-specific workpapers for each FCPS Contract in effect during FY 2012.

b. Please provide a revised NSACost RevenueSummary_FY12.xls file that incorporates the FCPS Contracts.

c. Please provide a FCPS NSA support file similar to other domestic Competitive NSAs (*See*, e.g., SupportPriority_FY12.xlsx).

d. Please explain where FCPS NSA data is reported in the FY 2012 RPW report.

RESPONSE:

a-c. FCPS NSAs all paid published, not discounted, prices. NSAs were used to enable partners to use PCPostage as a payment method during a time when postage statements were the required method. However, as of January 27, 2013, PCPostage is now allowed as a payment mechanism and contracts are no longer required (see Postal Bulletin, *DMM Revision: Domestic Competitive Products Pricing and Mailing Standard Changes*, Dec. 13, 2012). For the above reasons, data for FCPS contracts were not tracked, so contract-specific workbooks are not available. One workbook is provided under seal in USPS-FY12-NP38 summarizing costs for all FCPS NSAs

d. FCPS NSA data is included with FCPS.

Question 11

In its response to CHIR No. 2, question 5, the Postal Service provided an updated table showing Retail Revenue by Channel for FY 2012. For the column labeled "Channel", please provide examples of what would constitute "Other".

RESPONSE:

The "Other" category includes online Post Office box sales, stamped envelope sales, catalog sales, and Click 2 Mail sales.

Question 12

The following questions relate to the Philatelic Sales.

a. Does the Postal Service's calculation of revenue from Philatelic Sales account for items that are used as postage rather than for philatelic purposes?

b. Is any revenue from Philatelic Sales included in the calculation of the Postage in the Hands of the Public liability estimate?

RESPONSE:

a. No. Philatelic Sales does not involve the sale of stamps, other than as part of a philatelic item.

b. No.

Question 13

Please provide FY 2011 and FY 2012 quarterly IMb data aggregated at the area and national level showing mail volumes for the following categories:

a. First-Class Mail
   i. Presort Letter/Postcards
   ii. Presort First-Class Mail Flats

b. Standard Mail (Destination and 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 and Parcels
   vii. Mixed Product Letters
   viii. Mixed Product Flats

c. Periodicals
   i. In-County
   ii. Outside County

d. Package Services (Destination and End-to-End)
   i. Bound Printed Matter Flats

RESPONSE:

See ChIR8.Q13.xls, attached to this response.