

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

ANNUAL COMPLIANCE REPORT, 2008

Docket No. ACR2008

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-10 OF COMMISSION INFORMATION REQUEST NO. 5
(March 6, 2009)

Commission Information Request No. 5 was posted on February 27, 2009. The request sought answers no later than March 6, 2009. Attached are the Postal Service's responses to questions 1-10. Some of the responses refer to materials which are being separately provided to the Commission as part of the non-public annex of materials relating to this proceeding. A separate notice regarding such materials is also being filed today.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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March 6, 2009

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO COMMISSION INFORMATION REQUEST NO. 5**

1. Please refer to the Postal Service's response to Commission Information Request No. 3, Question 6, Excel File, CIR.Q.6.MD.Detail.Attach.xls, dated February 13, 2009. Also please refer to Docket No. ACR2007, Response of the United States Postal Service to Questions 25 of Commission Information Request No. 1, Excel File, CIR.1.Q.25.MD.Fee.Distrbtn.xls, Worksheet "Fee Distribution", dated February 20, 2008.
 - a. Please provide a similar table summarizing the FY 2008 Market Dominant Mail Fee Distribution to Subclasses (Products).
 - b. Please provide a revised CIR.Q.6.MD.Detail.Attach.xls worksheet that is linked with the table summarizing the FY 2008 fee distribution to subclasses (products). The revenues for each fee should match the revenues listed in the FY 08 RPW, which is provided as Attachment A.

RESPONSE:

- a. The table is provided in worksheet "Fee Distribution" of an Excel workbook titled CIR_5_Q_1.xls, which is attached to this response electronically.
- b. The revised worksheets are provided in the Excel workbook titled CIR_5_Q_1.xls. The fee distribution is provided in worksheet "Fee Distribution". The revised CIR.Q.6.MD.Detail.Attach.xls is provided in worksheet "Requested Table". The summary RPW data reference in Attachment A is presented in worksheet "RPW Summary Data".

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2. Please refer to USPS-FY-08-NP2, Excel file, Reports.xls. Worksheet Pivot5, Cells A84 through M106, reveals three products/services that appear to have cost coverages below 100 percent.
 - a. Please confirm and discuss the factors causing volume variable-costs exceed revenues.
 - b. Please explain the nature of the services provided for the three products/services.

RESPONSE:

Response filed under seal in USPS-FY08-NP35.

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3. Please refer to USPS-LR-FY08-28, Excel file, Periodicals App Fee2008.xls, cells F52 and F55. In Docket No. R2006-1, the Headquarters Hourly Wage Rate was used to calculate the Application Unit Cost at Pricing and Classification Service Center (PCSC). Please provide the rationale for using the PCSC Hourly Wage Rate rather than the Headquarters Hourly Wage Rate to calculate the Application Unit Cost in the referenced file.

RESPONSE:

The reason that the PCSC rate (rather than the HQ rate) is used for USPS-LR-FY08-28, Excel file, Periodicals App Fee2008.xls, cells F52 and F55 is that HQ personnel no longer review the applications. Because of what amounts to an “operational” change, the employees in the PCSC are the ones now reviewing applications, making their hourly wage rate the relevant one to use.

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4. Please refer to the United States Postal Service FY 2008 Annual Compliance Report, Table 5, Special Services, on pages 44-45. For Address List Services, please provide the source document(s) for the unit revenue and unit cost figures of \$0.328 and \$0.331, respectively.

RESPONSE:

The unit cost figure was from the special study on Correction of Mailing Lists, but omitted a zero and should have been \$0.33008. USPS-FY08-28, "Correction of Mailing Lists2008.xls". The revenue value was the summation of Billing Determinants N-1, Address Changes to Election Boards, and N-2, Correction and Zip Coding of Mailing lists. USPS-FY-4, "08 Special Services BD.xls", worksheet "Other Income". The volume for each product was derived by dividing the revenue by a weighted price.¹ The average revenue per piece was estimated to be \$0.328 (\$31,834 / 96,929).

¹ The weighted prices were \$0.32388 (derived as $[0.612022 * \$0.32 + 0.387978 * \$0.33]$, where the 0.612022 and 0.387978 are the portions of the year that were pre and post price change) and \$0.33388 (derived in a similar fashion). The resulting volume was 96,929.5 ($\$17,141.31 / \$0.32388 + \$14,692.24 / \0.33388).

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5. Please refer to USPS-LR-FY08-1, Excel file, FY08PublicCRA.xls, the Public Cost and Revenue Analysis (PCRA) report, and the Word file, FY08PublicCRAnotes.doc, which contains the Notes to the PCRA. Also, please refer to USPS-FY08-04, Excel file, 08 Special ServicesBD.xls, the Special Services Billing Determinants.
- a. PCRA Note 2, Definitions, identifies the following domestic “Other Special Services”: Applications and Mailing Permits, Address List Services, Change-of-Address Credit Card Authenticate, and Confirm Services. The Special Services Billing Determinants list revenues for the following Special Services: Address List Services (\$31,834) and Confirm Services (\$2,616,150). Please provide revenues for each of the “other” Special Services referenced in Note 2 and, if necessary, reconcile the revenues provided with those listed in the billing determinants.
 - b. The PCRA shows a total attributable cost of \$5.1 million for “Other Special Services.” Please provide the attributable cost for each of the “other” Special Services identified in PCRA Note 2 that sums to the total attributable cost of \$5.1 million.

RESPONSE:

- a. Applications and Mailing Permits should not have been listed in PCRA Note 2. Its revenues are identified in the Special Services Billing Determinants. The RPW reports these revenues in the mail fee summary groupings for each mail class. All three of the “Other Special Services” have reported revenues in the RPW of zero, because the RPW does not isolate these revenues. The actual revenues are greater than zero, and are derived for presentation in the Billing Determinants. As discussed on page 9 of the FY08 ACR text, Change-of-Address Credit Card

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Authentication revenue is \$7,982,263, which was omitted from the Special Services Billing Determinants in error.

b. As indicated on pages 8-10 of the FY08 ACR, the CRA does not produce costs for each of the Other Special Services. As the question correctly notes, however, the FY08 PCRA shows an attributable cost for Other Special Services in total of \$5.1 million. Upon review of this entry, it was determined that the \$5.1 million amount is entirely the result of an error in Cost Segment 1 (but which then cascaded through other cost segments) that misdirected costs which should have been reported under the "Other Domestic Ancillary Services" row to the "Other Special Services" row. Reversal of this error would reduce the attributable cost entry for the Other Special Services row to zero. This is not to suggest, of course, that there are no costs associated with these services, but is rather an indication that those costs are not tracked in the CRA. As noted on pages 8-10 of the ACR text, to the extent that cost information is available for those services, it is presented in USPS-FY08-28. There are, however, no costs in the CRA for Other Special Services which, when properly aggregated, sum to a total of \$5.1 million.

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6. On page 13 of the USPS FY 2008 Annual Compliance Report, the First-Class Mail actual "Single-Piece Three Day" on-time score is 91.7 percent. On page 53 of the USPS Comprehensive Statement on Postal Operations 2008, the First-Class Mail "3-Day" on-time performance score is 92.7 percent. Please explain why there is a difference between the three day on-time performance scores reported in these two documents.

RESPONSE:

The correct on-time score for First-Class Mail "Single-Piece Three Day" is 91.7 percent. The score (92.7 percent) reported on page 53 of the USPS Comprehensive Statement was the result of a typographical error, and it should read 91.7 percent as well. Efforts are underway to correct the online version of the Comprehensive Statement.

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7. Please provide all of the data described in the Bank of America NSA data collection plan for the period from the April 1, 2008 implementation through the end of FY 2008. See PRC Op. MC2007-1 at 55-57. Also, please include an estimate of the impact of the agreement on FY 2008 USPS finances, and any other data relevant to evaluating the agreement's compliance with the relevant provisions of the PAEA. For each of the six rate incentives, please provide baseline values updated to FY 2008, if available.

RESPONSE:

The workbook CIR.5.Q.7.BAC_DATA_COLLECTION_FY08.xls is attached to this response electronically, and contains data requested in items 1-5 of the data collection plan. Note that for items 1-3 (sheet "Volumes and scan and uaa rates"), volumes for the NSA have not yet been compiled by rate category. Total NSA volumes are presented. Data for items 4 and 5 are reported on sheet "Rebate Calcs." Hard copy of the workbook appears on the next two pages.

Please note that the original deadline for filing the data collection report was 90 days after the anniversary date of the agreement (*i.e.*, July 1, 2009). Given that deadline, and the fact that the Annual Compliance Reporting rules proposed by the Commission in Order No. 104 on August 22, 2008, did not specify any reporting for NSAs that had not reached an anniversary, the remaining items requested by the data collection plan are unavailable at this time. However, the Postal Service continues to develop responsive material, and that material will be filed as it becomes available.

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NSA Volumes and Performance Calculations FY2008

	<u>1st Quarter</u> <u>4/1/08-6/30/08</u>	<u>2nd Quarter</u> <u>7/1/08-9/30/08</u>
First-Class Mail		
Full Quantity	7,576,871	86,935,736
Schedule A Full Quantity	6,856,494	86,234,022
Schedule B Full Quantity	720,377	701,714
Less Non-Automated	82,565	920,832
Rebate Eligible Quantity	7,494,306	86,014,904
Scan on Rebate Eligible	7,389,412	84,989,041
Rebate Scan Rate	98.6%	98.8%
ACS Forward	146,974	1,710,292
ACS Forward %	1.9%	2.0%
ACS Return Mail	46,212	676,625
Physical Return Mail	40,756	143,517
Total Return Mail	86,968	820,142
Schedule A Return	86,814	802,618
Schedule B Return	154	17,524
Schedule A Return Rate	1.3%	0.9%
Schedule B Return Rate	0.0%	2.5%
Standard Mail		
Full Quantity	322,894,618	276,309,088
Less Non-Automated	10,219,086	8,270,966
Rebate Eligible Quantity	312,675,532	268,038,122
Scans on Rebate Eligible		
/1	307,106,146	264,078,296
Rebate Scan Rate	98.2%	98.5%
ACS UAA	10,700,514	8,195,442
UAA Rebate Rate	3.3%	3.0%

Notes

/1 Post Calculation adjustments were made to the numbers due to concerns with data in the Confirm system during weeks 18 and 19 of Quarter 1. The total of eligible pieces was multiplied by the average scan rate of non-affected weeks.

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NSA Performance Improvement and Rebate Calculation

Rebate Calculation - 4/1/08 thru 6/30/08

<u>Schedule</u>	<u>Description</u>	<u>NSA Baseline</u>	<u>Volume</u>	<u>Rate</u>	<u>Improvement</u>	<u>Rebate Unit Rate</u>	<u>Rebate Amount</u>
630A	Scan Rate 1st	96.8%	7,494,306	98.6%	1.8%	\$ 0.005520	\$ 41,368.57
630B	Return Rate 1st - Sch A	0.7%	6,856,494	1.3%	-80.9%	\$ -	\$ -
630B	Return Rate 1st - Sch B	2.7%	720,377	0.0%	99.2%	\$ 0.006000	\$ 4,322.26
630C	Forward Rate 1st	1.7%	7,576,871	1.9%	-14.1%	\$ -	\$ -
630D	Scan Rate Std	96.9%	312,675,532	98.2%	1.3%	\$ 0.003190	\$ 997,434.95
630E	UAA Std	6.4%	322,894,618	3.3%	48.2%	\$ 0.001100	\$ 355,184.08

Rebate Amount

\$ 1,398,309.86

Rebate Calculation - 7/1/08 thru 9/30/08

<u>Schedule</u>	<u>Description</u>	<u>NSA Baseline</u>	<u>Volume</u>	<u>Rate</u>	<u>Improvement</u>	<u>Rebate Unit Rate</u>	<u>Rebate Amount</u>
630A	Scan Rate 1st	96.8%	86,014,904	98.8%	2.00%	\$ 0.005750	\$ 494,585.70
630B	Return Rate 1st - Sch A	0.7%	86,234,022	0.9%	-33.0%	\$ -	\$ -
630B	Return Rate 1st - Sch B	2.7%	701,714	2.5%	7.5%	\$ 0.003600	\$ 2,526.17
630C	Forward Rate 1st	1.7%	86,935,736	2.0%	-15.7%	\$ -	\$ -
630D	Scan Rate Std	96.9%	268,038,122	98.5%	1.60%	\$ 0.003790	\$ 1,015,864.48
630E	UAA Std	6.4%	276,309,088	3.0%	53.7%	\$ 0.001300	\$ 359,201.81

Rebate Amount

\$ 1,872,178.17

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8. Please refer to the response to CIR No. 1, Question 4(a). The response compares the contribution from one outbound international mail product to that from inbound Surface Parcel Post at non-UPU rates and observes that there is a net increase in contribution for the two products combined. Please discuss the factors causing revenues for the competitive product inbound Surface Parcel Post (at non-UPU) rates not to cover costs during FY 2008, using either ICRA system-average costs or the terminal dues regime-specific attributable costs.

RESPONSE:

Response filed under seal in USPS-FY08-NP35.

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9. Please refer to the FY 08 Non-Public RPW report and the Postal Service's response to Commission Information Request No. 3, Question 6, Excel File, CIR.3.Q.6.Comp.Attach.xls, dated February 13, 2009. Please reconcile the total Priority Mail fees listed in the Non – Public RPW with the estimate reported in the Response.

RESPONSE:

Response filed under seal in USPS-FY08-NP35.

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- 10 Please refer to the Postal Service's response to Commission Information Request No. 3, Question 6, Excel File, CIR.3.Q.6.Comp.Attach.xls, dated February 13, 2009. Also, please refer to Docket No. ACR2007, Response of the United States Postal Service to Question 25 of Commission Information Request No. 1, Excel File, CIR.1.Q.25.Comp.Prod.Fee.Distrbtn.xls, Worksheet 'Fee Distribution', dated February 20, 2008.
- a. Please provide a similar table summarizing the FY 2008 Competitive Mail Fee Distribution to Subclasses (Products).
 - b. Please provide a revised CIR.3.Q.6.Comp.Attach.xls worksheet that is linked with table summarizing the FY 2008 fee distribution to subclasses (products). The revenue for each fee should match the revenues listed in the FY 08 RPW, in the format set forth in Attachment B. The cell values referenced in Attachment B are located in Library Reference USPS-FY08-NP2, Excel file, FY2008_RPWextractfile_mcs.xls, Worksheet 'Summary Category RPW Data'.

RESPONSE:

Response filed under seal in USPS-FY08-NP35.

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FY 2008
RPW Fees

MARKET DOMINANT MAIL	RPW Fees (000)
First-Class Mail Fees:	
Domestic First-Class Mail Fees:	
Business Reply Service	79,340
Certificates of Mailing	5,457
Merchandise Return Service	0
Special Handling	10,494
Postage Due	787
Address Correction Services (ACS)	24,397
Application and Mailing Permits	64,456
Total Domestic First-Class Mail Fees	184,932
International First-Class Mail Fees:	
Inbound International Business Reply Service	194
Certificates of Mailing International	294
Postage Due Foreign Origin Surface LC/AO	24
Postage Due Foreign Origin Air LC/AO	20
Postage Due First-Class International (Return Mail)	69
Total International First-Class Mail Fees	601
Total First-Class Mail Fees	185,533
Standard Mail Fees:	
Bulk Parcel Return Service	4,314
Address Correction Service	33,349
Application and Mailing Permits	58,776
Total Standard Mail Fees	96,439
Periodicals Fees:	
Address Services	17,254
Application and Mailing Permits	613

Total Periodicals Fees	17,867
Package Services Fees:	
Certificates of Mailing	110
Address Correction Services	2,290
Application and Mailing Permits	926
Merchandise Return Service	0
Parcel Airlift Service	474
Special Handling	429
Total Package Services Fees	4,229
Competitive Services Fees:	1,783
Total Market Dominant Mail Fees:	305,851

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FY 2008
RPW Fees

COMPETITIVE MAIL

RPW Fees (000)

Priority Mail Fees:

Domestic Priority Mail Fees:

Business Reply Service	D164
Certificates of Mailing	D165
Merchandise Return Service	D166
Special Handling	D167
Address Correction Services (ACS)	D162
Application and Mailing Permits	D163

Total Domestic Priority Mail Fees

International Priority Mail Fees:

Certificates of Mailing International	D168
Postage Due International (Return Mail)	D171

Total International Priority Mail Fees

Total Priority Mail Fees

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

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