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POSTAL REGULATORY COMMISSION

Annual Compliance Determination Report

Fiscal Year 2017

March 29, 2018

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EXECUTIVE SUMMARY

This report reviews the Postal Service's performance in Fiscal Year (FY) 2017, fulfilling the Commission's responsibility to produce an annual assessment of Postal Service rates and service mandated by Title 39, section 3653, of the United States Code. It is based on information the Postal Service is required to provide within 90 days after the close of the fiscal year and on comments subsequently received from the public. Specific Commission findings and directives are identified in italics in each chapter.

Consistent with the approach adopted in past years, the *Annual Compliance Determination* (ACD) focuses on compliance issues as defined in 39 U.S.C. §§ 3653(b)(1) and (b)(2). These statutory subsections require the Commission to make determinations on whether any rates and fees in effect during FY 2017 were not in compliance with chapter 36 of Title 39 of the United States Code and whether any service standards in effect during FY 2017 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2017-1 and all the rates in effect during FY 2017 for Competitive Products.

The financial analysis that had been incorporated in ACDs prior to 2013 is expanded in the *Financial Analysis of United States Postal Service Financial Results and 10-K Statement 2017*. The Commission will also issue a separate report on the Postal Service's *FY 2017 Annual Performance Report and FY 2018 Performance Plan* to fulfill its statutory responsibilities under 39 U.S.C. § 3653(c).

A. **Principal Findings: Market Dominant Rate and Fee Compliance**

In Chapter 2, the Commission identifies compliance issues related to 42 workshare discounts, finding that 20 of the discounts did not comply with section 3622(e). Workshare discounts that exceed avoided costs adversely affect Postal Service finances because they incentivize mailers to perform worksharing that the Postal Service could have done on a less costly basis.

- For 7 of the 20 workshare discounts that were not in compliance with section 3622(e), the prices approved in Docket No. R2018-1 align the discounts with avoided costs or eliminate the discount; therefore, no further action is required.
- For the 13 workshare discounts remaining out of compliance with section 3622(e), the Postal Service must either align workshare discounts with avoided costs in the next Market Dominant price adjustment or specify an applicable statutory exception.

Additionally, for the Periodicals class, the Commission finds that the Postal Service meaningfully addressed the FY 2016 ACD directives to report on the cost and contribution impact of worksharing and progress in improving pricing efficiency. The Commission directs the Postal Service to continue reporting on Periodicals pricing issues in its FY 2018 Annual Compliance Report (ACR).

B. Principal Findings: Market Dominant Noncompensatory Products

In Chapter 3, the Commission identifies 10 noncompensatory Market Dominant products: Periodicals In-County, Periodicals Outside County, Standard Flats, Standard Parcels, Media Mail/Library Mail, Inbound Letter Post, Stamp Fulfillment Services, Money Orders, International Ancillary Services, Inbound Market Dominant PRIME Tracked Service Agreement, and the Market Dominant negotiated service agreement (NSA) with PHI Acquisitions, Inc. (PHI).

With respect to Periodicals In-County, Periodicals Outside County, and Standard Mail Flats, the Commission finds that additional transparency is necessary to hold the Postal Service accountable. The Commission will continue to explore cost and service issues related to flats in Docket No. RM2018-1.

For the Special Services products Money Orders and Stamp Fulfillment Services, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2017. The Postal Service must investigate the accuracy of the costing methods for Money Orders.

For Inbound Letter Post, the Commission recommends that the Postal Service continue to pursue compensatory Universal Postal Union (UPU) terminal dues and pursue bilateral agreements with foreign postal operators that result in an improved financial position for the Postal Service. The Postal Service is also directed to provide an update on its collection of accurate shape-based costing data.

For the PHI NSA, the Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in contract year 2. The Postal Service suspended the agreement during contract year 3. If the Postal Service provides the Commission with an amended contract, such filing shall include an estimate of the total contract net financial contribution. If an amended contract is not in effect by June 30, 2018, the PHI NSA will remain suspended.

For the remaining noncompensatory products, the Commission finds that the Postal Service is taking appropriate steps to improve cost coverage.

C. Principal Findings: Competitive Products Rate and Fee Compliance

In Chapter 4, the Commission finds that revenues for 7 Competitive products did not cover attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2). The

Competitive products that did not cover attributable costs are: four domestic NSAs, International Money Transfer Service—Outbound (IMTS—Outbound), International Money Transfer Service—Inbound (IMTS—Inbound), and International Ancillary Services. The Commission directs the Postal Service to take corrective action, including reporting on an investigation of cost estimates, reporting on the status of contract negotiations, and seeking authority to terminate or renegotiate agreements.

D. Principal Findings: Service Performance and Customer Access

In Chapter 5, the Commission finds that FY 2017 service performance results improved for a majority of products compared to FY 2016 results. Despite these improvements, most products failed to meet their service performance targets for FY 2017.

- The Postal Service met its service performance targets for USPS Marketing Mail High Density and Saturation Letters, USPS Marketing Mail Carrier Route, USPS Marketing Mail Letters, USPS Marketing Mail Parcels, Bound Printed Matter Parcels, Media Mail/Library Mail, and most Special Services products.
- Service performance results for all First-Class Mail products, both Periodicals products, USPS Marketing Mail High Density and Saturation Flats/Parcels, USPS Marketing Mail Flats, USPS Marketing Mail Every Door Direct Mail—Retail, Bound Printed Matter Flats, and Post Office Box Service did not meet their targets.

In the FY 2016 ACD, the Commission directed the Postal Service to provide specific information on First-Class Mail Single-Piece Letters/Postcards metrics as part of its FY 2017 ACR. The Postal Service's data and its robust narrative responses improve visibility into service performance and the Postal Service's remediation strategy. Moreover, these data, provided consistently year over year, may increase the accuracy of evaluating what actions contribute to improving service performance results and the relative significance of those actions and improvements.

The Commission directs the Postal Service to continue reporting specific information on First-Class Mail Single-Piece Letters/Postcards metrics within 90 days of the issuance of this report and as part of its FY 2018 ACR.

E. Principal Findings: Flats Cost and Service Issues

In Chapter 6, the Commission finds that the Postal Service does not have a comprehensive plan to measure, track, and report flats cost and service issues. Given the continued decline of cost coverage, and service performance issues, the Commission finds additional transparency is necessary in these areas to hold the Postal Service accountable. Due to the Postal Service's inability to provide a plan using existing data (or data to be developed) to address systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues.[1] Using the information provided by the Postal Service regarding its data systems and soliciting comments from interested parties, the Commission will develop potential data enhancements and consistent reporting requirements that will be used to develop metrics to measure, track, and report the cost and service performance issues concerning flats. The Commission anticipates that the data enhancement and consistent reporting will lead to the development of measurable goals to decrease the costs and improve the service of flats

[1] Docket No. RM2018-1, Advance Notice of Proposed Rulemaking to Develop Data Enhancements and Reporting Requirements for Flats Issues, October 4, 2017 (Order No. 4142).

CHAPTER 1: INTRODUCTION

A. Statutory Context

Two sections of Title 39 of the United States Code (U.S.C.), as amended by the Postal Accountability and Enhancement Act (PAEA),[2] require ongoing, systematic reports and assessments of the financial and operational performance of the Postal Service. The first provision, 39 U.S.C. § 3652, requires the Postal Service to file certain annual reports with the Commission, including an ACR. *See* 39 U.S.C. § 3652(a). The second provision, 39 U.S.C. § 3653, requires the Commission to review the Postal Service's annual reports and issue an Annual Compliance Determination (ACD) regarding whether rates were not in compliance with applicable provisions of Title 39 and whether any service standards were not met. 39 U.S.C. § 3653(b). Together, these provisions establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service.

The Commission has once again decided to report separately on the Postal Service's financial condition and its performance plans and program performance.[3] It will issue both its financial analysis and its analysis of the performance plans and program performance, required by 39 U.S.C. § 3653(d), in the second quarter of 2018. This ACD focuses on the requirements of 39 U.S.C. § 3653(b)(1) and (b)(2).[4]

For regulations governing rates and fees, Congress divided mail categories and services between Market Dominant and Competitive products. Sections 3622 and 3626 of Title 39 pertain to rates and fees for Market Dominant products; section 3633 pertains to Competitive products.

In Chapter 2, the Commission evaluates the workshare discounts for Market Dominant products to determine compliance with 39 U.S.C. § 3622(e). Chapter 2 also includes a discussion about preferred rate requirements and the price cap. Chapter 3 focuses on other compliance issues related to Market Dominant products' rates and fees. Chapter 4 covers compliance issues related to the rates and fees of Competitive products. In Chapter 5, the Commission discusses service performance, customer access, and customer satisfaction.

Chapter 6 contains a follow-up discussion of the Commission's directives in the FY 2015 ACD regarding cost and service issues for flat-shaped mailpieces (flats).

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[2] Pub. L. 109-435, 120 Stat. 3198 (2006).

[3] *See* Notice Regarding the Postal Service FY 2017 *Annual Performance Report* and FY 2018 *Annual Performance Plan*, January 3, 2018 (Order No. 4334).

[4] The Commission addresses only rates and fees that have been challenged by Commenters, or otherwise present compliance issues.

There are four appendices to this ACD. Appendix A contains the Commission evaluation of the special study of delivery performance in remote locations. Appendix B provides the status of Commission-directed actions from past ACDs and new Commission-directed undertakings in this ACD. Appendix C contains a list of Commenters. Appendix D contains an index of acronyms and abbreviations.

B. Timeline and Review of Report

The Postal Service must file the ACR no later than 90 days after the end of each fiscal year. (*i.e.*, 90 days after September 30). The Commission must complete the ACD within 90 days of receiving the ACR. The Postal Service filed the FY 2017 ACR on December 29, 2017; thus, the Commission must issue this ACD no later than March 29, 2018.

C. Focus of the ACR

In accordance with 39 U.S.C. § 3652, the ACR must provide analyses of costs, revenues, rates, and quality of service sufficient to demonstrate that during the reporting year all products complied with all applicable requirements of Title 39. Additionally, for Market Dominant products, the Postal Service must include product information, mail volumes, and measures of quality of service, including the speed of delivery, reliability, and the levels of customer satisfaction. For Market Dominant products with workshare discounts, the Postal Service must report the per-item cost it avoided through the worksharing activity performed by the mailer, the percentage of the per-item cost avoided that the workshare discount represents, and the per-item contribution to institutional costs. 39 U.S.C. § 3652(b).

D. Other Reports

In conjunction with filing the ACR, the Postal Service must also file its most recent *Comprehensive Statement on Postal Operations*, its FY 2018 *Performance Plan*, and its FY 2017 *Performance Report*. 39 U.S.C. § 3652(g).

E. Commission Responsibilities

Upon receipt of the ACR, the Commission provides an opportunity for public comment on the Postal Service’s submissions. 39 U.S.C. § 3653(a). The Commission is responsible for making a written determination as to whether any rates or fees were not in compliance with applicable provisions of chapter 36 of Title 39 or related regulations, and whether any service standards were not met. 39 U.S.C. § 3653(b). If the Commission makes a timely written determination of non-compliance, it is required to take such action as it deems appropriate. 39 U.S.C. § 3653(c).

F. Procedural History

On December 29, 2017, the Postal Service filed its FY 2017 ACR, covering the period from October 1, 2016, through September 30, 2017.[5] The ACR included an extensive narrative and a substantial amount of detailed public and non-public information contained in library references. The library references include the Cost and Revenue Analysis (CRA), the International Cost and Revenue Analysis (ICRA), cost models supporting workshare discounts, and volume information presented in billing determinants. The library references also include the Postal Service's "Roadmap Document" to the FY 2017 ACR, which contains a list of special studies and a discussion of obsolescence in accordance with 39 C.F.R. § 3050.12.[6]

The Postal Service concurrently filed its 2017 *Annual Report* and *Comprehensive Statement on Postal Operations* as part of Library Reference USPS–FY17–17, December 29, 2017, to the FY 2017 ACR.[7]

On January 2, 2018, the Commission issued an order establishing Docket No. ACR2017 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing February 1, 2018, and February 12, 2018, as the deadlines for comments and reply comments, respectively.[8]

G. Methodology Changes

The FY 2017 ACR generally employs the methodologies used most recently by the Commission unless the Commission has approved a change in methodology.[9] In this ACR proceeding, the Postal Service relies upon four approved methodology changes.[10]

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[5] FY 2017 *Annual Compliance Report*, December 29, 2017 (FY 2017 ACR). The Postal Service made two other filings that revise the FY 2017 ACR and selected Library References. United States Postal Service Notice of Filing Revised Appendix 2 to Attachment 2 -- Errata, January 12, 2018; Notice of the United States Postal Service of Filing of Revised Version of USPS-FY17-NP31 -- Errata, February 6, 2018; Unless otherwise noted, references to the Postal Service's FY 2017 ACR are to its ACR as revised.

[6] Library Reference USPS–FY17–9, December 29, 2017.

[7] 2017 *Annual Report* and *Comprehensive Statement of Postal Operations*, December 29, 2017. The Postal Service includes as parts of Library Reference USPS–FY17–17 the FY 2017 *Annual Performance Report* and its FY 2018 *Performance Plan*.

[8] Notice of Postal Service's Filing of *Annual Compliance Report* and Request for Public Comments, January 2, 2018 (Order No. 4323); *see also* 83 FR 839 (January 8, 2018). On January 31, 2018, the Commission extended the comment deadlines for comments related to the Inbound Letter Post product. *See* Order Modifying the Procedural Schedule, January 31, 2018, at 3 (Order No. 4395). On January 3, 2018, the Commission established separate comment dates for the Postal Service's FY 2017 *Performance Report* and FY 2018 *Performance Plan*. *See* Order No. 4334.

[9] *See* FY 2017 ACR at 4-6.

[10] Library Reference USPS–FY16–9, December 29, 2017. *See* Docket No. RM2017-5, Order on Analytical Principles Used in Periodic Reporting (Proposal One), August 15, 2017 (Order No. 4039); Docket No. RM2017-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), August 29, 2017 (Order No. 4080); Docket No. RM2017-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), August 24, 2017, (Order No. 4066); Docket No. RM2017-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), December 1, 2017 (Order No. 4259).

1. Calculation of Incremental Costs at the Class Level for Market Dominant Products

The Postal Service implements a methodological change in the FY 2017 ACR involving the use of incremental costs as attributable costs.[11] In September 2016, the Commission adopted the analytical principle of using incremental costs[12] as the basis for class-level and product-level attributable costs.[13] Prior to that time, attributable costs were based on volume-variable and product-specific costs.[14] Fiscal Year 2017 is the first year for which this new methodological approach is fully applied.

In the CRA filed as part of the FY 2017 ACR, the Postal Service calculates incremental costs for each class of Market Dominant mail by determining the sum of the incremental costs for each individual product within that class.[15] The Public Representative expresses concerns with this methodology.

The Public Representative asserts that the total incremental costs for a class of mail does not equal the sum of the individual incremental costs of each product within that class.[16] This is due to the way in which "'the total amount of the cost driver associated with the volume of the entire group is removed [when] calculating the aggregate group incremental costs.'"[17] The Public Representative notes that the methodology employed in the CRA differs from the methodology employed in the Postal Service's FY 2017 Market Dominant Product Incremental Costs report, which calculates incremental costs at both the product level and the class level.[18] The Public Representative calculates that the methodology employed in the CRA understates incremental costs for Market Dominant mail by approximately $23.6 million. *Id.* at 46, Table IV-7. As a result, the Public Representative asserts that the Postal Service's methodology for calculating attributable and institutional costs should be modified so that it is based on class-level incremental costs, and not the sum of all incremental costs for individual products within each class. *Id.* at 45-47.

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[11] FY 2017 ACR at 4-6.

[12] The incremental costs of a product or class are the costs that the Postal Service would avoid if it did not provide that product or class. *See* Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016, at 8, 55, 61-62 (Order No. 3506). Notice of Errata, October 19, 2016. This docket is currently before the D.C. Circuit Court. *See* Petition for Review, *United Parcel Service, Inc. v. Postal Regulatory Commission,* No. 16-1354 (D.C. Cir. Oct 7, 2016).

[13] *Id.* at 3, 55, 125.

[14] *Id.* at 9-10. "Volume-variable" costs are those which exhibit reliably-identified causal relationships to one or more specific products and which increase or decrease depending on the level of mail volume processed. "Product-specific" costs are fixed costs which are uniquely associated with an individual product and hence can be attributed solely to that product. *Id.* at 9.

[15] Library Reference USPS–FY17–1, FY 2017 Public Cost and Revenue Analysis (PCRA) Report, December 29, 2017.

[16] Public Representative Comments, February 1, 2018, at 45 (PR Comments) (footnote omitted).

[17] *Id.* (citing Library Reference USPS–FY17–43 Preface.pdf, n.7 at 4; Docket No. R2000-1, Kay Testimony at 19).

[18] *Id.* (citing Library Reference USPS–FY17–43, FY 2017 Market Dominant Product Incremental Costs, December 29, 2017 at 1).

The Postal Service acknowledges that the sum of the individual incremental costs of all products in a class will generally be less than the group incremental costs for that class.[19] However, the Postal Service maintains that "for the distinct regulatory concept of attributable costs, the approach taken in the FY 2017 ACR makes the most sense because it accords with the Commission's focus on product-level compliance."[20] The Postal Service asserts that "[t]he cost presentation in the FY 2017 ACR represents a simple, intuitive, direct, and tractable approach to incorporating the inframarginal cost component into the estimation of attributable costs."[21] *Id.* at 11-12 (footnote omitted).

The Commission agrees with the Public Representative that incremental costs are sub-additive, meaning that the sum of product-level incremental costs for the various products within a mail class will be less than the class-level incremental costs calculated as a group. This is because certain costs may exist which are incurred by a class collectively, but not by any individual product within that class.

The Postal Service is correct that the ACR generally focuses on product-level compliance for the purpose of cost coverage, particularly for Market Dominant mail.[22] However, the PAEA does not mandate a focus on product-level compliance in every context. For example, Competitive products *collectively* must not be subsidized by Market Dominant mail and services, and Competitive products *collectively* must contribute an appropriate share to the Postal Service's institutional cost.[23] Both of these tests for compliance must be performed at a level above the product level. Similarly, for purposes of calculating class-level incremental costs for Market Dominant mail, the attributable costs for a class should be reported as the incremental costs of that class.

Institutional costs are those costs that are not attributable costs, and are equal to the difference between total and attributable costs. Because the choice of aggregation level for calculating incremental costs affects the total amount of costs that are attributable, it also affects the calculation of institutional costs. This choice also affects the dollar amount of the appropriate share Competitive products must contribute to institutional costs.[24] For purposes of calculating institutional costs, incremental costs should be calculated at the highest level of aggregation for which they can be estimated reliably.[25] This ensures that

[19] Reply Comments of the United States Postal Service, February 12, 2018, at 11 (Postal Service Reply Comments).

[20] *Id.* (footnote omitted) (citing 39 U.S.C. § 3652(a)(1)).

[21] Inframarginal costs are variable costs that are not volume-variable, resulting from economies of scale and scope.

[22] *See* 39 U.S.C. § 3652(a)(1) ("[T]he Postal Service shall . . . prepare and submit . . . a report . . . to demonstrate that *all products* during such year complied with all applicable requirements of this title . . . ." (emphasis added)).

[23] *See* 39 U.S.C. § 3633(a)(1), (3).

[24] *See* 39 U.S.C. § 3633(a)(3) (the Commission must ensure that Competitive products collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service).

[25] The constant elasticity assumption is necessary for calculating incremental costs, and is only reliable at certain levels of cost driver. *See* Order No. 3506 at 41-42.

institutional costs exclude all attributable costs. Institutional costs, then, should constitute the difference between total cost and the sum of the following:

1. The sum of the incremental costs of each Market Dominant mail class calculated at the class level;
2. The incremental costs of Competitive products collectively;
3. The incremental costs of Market Dominant Special Services;[26]
4. The incremental costs of free mail;[27]
5. Market Dominant international mail incremental costs; and[28]
6. Inframarginal costs for international mail collectively.[29]

The mechanics and results of this calculation are reported in Library Reference PRC–ACR2017–LR1.

For its FY 2018 ACR filing, the Commission directs the Postal Service to reconcile the difference in methodology in calculating total attributable costs between the Incremental Costs Report and the CRA by including incremental costs at the class level in the CRA. The Commission also directs the Postal Service to report the component-level total and institutional costs in the Incremental Costs Report.

2. Calculation of Attributable Costs for Domestic Negotiated Service Agreements (NSAs)

The Public Representative also expresses concerns with the methodology used by the Postal Service to calculate attributable costs for Market Dominant and Competitive NSAs.[30] Specifically, the Public Representative asserts that when product-level data are not available with which to estimate incremental costs for individual NSA products, the Postal Service is forced to employ assumptions. *Id.* at 62-63. In particular, the Postal Service must approximate an NSA's share of the cost driver incurred by its larger product group (*e.g.*, the amount of a cost driver incurred by a Priority Mail NSA relative to Priority Mail collectively). *Id.* at 63. In order to accomplish this, the Postal Service uses the "'ratio of NSA-product volume variable cost to product-group volume variable cost within each cost pool.'"[31]

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[26] The incremental cost model does not calculate costs for each Market Dominant Special Service; rather, adjustments are made after the incremental cost model to incorporate those special services for which direct incremental costs are unavailable (*e.g.,* Stamp Fulfillment Services, Credit Card Authentication).

[27] Because free mail matter for the blind or other physically handicapped persons is not associated with a particular class, its incremental costs are calculated separately.

[28] Because International Mail costs are calculated at the Market Dominant/Competitive level, its Market Dominant incremental costs are included separately. Competitive incremental costs are included within Competitive product incremental costs.

[29] Inframarginal costs for international mail are costs incurred by international mail collectively.

[30] PR Comments at 62-64.

[31] *Id.* at 63 (citing Library Reference USPS–FY17–43, PDF file "Preface.pdf," FY 2017 Market Dominant Product Incremental Costs, Appendix A, December 29, 2017, at 5-6 (USPS–FY17–43 Preface, Appendix A).

However, the Public Representative's analysis shows that the vast majority of the Postal Service's NSA cost coverage calculations do not include inframarginal costs as part of incremental costs when determining attributable costs. *Id.* For the NSAs with inframarginal cost estimates, the Public Representative notes that those costs constitute up to 0.2 percent of those agreement's total attributable costs.[32] The Public Representative asserts that the absence of inframarginal costs from the majority of NSAs raises concerns regarding the approximation method employed by the Postal Service to calculate the incremental cost of these products. *Id.* She states that for different individual NSA products within a single NSA product group, volume-variable costs may vary significantly. *Id.* Consequently, within NSA product groups that contain a significant number of NSAs, an NSA with relatively low volume-variable costs might have an inadequately low or even zero ratio for calculating incremental costs. *Id.* The Public Representative recommends that the Postal Service open a rulemaking docket in order to clarify the methodology for calculating incremental costs for domestic NSAs. *Id.* at 64.

The Postal Service asserts that the Public Representative appears to "misunderstand" its methodology for developing incremental costs. Postal Service Reply Comments at 13. Specifically, the Postal Service states that the Public Representative "do[es] not properly distinguish between the unique features of the approximation method and the procedures common to incremental cost estimation more broadly." *Id.* By way of example, the Postal Service cites the Public Representative's characterization of the "assumption that 'the cost per unit driver is the same for all units of the driver consumed'" as being unique to NSA cost approximation, when in reality, according to the Postal Service, this assumption is generally embedded into the established incremental cost estimation methodology. *Id.* In addition, the Postal Service asserts that the Public Representative "do[es] not appear to distinguish between empirical results potentially caused by the approximation method, and empirical results that would not change even if resort[ing] to the approximation method were unnecessary." *Id.* In particular, the Postal Service maintains that "the circumstance of small NSAs having extremely low (to the point of being negligible) shares of costs is correctly a function of their relative size, and would necessarily pertain whether the approximation method is used or if instead actual NSA product data were available at the cost pool level." *Id.* at 13-14.

The Commission provisionally accepts the Postal Service's estimates of domestic NSA attributable costs for purposes of the instant docket. The Commission finds, however, that the Postal Service's estimate of domestic NSA attributable costs employs a new methodology, and directs the Postal Service to file a petition for the initiation of a proceeding to consider proposed changes in analytical principles for the new methodology within 90 days of issuance of this ACD.

[32] *Id.* (citing Library Reference USPS–FY17–NP27, Excel file "NSA_Cost_Revenue_Summary_FY17.xlsx," tab "NSA2017 – DomesticSP – Summary").

H. Attributable Costs in FY 2017 ACD

The FY 2016 ACR utilized an expanded scope of attributable costs, in accordance with Order No. 3506. In the FY 2017 ACR, the Commission will again use incremental costs as its calculations of attributable costs, and will use incremental costs in determining cost coverage compliance.

I. Product Analysis

The Postal Service provides an analysis of each Market Dominant product, including special services, and domestic and international NSAs active during FY 2017. This analysis includes a discussion of workshare discounts and passthroughs for Market Dominant products, required by 39 U.S.C. § 3652(b). The Postal Service also provides data for Competitive products and discusses the data with references to standards under 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. Last, the Postal Service discusses two Competitive market tests conducted in FY 2017.[33]

In addition, the Commission posts the most current workshare cost avoidance models on its website. Those models were used in its preparation of this ACD.

J. Service Performance

The ACR also included information regarding service performance, customer satisfaction, and consumer access, as required under 39 U.S.C. § 3652(a)(2) and 39 C.F.R. § 3055.

K. Confidentiality

Commission rules require the Postal Service, when it files non-public materials with the Commission, to simultaneously file an application for non-public treatment. 39 C.F.R. § 3007.20. The application for non-public treatment must clearly identify all non-public materials and fulfill the burden of persuasion that the materials should be withheld from the public by showing that the information is commercially sensitive and by identifying the nature, extent, and likelihood of commercial harm that would result from disclosure. The ACR included such an application with respect to certain Competitive and international Market Dominant products.

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[33] FY 2017 ACR at 75.

L. Requests for Additional Information

Twenty-two Chairman's Information Requests (CHIRs) were issued with respect to the ACR from January 5, 2018, to February 27, 2018. The Postal Service responded to the CHIRs, often filing supplemental information in support of the responses.[34]

[34] Several of the Postal Service's CHIR responses were accompanied by motions requesting late acceptance. *E.g.,* Motion of the United States Postal Service for Late Acceptance of Response to Questions 15 of Chairman's Information Request No. 9, February 6, 2018. Each of the Postal Service's motions for late acceptance is granted.

CHAPTER 2: MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

A. Introduction

The PAEA introduced three pricing requirements for Market Dominant products: a class-level price cap based upon changes in the consumer price index for all urban consumers (CPI-U), 39 U.S.C. § 3622(d)(2)(A), a cap on workshare discounts, *id.* § 3622(e)(2), and a cap on preferred rates, *id.* § 3626 (a)(4)-(7). Chapter 2 discusses these requirements.

B. The Class-Level Price Cap

The Commission approved price adjustments that went into effect during FY 2017, which complied with the price cap provision.[35] 39 C.F. R. § 3010.23.

C. Workshare Discounts

Workshare discounts provide reduced prices for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform. These discounts are based on the estimated avoided costs that result from the mailer performing the activity instead of the Postal Service. 39 U.S.C. § 3622(e)(2) directs the Commission to ensure that workshare discounts do not exceed the costs the Postal Service avoids as a result of the worksharing activity. The statute provides four exceptions to this requirement. *See* 39 U.S.C. §§ 3622(e)(2)(A) through (D).

Both the Public Representative and PostCom comment on the Postal Service's calculation of avoided costs. PR Comments at 53-55; PostCom Comments at 3-6. The Public Representative states that the timing of rate adjustments can be such that updated avoided costs information is unavailable for several months. PR Comments at 53-54. The Public Representative also suggests that the Commission require the Postal Service to provide updated cost avoidance data in future market dominant rate adjustment proceedings in order to reduce the number of noncompliant passthroughs that happen when discounts are set based on prior year ACD data. *Id.* at 53-56. The Postal Service states that this proposition is unfeasible. Postal Service Reply Comments at 7-8.

[35] Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016 (Order No. 3610); Docket No. R2017-1, Order on Price Adjustments for Special Services Products and Related Mail Classification Changes, December 15, 2016 (Order No. 3670).

PostCom states that “vagaries and variability in avoided costs cast doubt on whether the changes enacted by R2018-1 will result in more efficient processing of mail.” PostCom Comments at 4. PostCom states that 39 U.S.C. § 3622(e) does not impose an absolute requirement that no passthroughs exceed 100 percent, and that encouraging the Postal Service to reduce passthroughs encourages it to make inefficient pricing decisions. *Id.* at 5. PostCom suggests that passthroughs exceeding 100 percent should be considered against passthroughs less than 100 percent. *Id.* at 6. PostCom suggests that by requiring justification for passthroughs above 100 percent causes the Postal Service “to err on the side of reducing passthroughs well below 100%,” reducing the Postal Service’s ability to set efficient prices. *Id.* at 7. PostCom also expresses concern that the Commission has previously encouraged the Postal Service to reduce discounts set above avoided costs that are justified under the operational efficiency exception. *Id.* at 6.

The Commission analyzes discounts to determine whether they comply with applicable statutory provisions. Section 3653(b)(1) of U.S.C. Title 39 requires the Commission to base its determinations on rates and fees “in effect” during FY 2017. The prices in effect in FY 2017 were the prices approved in Docket No. R2015-4 (through January 21, 2017) and R2017-1 (after January 21, 2017). The discounts evaluated for compliance are the Docket No. R2017-1 prices. Workshare discounts that were not greater than the associated avoided costs were in compliance for FY 2017.[36] Although passthroughs below 100 percent are lawful, they send inefficient pricing signals to mailers. Passthroughs set as close as possible to 100 percent promote pricing efficiency, lower the total combined costs for mailers and the Postal Service, and encourage the retention and growth of the Postal Service’s most profitable products. In instances where the Commission finds that discounts set above avoided costs are nonetheless lawful because they promote operational efficiency (39 U.S.C. § 3622(e)(D)), the Commission encourages the reduction of those discounts to promote pricing efficiency. If the operational efficiency results in cost savings to the Postal Service, the Postal Service should quantify the impact of the operational efficiency in its cost avoidance models.

The sections below review, for each class of mail, workshare discounts that are greater than the avoided costs associated with the discounts.

1. First-Class Mail

Five First-Class Mail workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2017. These five workshare discounts are in the Presorted Letters/Cards and Flats products.

[36] The workshare discount divided by the avoided costs and expressed as a percentage is referred to as the passthrough. Passthroughs above 100 percent indicate discounts that are greater than avoided costs. Passthroughs below 100 percent indicate discounts that are below avoided costs.

a. Presorted Letters/Cards

The following four workshare discounts for Presorted Letters/Cards exceeded avoided costs in FY 2017:

- Automation automated area distribution center (AADC) Letters
- Automation Mixed AADC Cards
- Automation AADC Cards
- Automation 5-Digit Cards

Each is discussed below. All remaining discounts offered for Presorted Letters/Cards were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2017. Table II-1 shows the discounts for the Presorted Letters/Cards product for FY 2017.

Table II-1
First-Class Presorted Letters/Cards
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
First-Class Mail Automation Letters: Barcoding & Presorting			
Automation Mixed AADC Letters (Metered Letters)	3.7	6.8	54.4%
Automation AADC Letters (Automation Mixed AADC Letters)	2.0	1.7	117.6%
Automation 3-Digit Letters (Automation AADC Letters)	0.0	0.6	0.0%
Automation 5-Digit Letters (Hybrid Automation AADC/3-Digit Letters)	3.0	3.2	93.8%
First-Class Mail Non-automation Letters: Barcoding			
Non-automation Presort Letters (Metered Letters)	0.7	8.1	14.8%
First-Class Mail Automation Cards: Barcoding & Presorting			
Automation Mixed AADC Cards (Non-automation Presort Cards)	1.0	0.7	142.9%
Automation AADC Cards (Automation Mixed AADC Cards)	0.8	0.6	133.3%
Automation 3-Digit Cards (Automation AADC Cards)	0.0	0.1	0.0%
Automation 5-Digit Cards (Hybrid Automation AADC/3-Digit Cards)	1.3	1.1	118.2%

Source: Library Reference PRC–LR–ACR2017/3.

(1) Automation AADC Letters

In FY 2017, the passthrough for Automation AADC Letters was 117.6 percent. FY 2017 ACR at 10. The Postal Service does not provide a statutory justification for this excessive passthrough. The Postal Service states that it reduced the discount to 1.6 cents in Docket No. R2018-1. *Id.* The Postal Service states that when the Docket No. R2018-1 prices go into effect the passthrough will be 94.1 percent. The Public Representative states that this passthrough was not in compliance, but because the discount established in Docket No. R2018-1 reduces the passthrough to 100 percent or lower, no further action is necessary. PR Comments at 51.

The Commission finds that the discount for Automation AADC Letters was not in compliance in FY 2017. Due to the discount approved in Docket No. R2018-1, the Commission finds that no further action is required for the Automation AADC Letters discount.

(2) Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards

In FY 2017, the passthroughs for Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards were 142.9 percent, 133.3 percent, and 118.2 percent, respectively. FY 2017 ACR at 10, 11. The Postal Service does not provide statutory justifications for these excessive passthroughs. The Postal Service states that it reduced these discounts in Docket No. R2018-1. *Id.* The Postal Service reports that when the Docket No. R2018-1 prices go into effect the passthroughs will be 85.7 percent, 100.0 percent, and 100.0 percent, respectively. *Id.* The Public Representative states that these passthroughs were not in compliance, but because the discounts established in Docket No. R2018-1 reduce the passthroughs to 100 percent or lower, no further action is necessary. PR Comments at 51.

The Commission finds that the Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards discounts were not in compliance in FY 2017. Due to the discounts approved in Docket No. R2018-1, the Commission finds that no further action is required for the Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards discounts.

b. First-Class Mail Flats

The following workshare discount for First-Class Mail Flats exceeded avoided costs in FY 2017:

- Automation 5-Digit Flats

This discount is discussed below. All remaining discounts offered for Flats were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2017. Table II-2 shows the discounts for the Flats product for FY 2017.

Table II-2
First-Class Mail Flats
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
First-Class Mail Automation Flats: Barcoding & Presorting			
Automation ADC Flats (Automation Mixed ADC Flats)	8.0	9.2	87.0%
Automation 3-Digit Flats (Automation ADC Flats)	4.0	5.1	78.4%
Automation 5-Digit Flats (Automation 3-Digit Flats)	18.4	14.2	129.6%

Source: Library Reference PRC–LR–ACR2017/3.

Automation 5-Digit Flats. In FY 2017, the passthrough for Automation 5-Digit Flats was 129.6 percent. FY 2017 ACR at 11. The Postal Service does not provide a statutory justification for this excessive passthrough. The Postal Service states that it reduced the discount in Docket No. R2018-1. *Id.* The Postal Service states that when the Docket No. R2018-1 prices go into effect, the passthrough will be 83.8 percent. *Id.* The Public Representative states that this passthrough was not in compliance, but because the discount established in Docket No. R2018-1 reduces the passthrough to 100 percent or lower, no further action is necessary. PR Comments at 51.

The Commission finds that the Automation 5-Digit Flats discount was not in compliance in FY 2017. Due to the discount approved in Docket No. R2018-1, the Commission finds that no further action is required for the Automation 5-Digit Flats discount.

c. Single Piece Letters/Cards

No workshare discounts for Single Piece Letters/Cards exceeded avoided costs and, therefore, all discounts were consistent with 39 U.S.C. § 3622(e) in FY 2017. Table II-3 shows the discounts for the Single Piece Letters/Cards product for FY 2017.

Table II-3
First-Class Single Piece Letters/Cards
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
First-Class Mail Single Piece Letters: Qualified Business Reply Mail Barcoding			
QBRM (Handwritten Reply Mail)	1.4	1.5	93.3%
First-Class Mail Single Piece Cards: Qualified Business Reply Mail Barcoding			
QBRM (Handwritten Reply Cards)	1.4	1.5	93.3%

Source: Library Reference PRC–LR–ACR2017/3.

2. Periodicals

a. Fiscal Year 2017 Periodicals Workshare Discounts

(1) Passthroughs over 100 percent

Two In-County Periodicals workshare discounts and nine Outside County Periodicals workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2017. Table II-4 identifies these 11 passthroughs.

Table II-4
Periodicals Workshare Discounts Exceeding Avoided Costs[37]

Type of Worksharing	Year End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Outside County			
Presorting			
High Density	3.4	3.3	103.0%
Saturation	2.3	1.3	176.9%
Non-machinable Non-automation 3-Digit/SCF Flats	10.6	5.0	212.0%
Non-machinable Non-automation 5-Digit Flats	14.3	9.5	150.5%
Non-machinable Automation 3-Digit/SCF Flats	8.8	4.5	195.6%
Non-machinable Automation 5-Digit Flats	13.8	9.6	143.8%
Presorting Automation Letters			
Automation ADC Letters	3.7	1.4	264.3%
Automation 3-Digit Letters	2.0	0.4	500.0%
Automation 5-Digit Letters	6.8	2.2	309.1%
In-County			
Presorting			
Saturation	1.4	1.3	107.7%
Presorting Automation Letters			
Automation 3-Digit Letters	1.1	0.6	183.3%

Source: Library Reference PRC–LR–ACR2017/5.

Workshare discounts are allowed to exceed avoided costs if a statutory exception applies. *See* 39 U.S.C. § 3622(e). The Postal Service justifies Periodicals workshare discounts that exceeded 100 percent passthroughs on the basis of 39 U.S.C. § 3622(e)(2)(C), which authorizes workshare discounts greater than avoided costs if provided in connection with a subclass that consists exclusively of mail matter with educational, cultural, scientific, or informational (ECSI) value. FY 2017 ACR at 39.

(2) Commission Analysis

(i) Statutory Considerations for Passthroughs

Because the Periodicals class consists exclusively of ECSI mail, the Commission finds that the Periodicals workshare discounts that exceeded avoided costs in FY 2017 were

[37] The Periodicals pricing structure differs from the other Market Dominant classes, in that it includes piece, pound, bundle, and container elements. *See* Library Reference PRC–LR–ACR2017/5 for a comprehensive display of all Periodicals prices and worksharing relationships for FY 2017.

consistent with 39 U.S.C. § 3622(e). Given that the Periodicals class does not cover costs, sending efficient price signals is particularly important. Although 39 U.S.C. § 3622(e) does not prohibit the Postal Service from offering workshare discounts with passthroughs that are less than 100 percent, other statutory requirements and objectives focus on sending efficient pricing signals to mailers. This concept is relevant to all passthroughs, including those that qualify for ECSI consideration. Generally, prices must "...enable the Postal Service, under best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States." 39 U.S.C. § 404(b). Moreover, the Market Dominant ratemaking system is designed to achieve nine objectives, of which one is "[t]o maximize incentives to reduce costs and increase efficiency." 39 U.S.C. § 3622(b)(1). Therefore, the Postal Service should, in all cases, consider whether such passthroughs send efficient pricing signals to mailers.

Inefficient pricing signals may contribute to Periodicals revenues not covering costs if the price does not incentivize mailers to prepare Periodicals mailings efficiently. However, as the Postal Service notes, for a specified discount, a sudden price change to bring passthroughs to 100 percent may not be prudent. Continued improvement of the relationship between discounts and avoided costs should signal to the mailer the mail preparation method that is most efficient for both the Postal Service and the mailer. The Commission emphasized in past ACDs that, as a general principle, passthroughs closer to 100 percent would send better pricing signals to mailers and would increase contribution and cost savings to the Postal Service.[38]

In Docket No. R2015-4, the Postal Service improved the alignment of bundle and pallet price signals and costs.[39] In Docket No. R2017-1, the Postal Service further improved the alignment of these price signals and costs.[40] In addition, the Postal Service provided a greater incentive for mailers to enter additional Carrier Route bundles on Carrier Route pallets. *Id*. In Docket No. R2018-1, the Postal Service adjusted prices for sacks and trays to improve cost coverage, adjusted prices for bundles and pallets based on estimated bottom-up costs, and increased the price difference between Carrier Route and Machinable Automation 5-Digit Flats to encourage preparation of more Carrier Route pieces.[41] While the Commission notes that some improvements have been made, continued improvement of Periodicals pricing efficiency would maximize contribution (or in this case, minimize negative contribution) and cost savings.

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[38] *See* Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 76 (FY 2009 ACD); Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011, at 96-97 (FY 2010 ACD); Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 108-110 (FY 2011 ACD); Docket No. ACR2012, *Annual Compliance Determination*, March 28, 2013, at 100-101 (FY 2012 ACD); Docket No. ACR2013, *Annual Compliance* Determination, March 27, 2014, at 21-23 (FY 2013 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015, at 14-16 (FY 2014 ACD); Docket No. ACR2015, *Annual Compliance Determination,* March 28, 2016, at 17-19 (FY 2015 ACD); Docket No. ACR2016, *Annual Compliance Determination,* March 28, 2017, at 18-20 (FY 2016 ACD).

[39] Docket No. R2015-4, United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015, at 27-28.

[40] Docket No. R2017-1, Response of United Postal Service to Questions 2 and 3 of Chairman's Information Request No. 3, October 24, 2016, question 3.

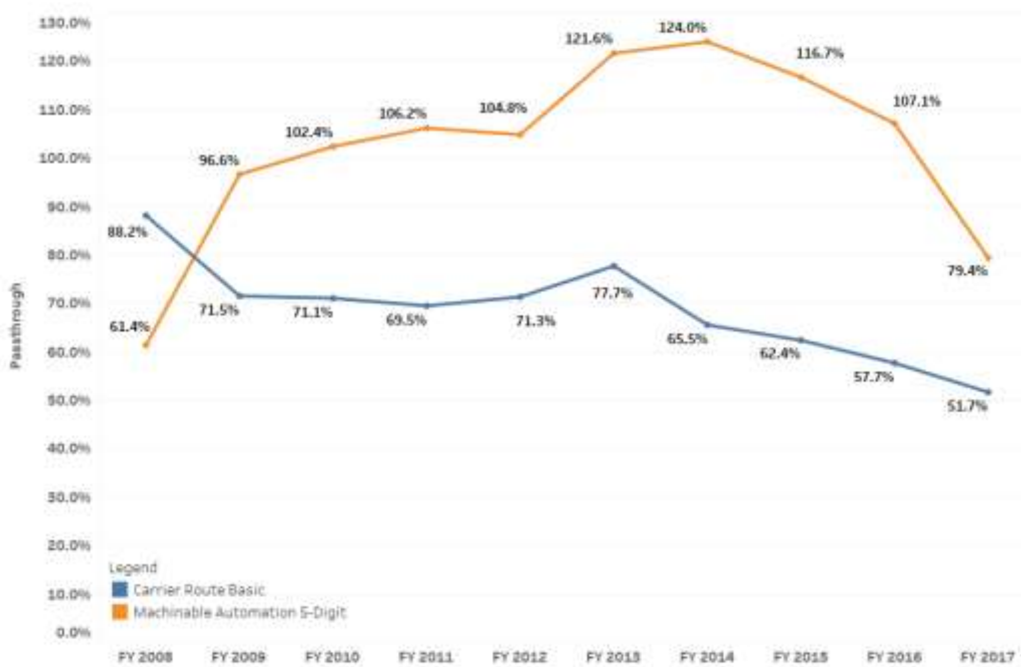
[41] Docket No. R2018-1, Notice of Market-Dominant Price Adjustment, October 6, 2017, at 23.

(ii) Sending Efficient Pricing Signals

Since FY 2013, the Commission has highlighted the growing disparity between the Postal Service's pricing signals that appear to encourage 5-Digit presortation and discourage Carrier Route presortation.[42]

Most Outside County Periodicals volume is presorted to Machinable Automation 5-Digit or Carrier Route Basic. Figure II-1 details changes in passthroughs for Carrier Route Basic and Machinable Automation 5-Digit piece presorting from FY 2008 to FY 2017.

Figure II-1
Carrier Route Basic and Machinable Automation 5-Digit Passthroughs



Source: Library Reference PRC–LR–ACR2016/5.

In the 10-year period between FY 2008 and FY 2017, the Machinable Automation 5-Digit passthrough has generally increased, whereas the Carrier Route Basic passthrough has markedly decreased.[43] In FY 2017, the gap between the passthroughs for Machinable Automation 5-Digit and Carrier Route shrunk considerably. Both passthroughs are now under 100 percent.

[42] *See* FY 2013 ACD at 21, FY 2014 ACD at 15, FY 2015 ACD at 18, FY 2016 ACD at 19.

[43] The price difference between Machinable Automation 5-Digit and Carrier Route Basic in FY 2017 was 10.7 cents. The price difference between Machinable Automation 5-Digit and Carrier Route Basic approved in Docket No. R2018-1 is 10.9 cents.

However, prices that yield passthroughs closer to 100 percent would promote further Periodicals pricing efficiency. Discounts are most efficient when they are set to their corresponding avoided costs. Passthroughs set under 100 percent generally reflect a situation where the discount offered to mailers is less than the Postal Service's avoided cost. A discount that is "too small" may be problematic if a mailer could perform the work at a lower cost than the Postal Service, but does not because the cost to the mailer for performing the work exceeds the amount of the discount.

b. Fiscal Year 2016 ACD Directives

In the FY 2016 ACD, the Commission directed the Postal Service to include an updated version of the FY 2016 ACD Periodicals Pricing Report in its FY 2017 ACR. The updated report was to include an analysis of how the removal of FSS pricing approved in Docket No. R2017-1 impacted the cost, contribution, and revenue of Periodicals in FY 2017 and whether the removal improved the efficiency of Periodicals pricing in FY 2017. FY 2016 ACD at 22.

The Postal Serviced filed this updated report as Library Reference USPS–FY17–44, December 29, 2017, Update to Periodicals Pricing Report (Periodicals Pricing Report).

Commission Analysis. In the Periodicals Pricing Report, the Postal Service discusses the two significant initiatives intended to improve Periodicals pricing: (1) the removal of FSS pricing, and (2) the significant reduction in the price of Carrier Route bundles on Carrier Route pallets. Periodicals Pricing Report at 3.

The Postal Service states that the removal of FSS pricing delinked prices from operational decisions and increased incentives for greater mailing density. *Id*. It also contends that the reduction in the price of Carrier Route bundles on Carrier Route pallets encourages production of pallets that can bypass bundle sorting operations in the plant and reduces mail processing costs. *Id*. The Postal Service states that it is not feasible to isolate the impacts of these price changes from the multitude of other co-variates (*e.g.*, mail preparation requirements, alternative delivery channels, or cost of production inputs). *Id.* at 4.

The Postal Service provides, however, that it is possible to compare the preparation profile prior to the rate change and after the rate change. *Id*. The data provided by the Postal Service show that the proportion of mail arriving in containers that do not require plant bundle distribution increased by 2.2 percent after the rate change. *Id.* at 5. In addition, the proportion of mail arriving in finely presorted bundles increased by 1.14 percent after the rate change. *Id.* at 8.

The data provided by the Postal Service show that the mail processing cost per bundle and container decreased after the rate change, while the mail processing cost per piece increased, likely because of the expansion of zones processed on the FSS. *Id.* at 9. At the same time, the revenues per piece, bundle, and container decreased. *Id.* at 11. In total, the decreases in revenue were greater than the decreases in costs; thus, Periodicals contribution deteriorated.

The Commission concludes that, on the whole, the Postal Service's report meaningfully responds to the Commission's directive. In the Periodicals Pricing Report, the Postal Service provided a robust narrative and workpapers containing quantitative analyses. By performing a quantitative analysis of changes in cost, contribution, and revenue after implementation of new prices, the Postal Service has begun to make progress in analyzing the pricing efficiency of Periodicals. Such analysis provides a useful tool for the Postal Service to more fully understand potential impacts of new prices on cost, revenue, and contribution. In future rate changes, such analysis can aid in increasing Periodicals pricing efficiency.

The Commission directs the Postal Service to include an updated version of the Periodicals Pricing Report in its FY 2018 ACR. The report must include an analysis of how the pricing in Docket No. R2018-1 impacted the cost, contribution, and revenue of Periodicals in FY 2018 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2018.

3. USPS Marketing Mail[44]

Twenty-two USPS Marketing Mail workshare discounts exceeded the avoided costs of the corresponding mailer workshare activity in FY 2017. These twenty-two workshare discounts are in the Letters, Flats, Parcels, Carrier Route, and High Density and Saturation Letters products.

a. Letters

The following seven workshare discounts for Letters exceeded avoided costs in FY 2017:

- Automation Mixed automated area distribution center (AADC) Letters
- Automation AADC Letters
- Non-automation AADC Machinable Letters
- Non-automation 3-Digit Non-machinable Letters
- Non-automation 5-Digit Non-machinable Letters
- Destination network distribution center (DNDC) dropship Letters
- Destination sectional center facility (DSCF) dropship Letters

Each is discussed below. All remaining discounts offered for Letters were less than or equal to avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2017. Table II-5 shows the discounts for the Letters product for FY 2017.

[44] Standard Mail was renamed USPS Marketing Mail as of January 22, 2017.

Table II-5
USPS Marketing Mail Letters (Commercial and Nonprofit)[45]
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
USPS Marketing Mail Automation Letters: Barcoding (Cents/Piece)			
Automation Mixed AADC Letters (Non-automation Machinable Mixed ADC Letters)	1.3	0.1	1300.0%
USPS Marketing Mail Automation Letters: Presorting (Cents/Piece)			
Automation AADC Letters (Automation Mixed AADC Letters)	1.7	1.4	121.4%
Automation 5-Digit Letters (Automation 3-Digit Letters)	2.0	2.5	80.0%
USPS Marketing Mail Non-automation Letters: Presorting (Cents/Piece)			
Non-automation AADC Machinable Letters (Non-automation Mixed AADC Machinable Letters)	1.7	1.6	106.3%
Non-automation ADC Non-machinable Letters (Non-automation Mixed ADC Non-machinable Letters)	7.3	7.3	100.0%
Non-automation 3-Digit Non-machinable Letters (Non-automation ADC Non-machinable Letters)	2.5	2.2	113.6%
Non-automation 5-Digit Non-machinable Letters (Non-automation 3-Digit Non-machinable Letters)	8.7	6.8	127.9%
USPS Marketing Mail Letters: Dropship (Cents/Piece)			
DNDC Letters (Origin Letters)	2.6	1.7	152.9%
DSCF Letters (Origin Letters)	3.4	2.1	161.9%

Source: Library Reference PRC–LR–ACR2017/4.

(1) Automation Mixed AADC Letters

The passthrough for Automation Mixed AADC Letters was 1300 percent in FY 2017, up from 800 percent in FY 2016. FY 2017 ACR at 17. The Postal Service explains that this increase was due to the unit cost avoidance decreasing from 0.2 cents to 0.1 cents. *See id.* The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D), asserting that the barcoding discount encourages mailers to provide Intelligent Mail barcodes (IMbs) on their mailpieces, thereby improving operational efficiency. *Id*. Despite the Postal Service's commitment to eliminate the portion of the discount above avoided costs in its FY 2016 ACR, the Postal Service left the discount

[45] In FY 2017, all USPS Marketing Mail Letters commercial and nonprofit discounts were equal.

unchanged at 1.3 cents in Docket No. R2018-1.[46] The Postal Service states that it will conduct a reevaluation of its barcoding strategies due to the shrinking cost avoidance of basic IMb barcoding relative to Full Service Intelligent Mail.[47]

The Public Representative agrees that this excessive passthrough is justified pursuant to 39 U.S.C § 3622(e)(2)(D). PR Comments at 50. PostCom states that encouraging the Postal Service to reduce this discount would discourage mailers from using IMbs, thereby reducing the operational efficiency of the Postal Service. PostCom Comments at 5-6.

The Commission finds that the excessive discount for Automation Mixed AADC Letters was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2017. However, the Commission finds that the Postal Service is not making any progress towards reducing this passthrough, which is 1200 percentage points above 100 percent. The Postal Service must provide a plan to move the passthrough toward 100 percent, within 90 days of the issuance of this ACD. In addition, the Commission directs the Postal Service to provide a status report that details the outcome of its reevaluation of barcoding strategies, and the impact of any improvements on the Automation Mixed AADC Letters discount, within 90 days of the issuance of this ACD.

(2) Automation AADC Letters

In FY 2017, Automation AADC Letters had a passthrough of 121.4 percent. FY 2017 ACR at 16. The Postal Service notes this passthrough drops significantly using the discount from Docket No. R2018-1. *Id*. In Docket No. R2018-1, the Postal Service reduced the Automation AADC Letters discount to 1.3 cents. *Id*. The Postal Service asserts that using Docket No. R2018-1 prices the passthrough drops to 92.9 percent, warranting no further action. *Id*. at 16-17.

The Public Representative asserts that this excessive passthrough was out of compliance with Section 3622(e)(2) based on discounts and avoided costs filed in the FY 2017 ACR. PR Comments at 51. However, she agrees with the Postal Service that this passthrough complies with Section 3622(e)(2) using Docket No. R2018-1 discounts. *Id.* PostCom acknowledges there has been volatility in cost avoidance for this rate category in FY 2015, FY 2016, and FY 2017, and questions the efficiency of the discount, but does not address compliance. PostCom Comments at 4.

The Commission finds that this discount was not in compliance in FY 2017. Due to the discount approved in Docket No. R2018-1, the Commission finds that no further action is required for the Automation AADC Letters discount.

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[46] *See* Docket No. ACR2016, *Annual Compliance Report*, December 29, 2016, at 39 (FY 2016 ACR); Docket No. R2018-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 9, 2017, at 43 (Order No. 4215).

[47] Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 3, January 19, 2018, question 2 (Responses to CHIR No. 3).

(3) Non-automation AADC Machinable Letters

In FY 2017, Non-automation AADC Machinable Letters had a passthrough of 106.3 percent. FY 2017 ACR at 17. The Postal Service explains this passthrough has decreased to below 100 percent using prices from Docket No. R2018-1. *Id*. In Docket No. R2018-1, the Postal Service reduced the Non-automation AADC Machinable Letters discount from 1.7 cents to 1.3 cents. *Id*. The Postal Service states that the passthrough drops to 81.3 percent using Docket No. R2018-1 prices, warranting no further action. *Id*. at 17.

The Public Representative asserts that this excessive passthrough was out of compliance with Section 3622(e)(2). PR Comments at 51. *Id.* However, she agrees with the Postal Service that this passthrough complies with Section 3622(e)(2) using the Docket No. R2018-1 discount. *Id.* PostCom acknowledges cost avoidance for this discount has fluctuated and states that it is not clear that reducing the discount in Docket No. R2018-1 has resulted in more efficient pricing. PostCom Comments at 4-5.

The Commission finds that this discount was not in compliance in FY 2017. Due to the discount approved in Docket No. R2018-1, the Commission finds that no further action is required for the Non-automation AADC Machinable Letters discount.

(4) Non-automation 3-Digit Non-machinable Letters and Non-automation 5-Digit Non-machinable Letters

The discounts for Non-automation 3-Digit Non-machinable Letters and Non-automation 5-Digit Non-machinable Letters had passthroughs of 113.6 percent and 127.9 percent, respectively in FY 2017. FY 2017 ACR at 17-18. In Docket No. R2018-1, the Postal Service reduced these discounts by 0.2 cents for Non-automation 3-digit Non-machinable Letters and 1.6 cents for Non-automation 5-Digit Non-machinable Letters. *Id*. In Docket No. R2018-1, both discounts were set at or below 100 percent using FY 2016 avoided costs. Order No. 4215 at 39. However, in FY 2017, unit avoided costs increased. Using Docket No. R2018-1 prices and FY 2017 unit avoided costs, these passthroughs remain above 100 percent. The Postal Service states that it intends to align these discounts with avoided costs in the next Market Dominant price adjustment, or cite a statutory exception. FY 2017 ACR at 17-18.

The Public Representative asserts that these excessive passthroughs are not justified and recommends the excessive discounts be phased out in the next Market Dominant price adjustment. PR Comments at 53.

The Commission finds that these discounts were not in compliance in FY 2017. The Postal Service must either align the Non-automation 3-Digit Non-machinable Letters and the Non-automation 5-Digit Non-machinable Letters discounts with avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception.

(5) DNDC and DSCF Dropship Letters

In FY 2017, the passthroughs for DNDC dropship and DSCF dropship were 152.9 percent and 161.9 percent, respectively. FY 2017 ACR at 16. The Postal Service justifies these excessive discounts pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id*. In Docket No. R2018-1, the Postal Service reduced both of these passthroughs by at least 10 percentage points. Order No. 4215 at 40. The Postal Service states that it intends to reduce these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment. FY 2017 ACR at 16.

The Public Representative agrees that these excessive passthroughs are justified by 39 U.S.C. § 3622(e)(2)(B). PR Comments at 50. She states that the Postal Service has fulfilled its promise to reduce these passthroughs as directed by the Commission in FY 2016 ACD. *Id.*

The Commission concludes that a substantial one-time reduction in the passthrough percentages would likely adversely affect users, and that the Postal Service took adequate steps in Docket No. R2018-1 to continue to phase out these excessive passthroughs. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2017. The Commission expects the Postal Service to align these discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

b. USPS Marketing Mail Flats

One workshare discount for USPS Marketing Mail Flats exceeded avoided costs in FY 2017:

- Automation Mixed ADC Flats

All remaining discounts offered for USPS Marketing Mail Flats were less than or equal to avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-6 shows the discounts for the USPS Marketing Mail Flats product for FY 2017.

Table II-6
USPS Marketing Mail Flats (Commercial and Nonprofit)[48]
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
USPS Marketing Mail Automation Flats: Barcoding (Cents/Piece)			
Automation Mixed ADC Flats (Non-automation Mixed AADC Flats)	3.8	2.0	190.0%
USPS Marketing Mail Automation Flats: Presorting (Cents/Piece)			
Automation ADC Flats (Automation Mixed ADC Flats)	1.7	5.4	31.5%
Automation 3-Digit Flats (Automation ADC Flats)	5.5	7.6	72.4%
Automation 5-Digit Flats (Automation 3-Digit Flats)	9.1	13.0	70.0%
USPS Marketing Mail Non-automation Flats: Presorting (Cents/Piece)			
Non-automation ADC Flats (Non-automation Mixed ADC Flats)	3.3	4.1	80.5%
Non-automation 3-Digit Flats (Non-automation ADC Flats)	5.1	5.6	91.1%
Non-automation 5-Digit Flats (Non-automation 3-Digit Flats)	6.9	10.1	68.3%
USPS Marketing Mail Flats: Dropship[49] (Cents/Pound)			
DNDC Flats (Origin Flats)	11.3	8.2	72.1%
DSCF Flats (Origin Flats)	13.2	10.9	83.0%

Source: Library Reference PRC–LR–ACR2017/4.

Automation Mixed ADC Flats. The passthrough for Automation Mixed ADC Flats was 190.0 percent in FY 2017, down from 241.2 percent in FY 2016. FY 2017 ACR at 19. The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D). *Id.* The Postal Service explains that the discount encourages mailers to place IMbs on mailpieces, which improves operational efficiency. *Id*. Using the Docket No. R2018-1 discount, the passthrough is 180.0 percent. *Id.* The Postal Service states that it plans to conduct a fundamental reevaluation of its barcoding strategies. *Id*.

The Public Representative agrees that this excessive passthrough was justified under 39 U.S.C. § 3622(e)(2)(D). PR Comments at 50. She states that the Postal Service has fulfilled

[48] In FY 2017, all USPS Marketing Mail Flats commercial and nonprofit discounts were equal.

[49] Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds. *See* Docket No. RM2017-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), November 20, 2017 (Order No. 4227).

its promise to reduce these passthroughs as directed by the Commission in FY 2016 ACD. *Id.*

The Commission finds that the Automation Mixed ADC Flats discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2017. The Postal Service should continue its FY 2016 commitment to align the discount with avoided cost. In addition, the Commission directs the Postal Service to provide a status report that details the outcome of its reevaluation of barcoding strategies, and the impact of any improvements on the Automation Mixed ADC Flats discount, within 90 days of the issuance of this ACD.

c. Parcels

Three workshare discounts for Parcels exceeded avoided costs in FY 2017:

- Mixed NDC Machinable Barcoded Parcels
- Mixed NDC Irregular Barcoded Parcels
- Mixed NDC Barcoded Marketing Parcels

Each is discussed below. All remaining discounts offered for Parcels were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-7 and Table II-8 show the discounts for the Parcels product for FY 2017.

Table II-7
USPS Marketing Mail Parcels (Commercial and Nonprofit)[50]
Presort and Barcode Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Nonprofit USPS Marketing Mail Parcels: Presorting (Cents/Piece)			
NDC Machinable Parcels (Mixed NDC Machinable Parcels)	39.6	44.8	88.4%
5-Digit Machinable Parcels (NDC Machinable Parcels)	28.6	69.3	41.3%
NDC Irregular Parcels (Mixed NDC Irregular Parcels)	26.3	27.1	97.0%
SCF Irregular Parcels (NDC Irregular Parcels)	38.1	58.1	65.6%
5-Digit Irregular Parcels (SCF Irregular Parcels)	14.9	75.8	19.7%
Nonprofit USPS Marketing Mail Parcels: Barcoding (Cents/Piece) [a]			
Mixed NDC Machinable Barcoded Parcels (Mixed NDC Machinable Non-barcoded Parcels)	6.2	3.9	159.0%
Mixed NDC Irregular Barcoded Parcels (Mixed NDC Irregular Non-barcoded Parcels)	6.2	3.9	159.0%
USPS Marketing Mail Parcels: Presorting (Cents/Piece)			
NDC Marketing Parcels (Mixed NDC Marketing Parcels)	33.4	34.1	97.9%
SCF Marketing Parcels (NDC Marketing Parcels)	31.4	41.4	75.8%
5-Digit Marketing Parcels (SCF Marketing Parcels)	9.3	72.9	12.8%
USPS Marketing Mail Parcels: Barcoding (Cents/Piece)[a]			
Mixed NDC Barcoded Marketing Parcels (Mixed NDC Non-barcoded Marketing Parcels)	6.2	3.9	159.0%

[a] The Postal Service charges a surcharge for non-barcoded pieces.

Source: Library Reference PRC–LR–ACR2017/4.

[50] In FY 2017, all commercial and nonprofit discounts for USPS Marketing Mail Marketing Parcels were equal. Machinable and Irregular USPS Marketing Mail Parcel prices are only offered to nonprofit mailers and do not have corresponding commercial prices.

Table II-8
USPS Marketing Mail Parcels (Commercial and Nonprofit)
Dropship Workshare Discounts and Benchmarks[51]

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Nonprofit USPS Marketing Mail Machinable Parcels: Dropship (Cents/Pound)			
DNDC Machinable Parcels (Origin Machinable Parcels)	84.2	24.5	29.1%
DSCF Machinable Parcels (Origin Machinable Parcels)	100.6	49.3	49.0%
DDU Machinable Parcels (Origin Machinable Parcels)	117.1	70.6	60.3%
USPS Marketing Mail Marketing Parcels: Dropship (Cents/Pound)			
DNDC Marketing Parcels (Origin Marketing Parcels)	84.2	25.6	30.4%
DSCF Marketing Parcels (Origin Marketing Parcels)	100.6	52.0	51.4%
DDU Marketing Parcels (Origin Marketing Parcels)	117.1	75.0	64.0%
Nonprofit USPS Marketing Mail Irregular Parcels: Dropship (Cents/Pound)			
DNDC Irregular Parcels (Origin Irregular Parcels)	84.2	24.5	29.1%
DSCF Irregular Parcels (Origin Irregular Parcels)	100.6	49.3	49.0%
DDU Irregular Parcels (Origin Irregular Parcels)	117.1	70.6	60.3%

Source: Library Reference PRC–LR–ACR2017/4.

Mixed NDC Machinable Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels. Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels each had a passthrough of 159.0 percent in FY 2017. FY 2017 ACR at 19. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(D), stating that these discounts encourage mailers to pre-barcode, thereby increasing operational efficiency. *Id.* In Docket No. R2018-1, the Postal Service reduced these passthroughs by at least 10 percentage points. Order No. 4215 at 43. The Postal Service states that it intends to continue to reduce these passthroughs by 10 percentage points in future Market Dominant price adjustments. FY 2017 ACR at 20. The Postal Service also plans to reevaluate its barcoding strategies. *Id.*

The Public Representative asserts that these excessive passthroughs were justified under 39 U.S.C. § 3622(e)(2)(D). PR Comments at 50. She states that the Postal Service has

[51] Passthroughs for discounts in this table use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

fulfilled its promise to reduce these passthroughs as directed by the Commission in the FY 2016 ACD. *Id.*

The Commission finds that these three discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2017. The Commission expects the Postal Service to follow its plan to reduce passthroughs by at least 10 percentage points in future Market Dominant price adjustments. In addition, the Commission directs the Postal Service to provide a status report that details the outcome of its reevaluation of barcoding strategies, and the impact of any improvements on the Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels discounts, within 90 days of the issuance of this ACD.

d. Carrier Route

Seven workshare discounts for Carrier Route Letters and Flats exceeded avoided costs in FY 2017:

- DNDC dropship Letters
- DSCF dropship Letters
- Flat pieces on 5-Digit Carrier Route Pallets entered at origin
- Flat pieces on 5-Digit Carrier Route Pallets entered at DNDC
- Flat pieces on 5-Digit Carrier Route Pallets entered at DSCF
- Flat pieces on 5-Digit Carrier Route Pallets entered at DDU
- Commercial and Nonprofit Basic Carrier Route Flats dropshipped at DDU

Each is discussed below. All remaining discounts offered for Carrier Route were less than avoided costs and thus were in compliance with 39 U.S.C. § 3622(e). Table II-9 shows the discounts for the Carrier Route product for FY 2017.

Table II-9
USPS Marketing Mail Carrier Route (Commercial and Nonprofit)[52]
Dropship and Presort Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
USPS Marketing Mail Carrier Route Letters: Dropship (cents/piece)			
DNDC Letters (Origin Letters)	3.0	1.7	176.5%
DSCF Letters (Origin Letters)	3.8	2.1	181.0%
USPS Marketing Mail Carrier Route Flats: Dropship (cents/pound)[53]			
DNDC Flats (Origin Flats)	28.2	15.8	55.9%
DSCF Flats (Origin Flats)	31.1	20.1	64.7%
DDU Flats (Origin Flats)	35.4	37.9	107.2%
USPS Marketing Mail Carrier Route Flats: Presorting (cents/piece)			
Origin Flats on 5-Digit Pallets (Other Origin Flats)	2.0	1.8	111.1%
DNDC Flats on 5-Digit Pallets (Other DNDC Flats)	2.0	1.8	111.1%
DSCF Flats on 5-Digit Pallets (Other DSCF Flats)	2.0	1.8	111.1%
DDU Flats on 5-Digit Pallets (Other DDU Flats)	2.0	1.8	111.1%
USPS Marketing Mail Carrier Route Flats: Dropship (cents/pound)[54]			
DNDC Flats on 5-Digit Pallets (Origin Flats)	28.2	14.6	51.7%
DSCF Flats on 5-Digit Pallets (Origin Flats)	31.1	18.2	58.7%
DDU Flats on 5-Digit Pallets (Origin Flats)	35.4	23.3	65.8%

Source: Library Reference PRC–LR–ACR2017/4.

(1) Carrier Route Dropship DNDC and DSCF Letters

In FY 2017, passthroughs for Carrier Route Dropship DNDC and DSCF Letters were 176.5 and 181.0 percent respectively. FY 2017 ACR at 20. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* at 21. In Docket No. R2018-1, the Postal Service reduced these passthroughs by at least 10 percentage points. Order No. 4215 at 43. The Postal Service states that it plans to reduce these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment. FY 2017 ACR at 21.

[52] In FY 2017, all commercial and nonprofit discounts for USPS Marketing Mail Carrier Route products were equal.

[53] Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

[54] Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

The Public Representative asserts that these excessive passthroughs were justified under 39 U.S.C. § 3622(e)(2)(D). PR Comments at 50. She states that the Postal Service has fulfilled its promise to reduce these passthroughs as directed by the Commission in the FY 2016 ACD. *Id.*

The Commission finds that a substantial one-time reduction in the passthroughs would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2018-1 to phase out these excessive passthroughs. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2017. The Commission expects the Postal Service to align these discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

(2) Flat Pieces on 5-Digit Carrier Route Pallets Entered at Origin, DNDC, DSCF, and DDU

In FY 2017, the passthroughs for Carrier Route flats on 5-Digit pallets were 111.1 percent at each entry point. FY 2017 ACR at 21. In Docket No. R2018-1, the Postal Service reduced these discounts to result in passthroughs below 100 percent. Order No. 4215 at 43. However, due to a reduction in the avoided costs in FY 2017, the Docket No. R2018-1 discounts will result in passthroughs over 100 percent. *Id.* The Postal Service states that it intends to align these discounts with the latest cost avoidances in the next Market Dominant price adjustment. *Id.*

The Public Representative asserts that these passthroughs were not in compliance in FY 2017. PR Comments at 52. She recommends the Postal Service realign these discounts with avoided costs or cite an appropriate statutory exception. *Id*.

The Commission finds that these discounts were not in compliance in FY 2017. The Postal Service must either align the discounts for Carrier Route flats on 5-digit pallets entered at Origin, DNDC, DSCF, and DDU with their avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception.

(3) Commercial and Nonprofit Basic Carrier Route Flats Entered at DDU

In FY 2017, the passthrough for Commercial and Nonprofit Basic Carrier Route Flats was 107.2 percent. FY 2017 ACR at 21. These passthroughs were calculated using the new methodology approved in Order No. 4227, taking into account both pound and piece rated discounts. *Id.* at 21-22. The previous methodology only included the pound-rated discount. *Id.* The Postal Service states that it intends to align these discounts with avoided costs in the next Market Dominant price adjustment. *Id.* at 22.

The Public Representative asserts that these passthroughs were not in compliance in FY 2017. PR Comments at 52. She acknowledges that the new methodology approved in Order No. 4227 now factors in pound-rated per pound discounts and piece-rated per-piece discounts. *Id.* at 52-53. She recommends the Postal Service realign these discounts with avoided costs or cite an appropriate statutory exception. *Id*.

The Commission finds that this discount was not in compliance in FY 2017. The Postal Service must either align the discount for Commercial and Nonprofit Basic Carrier Route Flats Entered at DDU with its avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception.

e. High Density and Saturation Letters

Two workshare discounts for High Density and Saturation Letters exceeded avoided costs in FY 2017:

- DNDC dropship Letters
- DSCF dropship Letters

Each is discussed below. All remaining discounts offered for High Density and Saturation Letters were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-10 shows the discounts for the High Density and Saturation Letters product for FY 2017.

Table II-10
USPS Marketing Mail High Density and Saturation Letters (Commercial and Nonprofit)[55]
Dropship and Presort Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
USPS Marketing Mail High Density Letters: Presort (cents/piece)			
High Density Letters (Carrier Route)	9.1	41.8	21.8%
USPS Marketing Mail High Density Letters: Dropship (cents/piece)			
DNDC Letters (Origin Letters)	2.4	1.7	141.2%
DSCF Letters (Origin Letters)	3.1	2.1	147.6%

Source: Library Reference PRC–LR–ACR2017/4.

In FY 2017, passthroughs for DNDC dropship Letters and DSCF dropship Letters were 141.2 percent and 147.6 percent, respectively. FY 2017 ACR at 22. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* at 22-23. In Docket No. R2018-1, the Postal Service reduced these passthroughs by at least 10 percentage points. Order No. 4215 at 43. The Postal Service states that it intends to reduce

[55] In FY 2017, all USPS Marketing Mail High Density and Saturation Letters commercial and nonprofit discounts were equal.

these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment. FY 2017 ACR at 23.

The Public Representative agrees that these excessive passthroughs are properly justified under 39 U.S.C. § 3622(e)(2)(B). PR Comments at 49-50. She finds the Postal Service has fulfilled its promise to reduce these passthroughs as directed by the Commission in the FY 2016 ACD. *Id.*

The Commission finds that a substantial one-time reduction in the passthroughs would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2018-1 to phase out these excessive passthroughs. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2017. The Commission expects the Postal Service to align discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

f. High Density and Saturation Flats

Two workshare discounts for High Density and Saturation Flats exceeded avoided costs in FY 2017:

- DNDC High Density, High Density Plus, and Saturation Flats
- DSCF High Density, High Density Plus, and Saturation Flats

Each is discussed below. All remaining discounts offered for High Density and Saturation Flats were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-11 shows the discounts for the High Density and Saturation Flats product for FY 2017.

Table II-11
USPS Marketing Mail High Density and Saturation Flats (Commercial and Nonprofit)
Dropship and Presort Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2017		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
USPS Marketing Mail High Density Flats: Presort (cents/piece)			
High Density Flats (Carrier Route)	4.2	6.3	66.7%
USPS Marketing Mail High Density, High Density Plus, and Saturation Flats [56]			
DNDC Flats (Origin Flats)	28.2	32.2	114.0%
DSCF Flats (Origin Flats)	31.1	38.8	124.7%
DDU Flats (Origin Flats)	35.4	34.5	97.6%

Source: Library Reference PRC–LR–ACR2017/4.

Commercial and Nonprofit High Density and Saturation DNDC and DSCF Flats. In FY 2017, passthroughs for High Density and Saturation DNDC and DSCF flats were 114.0 percent and 124.7 percent, respectively. FY 2017 ACR at 23. Both passthroughs increased beyond 100 percent due to the methodology change described in Order No. 4227. *Id.* The Postal Service states that it intends to reduce these passthroughs to 100 percent in the next Market Dominant price adjustment. *Id.*

The Public Representative asserts that these passthroughs were not in compliance in FY 2017. PR Comments at 52. She acknowledges that the new methodology approved in Order No. 4227 now factors in pound-rated per-pound discounts and piece-rated per-piece discounts. *Id.* at 52-53. She recommends the Postal Service realign these discounts with avoided costs or cite an appropriate statutory exception. *Id*.

The Commission finds that these discounts were not in compliance in FY 2017. The Postal Service must either align the discounts for Commercial and Nonprofit High Density and Saturation DNDC and DSCF Flats with their avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception.

4. Package Services

Four Package Services workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2017. These four workshare discounts are in the Bound Printed Matter (BPM) Flats and BPM Parcels products.

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[56] Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

a. Media Mail/Library Mail

The discounts for Media and Library Mail Basic presorting decreased by 52 and 50 percent, respectively since FY 2016. *See* FY 2016 ACD at 40. The combination of this reduction in discount and a 64 percent increase in avoided costs resulted in a decrease in the passthroughs from FY 2016 of over 75 percentage points for both discounts. *See id.* The Basic presorting discount for Media Mail and Library Mail had been over 100 percent since FY 2012 and declined to under 33 percent in FY 2017.

All discounts offered for Media Mail/Library Mail were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2017.

Table II-11 shows the FY 2017 discounts, avoided costs, and passthroughs for this product.

Table II-11
Media Mail/Library Mail
Workshare Discounts and Benchmarks

Type of Worksharing	FY 2017		
	Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
Media Mail: Presorting (Cents/Piece)			
Basic (Single-Piece)	12.0	36.5	32.9%
5-Digit (Basic)	69.0	157.6	43.8%
Library Mail: Presorting (Cents/Piece)			
Basic (Single-Piece)	12.0	36.5	32.9%
5-Digit (Basic)	65.0	157.6	41.2%

Source: Library Reference PRC-LR-ACR2017/6.

b. Bound Printed Matter Flats and Bound Printed Matter Parcels

Four workshare discounts for BPM Flats and BPM Parcels exceeded avoided costs in FY 2017:

- BPM Flats DNDC dropship
- BPM Flats DSCF dropship
- BPM Parcels DNDC dropship
- BPM Parcels DSCF dropship

Each is discussed below. All remaining discounts offered for BPM Flats and BPM Parcels were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2017.

Table II-12 and Table II-13 show the FY 2017 discounts, avoided costs, and passthroughs for the BPM Flats and BPM Parcel products in FY 2017.

Table II-12
Bound Printed Matter Flats
Workshare Discounts and Benchmarks

Type of Worksharing	FY 2017		
	Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
Presorting (Cents/Piece)[a]			
Basic Flats (Single-Piece Flats)	38.6	*See* Note a	N/A
Carrier Route Flats (Basic Flats)	14.2	14.5	97.9%
Presorting (Cents/Piece):[a] Basic, Carrier Route Flats (Single-Piece Flats)			
Zones 1&2	2.2	*See* Note a	N/A
Zone 3	3.1	*See* Note a	N/A
Zone 4	1.8	*See* Note a	N/A
Zone 5	2.3	*See* Note a	N/A
Zone 6	3.1	*See* Note a	N/A
Zone 7	2.8	*See* Note a	N/A
Zone 8	2.0	*See* Note a	N/A
Dropship (Cents/Piece)			
Basic, Carrier Route DNDC Flats (Basic Origin Flats)	11.3	8.5	132.9%
Basic, Carrier Route DSCF Flats (Basic Origin Flats)	59.0	53.9	109.5%
Basic, Carrier Route DDU Flats (Basic Origin Flats)	75.0	81.8	91.7%

[a] The BPM cost model does not estimate cost differences between single piece and presorted BPM. Single piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between single piece and presorted BPM were based on an assumption that unit mail processing costs for single piece BPM were twice that of presorted BPM. *See* Docket No. R2006-1, Direct Testimony of Nina Yeh on Behalf of United States Postal Service, May 3, 2006, at 8 (Docket No. R2006-1, USPS-T-38).

Source: Library Reference PRC-LR-ACR2017/6.

Table II-13
Bound Printed Matter Parcels
Workshare Discounts and Benchmarks

Type of Worksharing	FY 2017		
	Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
Presorting (Cents/Piece)[a]			
Basic Parcels (Single-Piece Parcels)	63.5	*See* Note a	N/A
Carrier Route Parcels (Basic Parcels)	12.6	14.5	86.9%
Presorting (Cents/Piece):[a] Basic, Carrier Route Flats (Single-Piece Flats)			
Zones 1&2	5.5	*See* Note a	N/A
Zone 3	5.9	*See* Note a	N/A
Zone 4	5.1	*See* Note a	N/A
Zone 5	4.8	*See* Note a	N/A
Zone 6	5.3	*See* Note a	N/A
Zone 7	3.1	*See* Note a	N/A
Zone 8	2.7	*See* Note a	N/A
Dropship (Cents/Piece)			
Basic, Carrier Route DNDC Parcels (Basic Origin Parcels)	11.2	8.5	131.8%
Basic, Carrier Route DSCF Parcels (Basic Origin Parcels)	61.5	53.9	114.1%
Basic, Carrier Route DDU Parcels (Basic Origin Parcels)	78.5	81.8	96.0%

[a] The BPM cost model does not estimate cost differences between single piece and presorted BPM. Single piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between single piece and presorted BPM were based on an assumption that unit mail processing costs for single piece BPM were twice that of presorted BPM. *See* Docket No. R2006-1, USPS-T-38 at 8.

Source: Library Reference PRC-LR-ACR2017/6.

The DNDC and DSCF dropshipping discounts for BPM Flats and BPM Parcels exceeded the corresponding avoided costs. The DNDC dropship discount for BPM Flats had a passthrough of 132.9 percent, and the DNDC dropship discount for BPM Parcels was 131.8 percent. FY 2017 ACR at 41. The DSCF dropship discounts for BPM Flats and BPM Parcels also exceeded avoided costs in FY 2017. The DSCF dropship passthroughs for BPM Flats and BPM Parcels were 109.5 percent and 114.1 percent, respectively. *Id.*

In Docket No. R2017-1, the Postal Service stated that it set the DNDC and DSCF dropship discounts for BPM Flats and BPM Parcels using FY 2015 avoided costs data. The Postal Service stated that the discounts were not set equal to FY 2015 avoided costs because aligning the discounts with avoided costs would have resulted in price increases greater than the average increases for the Package Services class.[57] The Postal Service cited the

[57] Docket No. R2017-1, United States Postal Service Notice of Market Dominant Price Adjustment, October 12, 2016, at 52-56.

rate shock exception in 39 U.S.C. § 3622(e) as justification for not aligning the discounts with the avoided costs. *Id.* The Commission approved this justification and the prices in Order No. 3610, with the caveat that the Postal Service must provide additional justification if the discounts were not aligned in the next Market Dominant price adjustment. Order No. 3610 at 54. In addition, the Commission requested better explanation in future proceedings utilizing the rate shock exemption, particularly "in cases where a price increase required to equalize the discount with avoided costs is minimal." *Id.* at 54-55.

In Docket No. R2018-1, the Postal Service set the DNDC and DSCF dropship discounts for BPM Flats and BPM Parcels equal to their respective FY 2016 avoided costs. The avoided costs decreased again in FY 2017. Using the prices filed in Docket No. R2018-1 and the updated FY 2017 avoided costs, the Postal Service calculates that the DNDC dropship passthroughs will be 120 percent and 101.1 percent, respectively. FY 2017 ACR at 41-42. The Postal Service states that it intends to align the discounts with avoided costs in the next market dominant price adjustment or cite an applicable statutory exception. *Id.*

The Public Representative notes that the Postal Service does not offer a statutory exception to justify the BPM products with passthroughs greater than 100 percent and concludes that those passthroughs are out of compliance. PR Comments at 53.

The Commission finds that the BPM Flats DNDC dropship, BPM Flats DSCF dropship, BPM Parcels DNDC dropship, and BPM Parcels DSCF dropship discounts were not in compliance during FY 2017. The Postal Service must either align these discounts with avoided costs during the next general Market Dominant price adjustment or provide support for an applicable statutory exception.

D. **Preferred Rate Requirements**

39 U.S.C. § 3626 identifies preferred rate requirements applicable to Periodicals, USPS Marketing Mail, and Package Services prices.

Periodicals is a preferred class of mail and receives several statutory discounts in 39 U.S.C. § 3626, such as a 5-percent discount for nonprofit and classroom publications. In Docket No. R2017-1, prices for Periodicals were set to be consistent with statutory preferences for mail in that class. Order No. 3610 at 48-49.

39 U.S.C. § 3626(a)(6) requires nonprofit prices in USPS Marketing Mail to be set in relation to their commercial counterparts. In Docket No. R2017-1, nonprofit prices were set to yield average per-piece revenues of 60.0 percent of commercial per-piece revenues at the class level. Order No. 3610 at 42. The Commission calculates that the actual per-piece revenues from USPS Marketing Mail nonprofit pieces were 58.9 percent of the per-piece revenues of

their commercial counterparts in FY 2017.[58] As discussed in detail in Order No. 4400, changes in the mix of mail after price changes make it difficult to precisely attain the 60 percent relationship required by law.[59] The Commission finds that, in FY 2017, nonprofit average revenues per piece in USPS Marketing Mail were set as nearly practicable to 60 percent of their commercial counterparts.

One preferred rate requirement applies to Media Mail/Library Mail, a product in Package Services: Section 3626(a)(7) of Title 39 requires Library Mail prices to be set at 95 percent of Media Mail prices. Docket No. R2017-1 set these prices accordingly. Order No. 3610 at 58.

The Commission finds that prices in FY 2017 were in compliance with all of the preferred rate requirements identified in 39 U.S.C. § 3626.

[58] *See* Library Reference PRC–LR–ACR2017/1.

[59] *See* Docket No. RM2017-12, Order on Analytical Principles used in Periodic Reporting (Proposal Eight), February 7, 2018 (Order No. 4400).

CHAPTER 3: MARKET DOMINANT PRODUCTS: OTHER RATE AND FEE COMPLIANCE ISSUES

A. Introduction

Commenters raise other rate and fee compliance issues, most of which relate to the objectives and factors established by 39 U.S.C. § 3622 and to the policies of Title 39 of the United States Code. These issues include noncompensatory products and pricing issues related to differences in cost coverage.

This Chapter begins with an analysis of noncompensatory products organized by class. It also includes a discussion of matters relating to NSAs, and other pricing issues.

B. Noncompensatory Products

1. Periodicals

a. FY 2017 Financial Results

The cost coverage for Periodicals decreased from FY 2016 to FY 2017, from 73.7 percent to 69.3 percent. As Table III-1 illustrates, Periodicals cost coverage has declined from 83.0 percent in FY 2007, resulting in a cumulative negative contribution of more than $6 billion.

Table III-1
Periodicals Cost Coverage, FY 2007–FY 2017 (Volume and $ in Millions)[60]

Fiscal Year	Volume	Revenue	Attributable Cost	Cost Coverage	Contribution
2007	8,795	$2,188	$2,636	83.01%	-$448
2008	8,605	$2,295	$2,732	84.00%	-$437
2009	7,953	$2,038	$2,680	76.04%	-$642
2010	7,269	$1,879	$2,490	75.46%	-$611
2011	7,077	$1,821	$2,430	74.94%	-$609
2012	6,741	$1,732	$2,402	72.10%	-$670
2013	6,359	$1,658	$2,179	76.10%	-$521
2014	6,045	$1,625	$2,134	76.16%	-$509
2015	5,838	$1,589	$2,101	75.64%	-$512
2016	5,586	$1,507	$2,043	73.73%	-$537
2017	5,301	$1,375	$1,983	69.31%	-$609
					-$6,104

Source: Library Reference PRC–LR–ACR2017/5.

Unit revenue for the Periodicals class as a whole decreased from 27.0 cents in FY 2016 to 25.9 cents in FY 2017. FY 2017 ACR at 38. However, unit cost increased from 36.6 cents to 37.4 cents during the same period. Decreasing revenue coupled with increasing cost caused unit contribution to decline in FY 2017. Table III-2 details the unit cost, revenue, and contribution for Periodicals as a whole during the PAEA era.

[60] In this Report, attributable cost means incremental cost. *See* Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016, at 125 (Order No. 3506). The attributable cost for years before FY 2016 reflect the accepted methodology for those years and has not been recalculated.

Table III-2
Periodicals Unit Cost, Revenue, and Contribution, FY 2007–FY 2017

Fiscal Year	Unit Attributable Cost	Unit Revenue	Unit Contribution
2007	$0.2997	$0.2488	-$0.0509
2008	$0.3175	$0.2667	-$0.0508
2009	$0.3370	$0.2563	-$0.0807
2010	$0.3425	$0.2585	-$0.0841
2011	$0.3434	$0.2573	-$0.0860
2012	$0.3562	$0.2568	-$0.0994
2013	$0.3427	$0.2608	-$0.0819
2014	$0.3531	$0.2689	-$0.0842
2015	$0.3599	$0.2722	-$0.0877
2016	$0.3658	$0.2697	-$0.0961
2017	$0.3742	$0.2593	-$0.1148

Source: Library Reference PRC–LR–ACR2017/5.

b. Commission Analysis of FY 2017 Financial Results

Since FY 2007, Periodicals volume declined 39.7 percent, revenue declined 37.2 percent, cost declined 24.7 percent, and the Periodicals class accumulated negative contribution of more than $6 billion. Increasing unit cost contributed to Periodicals' inability to cover its attributable cost. The exigent surcharge, which went into effect on January 26, 2014,[61] improved the revenue generated during part of FY 2014, all of FY 2015, and part of FY 2016. The exigent surcharge expired on April 10, 2016, and was not in effect for any of FY 2017.[62] The expiration of the exigent surcharge contributed to the revenue decline in FY 2017. The unit revenue for Periodicals in FY 2017 is lower than the unit revenue for Periodicals in FY 2013. The increase in average unit cost, combined with the decrease in average unit revenue, resulted in a lower average unit contribution.

Decreases in both the average weight and advertising content of Periodicals mailings also affected Periodicals revenue in FY 2017. Periodicals prices are tied, in part, to the weight of the piece, and minor weight changes have a greater effect on the price paid by the mailers than on the cost incurred by the Postal Service. As the Postal Service explains, minor weight increases do not significantly affect cost within the weight range of typical mailpieces (3 to

[61] *See* Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013, at 193 (Order No. 1926).

[62] *See* Docket No. R2013-11, Notice of the United States Postal Service of Removal of the Exigent Surcharge, February 25, 2016, at 1.

16 ounces) or the productivity of mail processing equipment.[63] However, minor weight changes can have significant effects on revenue because roughly 22 percent of Periodicals revenue is from the weight price element. Average weight for Outside County Periodicals decreased from 6.04 ounces per piece in FY 2016 to 5.96 ounces per piece in FY 2017.[64] Furthermore, advertising pounds, which pay higher prices, decreased from 38.4 percent of total Outside County Periodicals pounds in FY 2016 to 37.5 percent in FY 2017.[65] *Id.*

In Chapter 2, *supra*, the Commission provides a discussion of Periodicals worksharing incentives and the importance of sending efficient pricing signals to mailers.

c. Commission Analysis of Outside County Periodicals Unit Cost

The Periodicals class is comprised of two products: In-County[66] and Outside County. In FY 2017, Outside County constituted 90.3 percent of Periodicals volume and 95.7 percent of Periodicals attributable cost.[67] Because Outside County pieces incur most of the costs for the Periodicals class, operational initiatives focused on Outside County Periodicals have greater potential for cost savings for the Periodicals class as a whole. Table III-3 shows that Outside County Periodicals unit attributable cost increased by 0.96 cents from FY 2016 to FY 2017.

[63] *See* Docket No. ACR2015, *Annual Compliance Report*, December 29, 2015, at 46 (identifying the following equipment: the Automated Flats Sorting Machine 100 (AFSM 100), FSS, Automation Parcel and Bundle Sorter (APBS), or Automated Package Processing System (APPS)).

[64] Library Reference PRC–LR–ACR2017/5.

[65] In FY 2008, the average weight for Outside County Periodicals was 6.99 ounces per piece and advertising pounds were 41.7 percent of total Outside County Periodicals pounds.

[66] The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

[67] Library Reference PRC–LR–ACR2017/5.

Table III-3
Change in Outside County Periodicals Unit Attributable Costs, FY 2008–FY 2017[68] (Cents)

Fiscal Year	Mail Processing	Delivery	Transportation	Other	Total
2008	12.23	8.06	3.52	10.12	33.93
2009	12.94	9.29	3.18	10.89	36.30
2010	12.02	9.68	3.59	11.09	36.38
2011	12.07	9.50	3.41	11.51	36.49
2012	12.41	9.57	3.90	11.87	37.74
2013	11.69	9.38	3.89	11.39	36.35
2014	12.25	9.63	3.83	11.82	37.53
2015	11.89	10.29	4.31	11.72	38.21
2016	12.08	10.44	4.68	11.52	38.71
2017	12.72	10.93	3.60	12.42	39.67

Source: Library Reference PRC–LR–ACR2017/5.

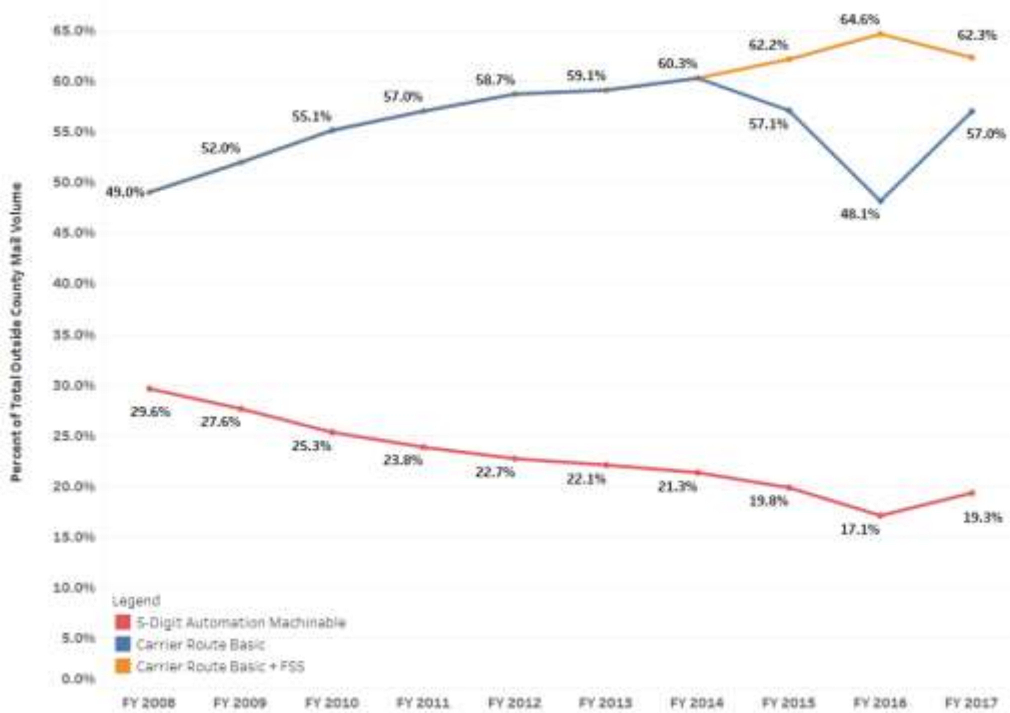
In FY 2017, the unit attributable costs for mail processing, delivery, and other increased, and transportation unit cost decreased. The trend for mail processing unit attributable costs shows that the Postal Service has not realized cost savings from increased mailer preparation (worksharing) via presortation.

Over the 10-year period beginning in FY 2008, mailer presortation of Outside County Periodicals has increased substantially. As Figure III-1 illustrates, 49.0 percent of mail volume was presorted to the Carrier Route level in FY 2008, whereas 62.3 percent of mail volume was presorted to the Carrier Route or FSS level in FY 2017.[69]

[68] The figures in this table do not include piggybacks. A majority of the other costs are piggybacked onto mail processing, delivery, and transportation.

[69] With the implementation of Docket No. R2015-4 prices, some mailpieces that were previously Carrier Route were required to be prepared at the FSS level between FY 2015 and FY 2017. Hence, the Carrier Route and FSS pieces are aggregated to demonstrate the degree to which mailers prepared Outside County Periodicals mailings in FY 2017. *See* section III. B. 2,*infra.*

Figure III-1
Change in Outside County Periodicals Mail Mix, FY 2008–FY 2017



Source: Library Reference PRC–LR–ACR2017/5.

Mail processing unit costs are much lower for mailpieces presorted to the Carrier Route level than to the 5-Digit level. The Postal Service's CRA does not report mail processing costs for Carrier Route presorted Periodicals separately from other presorted Periodicals, such as 5-Digit and 3-Digit, because they are not separate products. However, granular data from the Periodicals Pricing Report provide insight into the cost differentials for Carrier Route, 5-Digit, and 3-Digit.[70]

The data show that the mail processing and delivery costs for Carrier Route pieces are significantly lower than the mail processing and delivery costs for 5-Digit pieces. The mail processing cost for pieces processed on the FSS is higher than the mail processing cost for both 5-Digit and Carrier Route pieces. The delivery cost for pieces processed on the FSS is lower than the delivery cost for 5-Digit pieces. The total cost (mail processing plus delivery) for pieces processed on the FSS is lower than the total cost for 5-Digit, but significantly higher than the cost for Carrier Route pieces.

[70] *See* Library Reference USPS–FY17–44, Excel file "ACD.Periodicals.Report Attach FY17.xlsx;" PRC–LR–ACR2017/5, Excel file "FY 2017 Periodicals Cost Coverage.xlsx."

Since FY 2008, mail processing unit costs for flat-shaped mail have increased.[71] Declining mail processing productivity contributed to this increase. Table III-4 details changes in productivity for selected flats processing operations since FY 2008.

Table III-4
Change in Productivity for Selected Flats Processing Operations, FY 2008–FY 2017

Operation	Productivity Change
Automated Flats Sorting Machine 100 (AFSM 100) Incoming Secondary	-29%
Small Parcel Bundle Sorter (SPBS)/Automated Parcel Bundle Sorter (APBS) Incoming	-20%
Automated Package Processing System (APPS) Incoming	-47%
Flats Sequencing System (FSS)[72]	-11%

Source: Library Reference PRC–LR–ACR2017/5.

In FY 2010 and FY 2011, the Postal Service projected improved flats mail processing performance;[73] however, the Postal Service has yet to achieve such productivity increases. Flats productivity has decreased since FY 2008. Although the changing Outside County Periodicals mail mix will likely result in less processing on the AFSM 100, SPBS/APBS, and APPS, Periodicals will continue to have cost coverage issues if the Postal Service does not address declining productivity.

Periodicals have consistently failed to cover cost, and the Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.[74]

In Chapter 6, the Commission explains its continued concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flats. The Commission describes an ongoing rulemaking intended to develop metrics to measure, track, and report on initiatives related to reducing the costs of flats. All of the recommendations pertaining to reducing flats costs in Chapter 6 apply to Periodicals.

[71] For example, the piggybacked mail processing unit cost for USPS Marketing Mail Flats has increased from 22.89 cents in FY 2008 to 27.90 cents in FY 2017. *Compare* Docket No. ACR2008, Library Reference USPS–FY08–26, December 29, 2008, Excel file "shp08prc.xls," tab "Flats (4)," cell BP25 *with* Library Reference USPS–FY17–26, December 29, 2017, Excel file "shp17prc.xlsx," tab "Costs (All Shapes) W Final RF," cell O73.

[72] The FSS machine productivity is measured from its introduction in FY 2011.

[73] *See, e.g.*, Docket No. N2012-1, Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS–T–4), December 5, 2011, at 29-30 (projecting an increase in AFSM 100 productivity of 15 percent); Docket No. R2010-4, Responses of the United States Postal Service to Questions from the Bench at the Hearing for Mr. Neri, August 19, 2010, at 7 ("Expectations are for flats workhours to decline another 11 percent in FY 2010."); United States Postal Service Office of the Inspector General Report, Flats Sequencing System: Program Status and Projected Cash Flow, July 27, 2010, at 10 (Report Number DA-AR-10-007) (projecting that the lower bound or worst case scenario for the FSS would be a return on investment of 14.25 percent without transitional employees and 26.9 percent with transitional employees).

[74] *See* FY 2009 ACD at 75; FY 2010 ACD at 94; FY 2011 ACD at 105-106; FY 2012 ACD at 95-97; FY 2013 ACD at 44-45; FY 2014 ACD at 40-41; FY 2015 ACD at 50-51; FY 2016 ACD at 47-48.

2. USPS Marketing Mail Flats

a. Introduction

In FY 2017, USPS Marketing Mail Flats had a cost coverage of 74.0 percent.[75] As shown in Table III-5, cost coverage for USPS Marketing Mail Flats has steadily declined since FY 2013, when the cost coverage was 85.1 percent. In FY 2017, USPS Marketing Mail Flats had the lowest reported cost coverage during the PAEA era. The total contribution for USPS Marketing Mail Flats in FY 2017 decreased $50.8 million from FY 2016 to an all-time low of -$668.9 million.

Table III-5
USPS Marketing Mail Flats Cost Coverage and Contribution, FY 2008–FY 2017

Fiscal Year	Cost Coverage	Contribution (millions)
FY 2008	94.4%	-$217.8
FY 2009	82.1%	-$615.6
FY 2010	81.8%	-$577.0
FY 2011	79.5%	-$643.2
FY 2012	80.9%	-$527.9
FY 2013	85.1%	-$375.9
FY 2014	83.2%	-$411.0
FY 2015	80.3%	-$520.0
FY 2016	79.4%	-$618.1
FY 2017	74.0%	-$668.9
Total		-$5,175.5

Source: Library Reference PRC–LR–ACR2017/4.

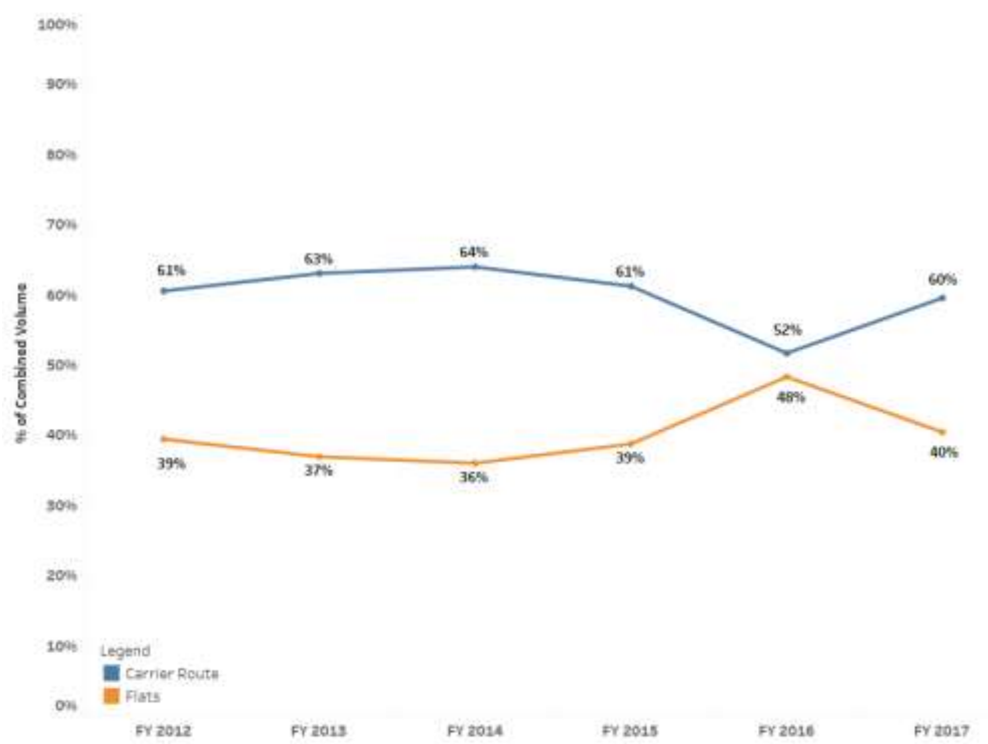
The Postal Service ascribes the decrease in cost coverage to an increase in attributable cost per piece of almost 10 percent since FY 2016, which overshadowed a 2.4 percent increase in revenue per piece. FY 2017 ACR at 15. The Postal Service explains that the increase in attributable cost per piece is due to the migration of approximately 1 billion USPS Marketing Mail Flats to the Carrier Route product.[76] *Id.* at 33. This migration was a reversal of the migration of Carrier Route Flats to USPS Marketing Mail Flats that occurred after the introduction of FSS prices in FY 2016. FY 2016 ACD at 48. Figure III-2 illustrates the migration of Carrier Route Flats into and out of USPS Marketing Mail Flats that occurred

[75] The Commission's cost coverage calculation differs from the Postal Service's calculation (73.9) because, unlike the Postal Service, the Commission includes fees in the revenue for each product.

[76] In FY 2016, there was a migration of Carrier Route Flats to the USPS Marketing Mail Flats product due to the implementation of FSS-specific prices. The existence of these prices contributed to more volume, a decreased unit cost per piece, and a decreased unit revenue per piece in FY 2016. In FY 2017, the Postal Service proposed, and the Commission approved, the elimination of FSS prices. Therefore, the volume, unit cost, and unit revenue data for FY 2016 reflect a different mail mix than previous and future volume, cost, and revenue data.

from FY 2015 to FY 2017. Prior to FY 2016, USPS Marketing Mail Flats represented less than 40 percent of combined Carrier Route and USPS Marketing Mail Flats volume, but in FY 2016, USPS Marketing Mail Flats represented nearly 50 percent of the combined volume. In FY 2017, USPS Marketing Mail Flats returned to representing approximately 40 percent of combined Carrier Route and USPS Marketing Mail Flats volume.

Figure III-2
USPS Marketing Mail Flats and Carrier Route Volume, FY 2012–FY 2017



Source: Library Reference PRC–LR–ACR2017/4.

The unit contribution for USPS Marketing Mail Flats declined from -9.7 cents in FY 2016 to -13.5 cents in FY 2017. FY 2017 ACR at 13. Despite a large decrease in volume, the Postal Service reports that total negative contribution increased to $-668.9 million. *Id.* at 35.

In its review of the financial performance of USPS Marketing Mail Flats for FY 2017, the Commission must consider whether the Postal Service complied with its FY 2010 ACD directive regarding USPS Marketing Mail Flats. Below, the Commission discusses the directive, as well as comments received concerning the financial performance of USPS Marketing Mail Flats for FY 2016. In Chapter 6 of this Report, the Commission discusses the status of the reporting required by Chapter 6 of the FY 2015 ACD and further action regarding USPS Marketing Mail Flats.

b. FY 2010 ACD Directive for USPS Marketing Mail Flats

In the FY 2010 ACD, the Commission determined that USPS Marketing Mail Flats prices in effect in FY 2010 did not comply with 39 U.S.C. § 101(d) and directed the Postal Service to increase the product's cost coverage through a combination of above-average price adjustments, consistent with the price cap requirements, and cost reductions, until such time that revenue exceeded attributable cost. FY 2010 ACD at 106. In addition, the Commission directed the Postal Service to provide the following information in each of its subsequent ACRs:

- A description of operational changes designed to reduce flats costs in the previous fiscal year and an estimation of the financial effect of such changes
- A description of all costing methodology or measurement improvements made in the previous fiscal year and the estimated financial effects of such changes
- A statement summarizing the historical and current fiscal year subsidy of the Flats product, and the estimated timeline for phasing out this subsidy

Id. at 107.

The Postal Service appealed the Commission's FY 2010 ACD findings and directive.[77] The court rejected the Postal Service's contention that the Commission acted outside of the scope of its statutory authority by considering the general standards of 39 U.S.C. § 101(d) in an ACD "at least in extreme circumstances." *Id*. at 1108. The court remanded the case to the Commission "for a definition of the circumstances that trigger [section] 101(d)'s failsafe protection, and for an explanation of why the particular remedy imposed here is appropriate to ameliorate that extremity…." *Id*. at 1109. In response, the Commission issued Order No. 1427, clarifying that its analysis of the circumstances that would trigger 39 U.S.C. § 101(d) depended on the totality of circumstances.[78]

In its FY 2012, FY 2013, and FY 2014 ACDs, the Commission found that the Postal Service made progress towards addressing the issues raised in the FY 2010 ACD and concluded that no additional remedial actions beyond those prescribed in the FY 2010 directive were required. *See* FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 47.

In FY 2015, the Commission found that sufficient progress was no longer being made and required that the Postal Service develop a plan to measure, track, and report on cost and service issues related to flat-shaped products. FY 2015 ACD at 181. The response to that FY 2015 directive is discussed in more detail in Chapter 6 of this Report. In FY 2016, the Commission found that no progress was being made toward addressing the FY 2010 ACD directive. FY 2016 ACD at 57.

[77] *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105 (D.C. Cir. 2012).

[78] Docket No. ACR2010-R, Order on Remand, August 9, 2012, at 4 (Order No. 1427).

c. Response to FY 2010 ACD Directive

In its FY 2017 ACR, the Postal Service reports that it plans to increase USPS Marketing Mail Flats prices by at least the consumer price index multiplied by 1.05 in the next general Market Dominant price change. FY 2017 ACR at 24.

The Postal Service provides some of the information required by the Commission's FY 2010 ACD directive: a description of operational changes designed to reduce USPS Marketing Mail Flats costs; a description of all costing methodology changes made in FY 2016 that affect USPS Marketing Mail Flats costs; and the historical and current fiscal year subsidy of the USPS Marketing Mail Flats product. *Id.* at 23-35. The Postal Service avers it is not able to provide an estimated timeline for phasing out the subsidy.[79]

(1) Operational Changes Designed to Reduce Flats Cost

The Postal Service describes four ongoing operational steps taken during FY 2017 designed to make processing USPS Marketing Mail Flats more efficient: Bundle Operation; Service Performance Diagnostics Tool; Lean Mail Processing; and Reduce Bundle Breakage. FY 2017 ACR at 25-31. In addition, in its Responses to CHIR No. 5, the Postal Service provided the FSS Scorecard. *See* Responses to CHIR No. 5, question 1.

The Postal Service maintains that these initiatives are expected to improve efficiencies and productivities, as well as reduce overall USPS Marketing Mail Flats cost. FY 2017 ACR at 25. However, the Postal Service is unable to quantify any specific cost reductions associated with these operational changes. *Id*. at 26.

(2) Costing Methodology Changes in FY 2016

The Postal Service describes three costing methodology changes that affected USPS Marketing Mail Flats costs in FY 2017. *Id.* at 31-32. First, in Docket No. RM2016-12, the Postal Service proposed, and the Commission approved, a change to the Capacity Variability for Purchased Highway Transportation Costs. *Id.* at 31. Second, in Docket No. RM2017-8, the Postal Service proposed a change to City Carrier Street Time Parcel Proportions. *Id.* The Postal Service estimates that the combined impact of these two changes was to decrease total attributable costs for USPS Marketing Mail Flats by $45 million. *Id.* Finally, the Postal Service discusses the inclusion of inframarginal costs in attributable costs. *Id.* at 32. The Postal Service estimates that the inclusion of inframarginal costs increased attributable costs by $14 million. *Id*.

In addition to the costing methodology changes, the Postal Service discusses the impact of the removal of FSS prices from the USPS Marketing Mail Flats product. FY 2017 ACR at 32-34. The Postal Service explains that, from FY 2015 to FY 2016, Carrier Route pieces that migrated from the Carrier Route product to the Flats product likely reduced the unit cost of USPS Marketing Mail Flats in FY 2016. *Id.* at 33. The Postal Service further explains that this

[79] *See* Responses of the United States Postal Service to Questions 1-10 of Chairman's Information Request No. 5, January 26, 2018, question 4 (Responses to CHIR No. 5).

migration was reversed in FY 2017, which likely resulted in an increase in unit attributable cost for USPS Marketing Mail Flats. *Id.* at 34.

(3) Historical and Current Fiscal Year Subsidies

The Postal Service provides the historical and current fiscal year subsidy of the USPS Marketing Mail Flats product. *Id*. at 34. However, the Postal Service does not provide a timeline for phasing out the subsidy and asserts that it is difficult to predict when the shortfall for the product will be phased out. Responses to CHIR No. 5, question 3.

d. Comments on USPS Marketing Mail Flats

The Commission received comments from the American Catalog Mailers Association (ACMA),[80] the Association for Postal Commerce (PostCom),[81] and the Public Representative[82] regarding the financial performance of USPS Marketing Mail Flats in FY 2017. The Postal Service, PostCom, and Valpak[83] filed reply comments related to USPS Marketing Mail Flats.[84] The comments generally address USPS Marketing Mail Flats cost coverage and compliance with the Commission's USPS Marketing Mail Flats FY 2010 ACD directive.

(1) USPS Marketing Mail Flats Cost Coverage

ACMA states that if the commercial portions of Carrier Route and USPS Marketing Mail Flats were combined, the resulting cost coverage would have been 100.7 percent in FY 2017, down from 105.1 percent in FY 2016. ACMA Comments at 2. Using this metric, ACMA argues that catalogs cover their costs. *Id*. ACMA also asserts that USPS Marketing Mail Flats are a residual category for catalog mailers, and "[u]sing price-cap authority on volumes trending downward does not result in the revenues expected." *Id*. at 8 (footnote omitted).

Both the Postal Service and Valpak[85] filed comments in Response to ACMA. The Postal Service states that it will consider ACMA's applicable points on flat-shaped product similarities when setting its prices. Postal Service Reply Comments at 5. In its reply comments, Valpak asserts that the USPS Marketing Mail Flats product must be evaluated on its own. Valpak Reply Comments at 2. Valpak states that "there is no assurance and no basis to believe that any cost reduction efforts would be successful." *Id*. at 8. Therefore, Valpak contends that the Commission has the tools to adjust USPS Marketing Mail Flats prices through the ACR. *Id*.

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[80] Initial Comments of the American Catalog Mailers Association, February 1, 2018 (ACMA Comments).

[81] Comments of the Association for Postal Commerce, February 1, 2018 (PostCom Comments).

[82] Public Representative Comments, February 1, 2018 (PR Comments).

[83] The Valpak Franchise Association, Inc. Reply Comments on the United States Postal Service FY 2017 Annual Compliance Report, February 12, 2018 (Valpak Reply Comments).

[84] Postal Service Reply Comments; PostCom Reply Comments.

[85] Valpak suggests that the Commission evaluate the reasonableness of USPS Marketing Mail Flats using the metric from Order No. 4257. Valpak Reply Comments at 3-6. The Commission discusses that suggestion in the "Other Issues" section of this Chapter.

(2) Compliance with the Commission's USPS Marketing Mail Flats FY 2010 ACD Directive and Flats Cost

The Public Representative, Postcom, and ACMA filed comments regarding the pricing and cost directives related to USPS Marketing Mail Flats. The Public Representative notes that the Postal Service's scheduled rate increases "provide a necessary component of the Postal Service's broader strategy to stabilize the cost coverage" of USPS Marketing Mail Flats. PR Comments at 34. Regarding the USPS Marketing Mail Flats costs, she states that she "cannot conclude that the Postal Service has not complied with Commission directives to report on the impact of its operational initiatives to reduce USPS Marketing Mail Flats cost." *Id*.

PostCom highlights the growth of the USPS Marketing Mail Flats revenue shortfall and reiterates its concern from FY 2016 about the Postal Service's inability to determine the impact of operational decisions on costs. PostCom Comments at 7-8.

ACMA asserts that the Commission should not direct the Postal Service to increase USPS Marketing Mail Flats prices due to issues in costs related to mail mix changes, lost economies of scale, anomalies in delivery times, and increases in the costs for transportation, labor and equipment. ACMA Comments at 5-7, 9-15, 20.

In its reply comments, Valpak contends that USPS Marketing Mail Flats remain noncompliant, and the annual negative contribution will continue if the FY 2010 ACD Directive is left unchanged. Valpak Reply Comments at 2-3. Valpak states that it would extend the application of analytical tools in Order No. 4257 to question the reasonableness of USPS Marketing Mail Flats rates. *Id*. at 3-4. Specifically, Valpak contends rates for USPS Marketing Mail Flats were not reasonable because they threatened the financial integrity of the Postal Service. *Id*. at 4. Valpak asserts that the Commission should address the reasonableness of USPS Marketing Mail Flats rates in this proceeding rather than waiting for the conclusion of the ongoing proceeding in Docket No. RM2017-3.[86]

The Postal Service replies to comments from ACMA and PostCom regarding issues related to Flats costs. The Postal Service contends that Docket No. RM2018-1 is the appropriate docket to address flats costs. Postal Service Reply Comments at 5-6. The Postal Service also asserts that it is not indifferent to the effect of operations on Flats costs. *Id.*

e. Commission Analysis

The cost coverage for USPS Marketing Mail Flats was 74.0 percent in FY 2017. The FY 2017 cost coverage is now the lowest recorded cost coverage for USPS Marketing Mail Flats in the PAEA era. As shown in Table III-6, the significant increase in unit attributable cost resulted in a unit contribution of -13.5 cents in FY 2017, a 3.8 cent decline from FY 2016.

[86] *Id.* Valpak is correct that the Commission found rates for USPS Marketing Mail Flats unreasonable in Order No. 4257. The Commission has proposed a holistic solution for all underwater products in Docket No. RM2017-3. To the extent Valpak raises issues with the solutions presented in the proposed rules related to rates for USPS Marketing Mail Flats, those issues are more appropriate for Docket No. RM2017-3.

Table III-6
USPS Marketing Mail Flats Unit Contribution, FY 2008–FY 2017

Fiscal Year	Unit Revenue (cents)	Unit Attributable Cost (cents)	Unit Contribution (cents)
FY 2008	36.7	38.9	-2.2
FY 2009	36.9	44.8	-7.9
FY 2010	36.6	44.8	-8.2
FY 2011	36.8	46.3	-9.5
FY 2012	37.6	46.5	-8.9
FY 2013	38.4	45.2	-6.8
FY 2014	40.4	48.5	-8.1
FY 2015	40.2	50.1	-9.9
FY 2016	37.5	47.3	-9.7
FY 2017	38.5	52.0	-13.5

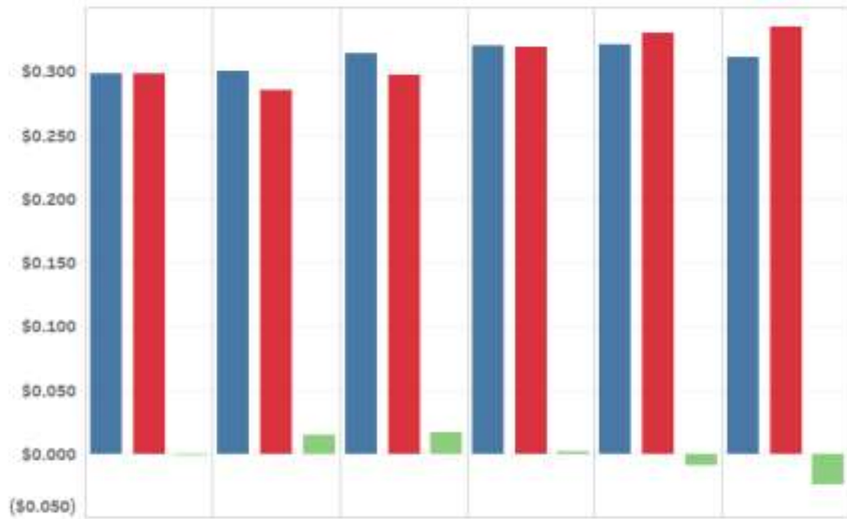
Source: Library Reference PRC–LR–ACR2017/4.

Two events affected both the unit revenue and unit cost in FY 2017. First, FY 2017 was the first full year without the exigent surcharge, which likely reduced unit revenue. Second, the migration of Carrier Route mail from the USPS Marketing Mail Flats product likely increased both unit revenue and unit attributable cost because the migrating pieces were the lowest price categories, which were also the least costly for the Postal Service to process.

The migration of mail volume between Carrier Route and USPS Marketing Mail Flats that occurred in FYs 2016 and 2017 results in imperfect comparisons of FY 2016 data to FY 2017 and other fiscal years. One way to normalize the data to better observe unit attributable cost, unit revenue, and unit contribution trends is to combine revenue, cost, and volume data for USPS Marketing Mail Flats and Carrier Route.[87] Figure III-3 illustrates a better comparison of cost, revenue, contribution, and volume changes over time because the influence of the migration between Flats and Carrier Route is eliminated when the data from the two products are combined.

[87] The Postal Service and commenters have asserted that these products share the same characteristics and the data could be combined for analysis. *See, e.g.,* ACMA Comments at 4; Docket No. ACR2010, *Annual Compliance Report*, December 29, 2010, at 31 n.10.

Figure III-3
Combined USPS Marketing Mail Flats and Carrier Route Unit Revenue, Unit Cost, and Unit Contribution, FY 2012–FY 2017



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Unit Revenue	$0.298	$0.300	$0.314	$0.320	$0.321	$0.311
Unit Cost	$0.298	$0.285	$0.297	$0.319	$0.330	$0.335
Unit Contribution	$0.000	$0.015	$0.017	$0.002	($0.009)	($0.024)

As shown in Figure III-3, the combined unit contribution from USPS Marketing Mail Flats and Carrier Route was negative for the second time in FY 2017. From FY 2016 to FY 2017 combined unit revenue decreased 3.1 percent and combined unit cost increased 1.5 percent. This analysis indicates that the Postal Service has been unsuccessful in its efforts to reduce cost and increase revenue in a way that improves cost coverage.

During FY 2017, the Postal Service continued to focus on and develop previous operational initiatives to make the processing of flats more efficient. FY 2017 ACR at 25-31; *see also* Responses to CHIR No. 5, question 6. The Postal Service continues to state that it is unable to estimate cost savings from any of its current or past operational initiatives. FY 2017 ACR at 26. Cost savings programs or initiatives generally target one or more specific activities to produce cost savings. As the Commission has stated in previous ACDs, the Postal Service's cost saving initiatives should have specific and measurable targets by which the benefits of the program can be evaluated. *See* FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 48; FY 2015 ACD at 64; FY 2016 ACD at 56, 171.

The Postal Service reports on metrics related to some operational initiatives. FY 2017 ACD at 25-31; Responses to CHIR No. 5, question 1. In FY 2017, some of these metrics improved while some deteriorated. Positive improvements include reducing the Work In Process cycle time for Flats from FY 2016 to FY 2017 and improving bundle breakage performance by 9.4 percent. FY 2017 ACR at 28, 30.

The metric associated with the FSS worsened in FY 2017. The FSS Scorecard shows that its three historic measures: (1) throughput per hour, (2) Delivery Point Sequence (DPS), and (3) Mail Pieces At-Risk, continued to worsen in FY 2017. In FY 2017, the Postal Service added an additional metric, "Leakage," which the Postal Service will use to identify "mailpieces that were FSS candidate pieces, but were processed on other automation equipment or dispatched to the delivery unit as working volume." Responses to CHIR No. 5, question 1. The Postal Service believes tracking "Leakage" will increase the DPS percent for FSS in future years. *Id.*

In FY 2017, the Postal Service also continued to evaluate its flats mail processing equipment and make changes to the equipment in its mail processing network. Specifically, it states that it adjusted the bundle sorting equipment by adding more bins to APBS and APPS machines[88] and adding new Small Package Sorter System and Automated Parcel and Bundle Sorter machines. FY 2017 ACR at 27. The Postal Service explains that the additional bundle sorting machines reduce the need for secondary sortation, which reduces extra handling. *Id.* The Postal Service also states that it removed 50 Automated Flats Sorting Machines 100 from its mail processing network. *Id.* The Postal Service also explains that both the volume and the efficiency declined on the AFSM 100, which led to the Postal Service's decision to remove 50 machines at specific facilities. *Id.* The Postal Service also continued its Lean Mail Processing (LMP) program to improve flats processing. *Id.* at 29. The Postal Service completed six LMP studies in FY 2017. *Id.*

In FY 2017, the Postal Service proposed, and the Commission approved, a price increase of 2.5 percent for USPS Marketing Mail Flats. *See* Order No. 3610 at 29. The cumulative shortfall in contribution for USPS Marketing Mail Flats from FY 2008 through FY 2017 has grown to $5.2 billion.

The Commission finds that, in FY 2017, no progress was made toward addressing the issues it raised in the FY 2010 ACD. Despite the Postal Service efforts to reduce flats costs through operational initiatives, unit costs increased substantially from FY 2016. The Commission understands that the migration of Carrier Route Flats played a significant role in the cost increase due to the migration of low cost pieces. However, even when Carrier Route and Flats data are combined, unit costs still increased and unit contribution decreased. The Postal Service must continue responding to the requirements of the FY 2010 ACD directive by proposing above-average price increases for USPS Marketing Mail Flats, striving to reduce USPS Marketing Mail Flats cost, and providing the required documentation of those efforts in future ACRs.

In Chapter 6, the Commission explains its continued concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flats. The Commission

[88] Despite the Postal Service's assertion that adding more bins results in reduced costs, the Postal Service is unable to provide an estimate of the cost reduction resulting from fewer secondary sorts in FY 2017. Responses to CHIR No. 5, question 4.

describes an ongoing rulemaking intended to develop metrics to measure, track, and report on initiatives related to reducing the costs of flats.

3. USPS Marketing Mail Parcels

In FY 2017, USPS Marketing Mail Parcels had a cost coverage of 64.5 percent,[89] down 0.1 percentage points from FY 2016. In FY 2017, USPS Marketing Mail Parcels' volume declined 9.3 percent, continuing a decline which started in FY 2013. Unit revenue fell by 3.7 percent and unit attributable cost decreased by 3.6 percent from the previous fiscal year. This resulted in a 0.02 cent increase in unit contribution from FY 2016 to FY 2017. The total contribution of USPS Marketing Mail Parcels in FY 2017 was -$25.8 million.

The Postal Service explains that the reductions in unit revenue and unit attributable cost are driven by a reduction in the average weight per piece from 6.1 ounces in FY 2016 to 5.6 ounces in FY 2017. FY 2017 ACR at 14.

a. Comments on USPS Marketing Mail Parcels

The Public Representative expresses concern about the cost coverage for USPS Marketing Mail Parcels. PR Comments at 28-29. The Public Representative avers that the Postal Service's claim that the decline in average parcel weight as a driver of "decreasing cost coverage is inadequately substantiated." *Id.* at 28. She recommends that the Commission require the Postal Service to provide a report that includes an analysis demonstrating the impact of Postal Service initiatives on USPS Marketing Mail Parcels cost decreases. *Id.* at 29. In its reply comments, the Postal Service asserts that it is not realistic to address issues for Parcels because the product only represents less than 1 percent of the volume of the USPS Marketing Mail Class. Postal Service Reply Comments at 7.

b. Commission Analysis

Table III-7 displays the unit revenue, unit attributable cost, unit contribution, volume, and average weight per piece for USPS Marketing Mail Parcels from FY 2013 to FY 2017. It shows that unit revenue and unit attributable cost decreased from FY 2016 to FY 2017.

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[89] The Commission's cost coverage calculation differs from the Postal Service's calculation because the Commission includes fees in the revenue for each product and the Postal Service does not.

Table III-7
USPS Marketing Mail Parcels Financial Comparison, FY 2013–FY 2017

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Percent Change FY 2013 to FY 2017	Percent Change FY 2016 to FY 2017
Unit Revenue	$1.034	$1.094	$1.086	$1.201	$1.156	11.8%	-3.7%
Unit Attributable Cost	$1.524	$1.557	$1.480	$1.860	$1.793	17.7%	-3.6%
Unit Contribution	-$0.489	-$0.464	-$0.393	-$0.659	-$0.637	-30.1%	3.4%
Volume	71,966,232	65,845,949	60,420,263	44,766,854	40,581,670	-43.6%	-9.3%
Average Weight Per Piece (ounces)	5.10	5.60	5.62	6.13	5.63	10.4%	-8.2%

Source: Library Reference PRC–LR–ACR2017/4.

Table III-7 also shows that in FY 2017 there was a decline in average weight per piece. From FY 2013 to FY 2016, there were consistent increases in average weight per piece. In FY 2017, this trend changed and there was an 8 percent decrease. Therefore, it is reasonable to conclude that average weight per piece was a driver of unit cost reductions and unit revenue reductions, which together resulted in a slight increase in unit contribution. However, the cost coverage for USPS Marketing Mail Parcels remains substantially below 100 percent.

The transfer of commercial parcels to competitive products in FY 2012 has been a factor in the cost coverage for the USPS Marketing Mail products since FY 2013. Table III-8 displays the distribution of commercial and nonprofit volumes for USPS Marketing Mail Parcels from FY 2012 and FY 2017. The proportion of nonprofit mail is 5.5 times greater in FY 2017 than FY 2012.

Table III-8
USPS Marketing Mail Parcels Commercial to Nonprofit Volume Distributions, FY 2012 and FY 2017

	FY 2012	FY 2012 Distribution	FY 2017	FY 2017 Distribution
Commercial Volume	285,925,057	94.2%	27,529,681	67.8%
Nonprofit Volume	17,633,585	5.8%	13,051,989	32.2%
Total Volume	**303,558,642**	**100.0%**	**40,581,670**	**100.0%**

Source: Library Reference PRC–LR–ACR2017/4.

Table III-9 displays the unit costs, revenue, and contribution for commercial and nonprofit USPS Marketing Mail Parcels. It shows unit cost of nonprofit mail is much higher than commercial mail ($2.41 compared to $1.50). Therefore, a higher proportion of nonprofit pieces leads to higher costs and lower revenues for the USPS Marketing Mail Parcels product.

Table III-9
USPS Marketing Mail Parcels Commercial to Nonprofit FY 2017 Unit Cost Comparison

	Volume	Revenue	Unit Revenue	Attributable Cost	Unit Cost	Unit Contribution
Commercial Parcels	27,530	27,046	$0.98	41,374	$1.50	($0.52)
Nonprofit Parcels	13,052	19,877	$1.52	31,391	$2.41	($0.88)
Parcels	**40,582**	**46,923**	**$1.1563**	**72,765**	**$1.79**	**($0.64)**

Source: Library Reference PRC–LR–ACR2017/4.

In FY 2012, the Commission approved the reclassification of some USPS Marketing Mail Parcels to the competitive product list.[90] Together, Tables III-8 and III-9 illustrate the effect of reclassification on the financial performance of USPS Marketing Mail Parcels since FY 2012.

To improve USPS Marketing Mail Parcels' cost coverage, the Postal Service states that it will continue proposing above-average price increases. FY 2017 ACR at 14. Most recently, in Docket No. R2018-1, the Commission approved a price increase for USPS Marketing Mail Parcels of 2.768 percent, 0.832 percentage points higher than the average price increase for USPS Marketing Mail of 1.936 percent. *See* Order No. 4215 at 37.

In the FY 2016 ACD, the Commission stated "the Postal Service should explore and implement opportunities to further reduce the unit cost of Standard Mail Parcels and report on those opportunities and results in the FY 2017 Annual Compliance Report." FY 2016 ACD at 59. The Postal Service did not undertake any specific efforts in FY 2017 to reduce USPS Marketing Mail Parcels costs. Responses to CHIR No. 5, question 5. The Postal Service explained that it has limited opportunities to achieve substantial cost improvements because of the product's small volume. *Id.*

[90] On March 2, 2011, the Commission conditionally approved the Postal Service's request to transfer commercial USPS Marketing Mail Parcels to the competitive product list. *See* Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial USPS Marketing Mail Parcels to the Competitive Product List, March 2, 2011 (Order No. 689). However, the Commission required a price adjustment as a condition of transfer. *See* Docket No. CP2012-2, Order Approving Changes in Rates of General Applicability for Competitive Products, December 21, 2011 (Order No. 1062). Because the new rates took effect on January 22, 2012, the data does not fully reflect the reclassification until FY 2013. *Id.* at 1.

The Commission finds that FY 2017 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable cost. The Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. In addition to above-average price increases, the Postal Service should expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels and report on those opportunities and results in the FY 2018 ACR.

4. Stamp Fulfillment Services

The Stamp Fulfillment Services (SFS) product provides for the fulfillment of stamp orders placed by mail, phone, fax, or online to the SFS Center in Kansas City, Missouri. It was added to the *Mail Classification Schedule* as a Market Dominant product in FY 2010. Cost has exceeded revenue and, consequently, cost coverage has been below 100 percent each year since its introduction. However, cost coverage has shown steady improvement each year. *See* Table III-10.

Table III-10
SFS Cost Coverage, FY 2013–FY 2017

Fiscal Year	Revenue (in Millions)	Attributable Cost (in Millions)	Cost Coverage
FY 2013	$4.1	$5.1	80.8%
FY 2014	$3.5	$4.3	82.3%
FY 2015	$3.9	$4.6	85.1%
FY 2016	$3.7	$4.3	87.3%
FY 2017	$3.9	$4.0	97.2%

Source: Library Reference PRC–LR–ACR2017/7..

SFS continues its upward trend towards 100 percent cost coverage, with FY 2017 representing the highest cost coverage for this product since its inception. The Postal Service states that it continues to agree with the FY 2012 ACD, which stated that SFS "promotes the objectives of reducing costs and increasing efficiency." FY 2017 ACR at 45 (quoting FY 2012 ACD at 142).

The Commission finds that FY 2017 revenue for SFS was not sufficient to cover attributable cost. However, the financial performance of SFS does not entirely capture the value that the Services Center adds to the Postal Service and to other Postal Service products. Although SFS does not cover its attributable cost, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. The Commission recognizes the continued progress of the Postal Service in reducing the cost of SFS and urges the Postal Service to continue its efforts.

5. Money Orders

The Money Orders product provides the customer with an instrument for payment of a specified sum of money, with a maximum value of $1,000. In FY 2017, Money Orders had a cost coverage of 97.4 percent, up from 91.1 percent in FY 2016. *See* Table III-11.

Table III-11
Money Orders Cost Coverage, FY 2013–FY2017

Fiscal Year	Revenue (in Millions)	Attributable Cost (in Millions)	Cost Coverage
FY 2013	$156.1	$103.3	151.2%
FY 2014	$165.3	$99.7	165.8%
FY 2015	$160.7	$105.1	152.9%
FY 2016	$156.4	$171.7	91.1%
FY 2017	$152.3	$156.4	97.4%

Source: Library Reference PRC–LR–ACR2017/7.

In the FY 2016 ACD, the Commission directed the Postal Service to investigate the accuracy of the incremental costing method with respect to mail processing costs attributed to Money Orders. FY 2016 ACD at 61. The Postal Service's investigation "determined that incremental costs had been overstated" and that "Money Orders would have covered its costs in FY 2017, except for another costing adjustment" that attributed debit card fees to Money Orders. FY 2017 ACR at 45.

Consequently, the Postal Service reports that it has begun reviewing its methodology for attributing debit card fees.[91] The Postal Service has developed a preliminary alternative distribution procedure, which it states is a "possible worthwhile candidate" for a permanent methodological change.[92] The Postal Service concludes that its revised approach "more accurately assigns debit card expenses to Money Orders than the method used in the 2017 ACR filing." *Id.* Nevertheless, the Postal Service's preliminary alternative procedure is not an approved methodology for attributing debit card fees.

The Commission finds that FY 2017 revenue for Money Orders was not sufficient to cover attributable cost. The Commission directs the Postal Service to continue its investigation into debit card fee attribution and update the Commission on its progress and any potential corresponding methodological changes within 90 days of the issuance of this ACD.

[91] Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 2, January 17, 2018, question 1 (Responses to CHIR No. 2).

[92] Supplemental Response of the United States Postal Service to Question 1.b of Chairman's Information Request No. 2, February 23, 2018, at 6.

6. Market Dominant International Mail

Market Dominant international mail is comprised of nine products: Inbound Letter Post, Outbound Single-Piece First-Class Mail International, International Ancillary Services, International Reply Coupon Service, International Business Reply Mail Service, Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, Inbound Market Dominant Exprès Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, and Inbound Market Dominant PRIME Tracked Service Agreement.

In FY 2017, Inbound Letter Post, International Ancillary Services, Inbound Market Dominant PRIME Tracked Service Agreement, and one agreement within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product did not cover their attributable costs.

a. Inbound Letter Post

(1) Background

Inbound Letter Post consists of international mail that originates in foreign countries and is delivered in the United States.[93] Foreign postal operators reimburse the Postal Service for delivering Inbound Letter Post items at prices, called terminal dues, which are set by the Universal Postal Union (UPU).[94]

(2) FY 2017 Financial Results

In FY 2017, revenue for Inbound Letter Post did not cover attributable cost. Cost coverage decreased from 66.4 percent in FY 2016 to 63.3 percent in FY 2017. FY 2016 ACD at 65; FY 2017 ACR at 8; Library Reference PRC–LR–ACR2017/NP2. Negative contribution increased from $134.5 million in FY 2016 to $170.0 million in FY 2017. FY 2016 ACD at 65; FY 2017 ACR at 8; Library Reference PRC–LR–ACR2017/NP2.

As it has in past years, the Postal Service states that it "does not independently determine the prices [paid by foreign postal operators] for delivering foreign origin mail" in the United States. FY 2017 ACR at 9. The Postal Service explains that these prices are set according to a UPU terminal dues formula established in the Universal Postal Convention. *Id.* According to the Postal Service, "[b]ased on outcomes at the UPU Istanbul Congress, the Postal Service expects significant increases in Inbound Letter Post terminal dues revenues based on the new Convention cycle effective in January 2018." *Id.* The Postal Service also points out that in Docket No. R2018-1, the Commission found that the prices for Inbound Letter Post would increase by 16.732 percent effective January 21, 2018. *Id.* The Postal

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[93] *Mail Classification Schedule*, Section 1130.1a. "Inbound Letter Post" refers to international mail that is not classified as Parcel Post or express mail (EMS and Global Express Guaranteed). It consists of mail items similar to domestic First-Class Mail, Periodicals, Standard Mail, BPM Flats/Parcels, and Media Mail/Library Mail, weighing up to 4.4 pounds (2 kilograms).

[94] The UPU is a United Nations specialized agency comprising 192 member countries, including the United States. Member countries negotiate international agreements governing the exchange of international mail, including applicable rates for the delivery of international mail. Terminal dues are also referred to as default UPU default rates, because they apply in the absence of an agreement between or among postal operators establishing other rates.

Service states that these upcoming price increases should substantially improve the cost coverage for Inbound Letter Post *Id.*

The decrease in cost coverage and increase in negative contribution for Inbound Letter Post in FY 2017 was, in large part, due to increases in mail processing, delivery, and "other" costs. The Postal Service identifies and discusses the factors that increased mail processing, delivery, and other costs for Inbound Letter Post in FY 2017 in response to CHIR No. 10, question 6. The Postal Service states that "[mail] processing, delivery and other costs are higher for Packets than for Letters and Flats. Between FY 2016 and FY 2017, Packet volume and weight increased by a material amount, while Letters and Flats volume and weight decreased."[95] Therefore, according to the Postal Service, the volume growth of higher cost small packets accounts for some of the increases in the mail processing, delivery, and other costs of Inbound Letter Post. *Id.*

The Postal Service further asserts that part of the increase in processing costs for Inbound Letter Post is likely due to the improved use of barcodes in the In-Office Cost System (IOCS) to assign costs to a specific product, which led to increased costs for mail preparation and platform and sack sorting operations. *Id.*

The Postal Service has improved the collection of accurate shaped-based data in recent years, and has begun developing costing models using this shape-based data.[96] However, the Postal Service states that the shape-based costs cannot be incorporated into the International Cost and Revenue Analysis (ICRA) without additional development, particularly in disaggregating indirect costs. *See id.* The Postal Service explains that it is currently investigating a shape-based approach to calculating and reporting Inbound Letter Post costs and plans to submit a rulemaking proposal to implement this approach during FY 2018. *Id.*

(3) Comments on Inbound Letter Post

The Small Business & Entrepreneurship Council (SBE Council) and the Public Representative commented on Inbound Letter Post. The SBE Council expresses concern regarding the "unbalanced consumer market" in which "foreign companies" are charged much lower rates than U.S. businesses by the Postal Service for deliveries within the United States. SBE Comments at 1. The SBE Council states that although terminal dues increased in January 2018, this price increase does little to correct the pricing imbalance between foreign and domestic mailers in light of increasing domestic shipping rates. *Id.* at 1-2. The SBE Council notes that the cost to ship a parcel from China to the east coast would be substantially less than shipping a similar parcel domestically using a Priority Mail Flat Rate box. *Id.* at 1.

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95 Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 10, February 2, 2018, question 6 (Responses to CHIR No. 10).

96 Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 18, February 20, 2018, question 1a., c (Responses to CHIR No. 18).

The Public Representative points out that Inbound Letter Post cost coverage has been declining each year since FY 2015 and is currently at its lowest level since before FY 2010. PR Comments at 23-24. She also notes that, although the product's volumes and revenue per piece increased in FY 2017 by 2.2 percent and 9.9 percent, respectively, the cost per piece increased by 15.5 percent. *Id.* at 24.

The Public Representative "does not believe that a 16.732 percent increase in prices will be sufficient in itself to bring Inbound Letter Post cost coverage to over 100 percent." *Id.* at 26. She agrees with the concern that the Commission expressed in the FY 2016 ACD that the current pricing regime for Inbound Letter Post, which is based on the UPU formula, continues to result in noncompensatory terminal dues and leads to the subsidization of foreign mailers by domestic mailers. *Id.* However, she concludes that Inbound Letter Post is not out of compliance with chapter 36 of Title 39 due to the Postal Service's limited ability to raise Inbound Letter Post prices sufficiently to cover costs. *Id.*

The Postal Service contends that the Public Representative also should have considered the volume and revenue for supplemental UPU remuneration for signature confirmation and tracking on registered items as well as for bilateral market dominant NSAs and the PRIME multilateral market dominant NSAs in her analysis of the Inbound Letter Post product. Postal Service Reply Comments on Inbound Letter Post at 2. This would be in addition to volume and revenues reported in the Inbound Single-Piece First-Class Mail International category of the Cost and Revenue Analysis (CRA) report,[97] which represents one subset of data related to inbound single-piece mail.[98] The Postal Service asserts that by limiting her analysis to the volume and revenue for the Inbound Letter Post product, the Public Representative's evaluation is incomplete.[99]

The Postal Service also states that the Commission should consider Outbound Single-Piece First-Class Mail International volume and revenue when reviewing compliance of the Inbound Letter Post product. *Id.* at 4-5. It asserts that the Commission should consider the benefits of U.S. participation in the UPU to domestic consumers and businesses, including benefits associated with the ability to send mail internationally and from investment in the United States postal system as a whole with the revenue earned from the Outbound Single-Piece First-Class Mail International product. *Id.* at 4-6.

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[97] In the CRA report, "Inbound Single-Piece First-Class Mail International" refers to the Inbound Letter Post product.

[98] *Id.* "Inbound single-piece mail" refers to mailpieces sent under the Inbound Letter Post product and the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product, as well as mailpieces received under the Inbound Market Dominant Exprès Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, and Inbound Market Dominant PRIME Tracked Service Agreement products.

[99] *Id.* at 3. The Postal Service states that, presumably, the Commission considers each negotiated service agreement as a "product" to prevent the Postal Service from entering into financially unfavorable agreements. *Id*. The Postal Service argues, however, that this rationale does not "work well for" negotiated service agreements for inbound single-piece mail because, up until CY 2018, bilateral agreements were used for increased prices in exchange for supplemental services, and not for price discounting. *Id.*

The Postal Service contends that the SBE Council's comparison of Inbound Letter Post terminal dues with Priority Mail Flat Rate Box pricing represents a "misunderstanding of postal operations and services and a lack of awareness regarding differences in the features and shipping conditions for international and domestic products and services." *Id.* at 6. The Postal Service notes that domestic products include more features than international products and require more processing and handling by the Postal Service, which results in higher costs for the Postal Service. *Id.*

(4) Commission Analysis

The Postal Service argues that analysis of the Inbound Letter Post product should include a review of supplemental UPU remuneration and NSA volume and revenue associated with the Inbound Letter Post product. Postal Service Reply Comments on Inbound Letter Post at 2-4.

The Commission has consistently evaluated compliance at the product level because products, by definition, reflect distinct cost or market characteristics to which a rate or rates are applied. 39 U.S.C. § 102(6). To the extent the Postal Service believes products should be classified differently, the Commission notes that an ACD proceeding is not the appropriate venue for such requests.

In reviewing the Inbound Letter Post product, the Commission acknowledges that the UPU terminal dues that took effect in January 2018 were price increases. However, resulting improvements in negative contribution and cost coverage in FY 2018 will depend on several factors. These factors include changes in volume, costs, the proportion of small packets to letters and flats in each country-specific mail flow, and the Special Drawing Right (SDR)/U.S. dollar exchange rate.[100]

The Commission reiterates its concern that the UPU pricing regime for the Inbound Letter Post product continues to result in noncompensatory terminal dues. As a result, domestic mailers are subsidizing the entry of Inbound Letter Post by foreign postal operators who use the same postal infrastructure but bear none of the burden of contributing to its institutional costs. Because UPU terminal dues are not equivalent to domestic postage rates in the destination country, the Commission considers them discriminatory. Copenhagen Economics quantified the impact of the UPU terminal dues negotiated at the 2016 UPU Congress that took effect in January 2018.[101] It concluded that these rates would result in a

[100] A SDR is a reserve asset that the International Monetary Fund (IMF) created to serve as a unit of account for the IMF and some international organizations, including the UPU. Its value is based on a basket of five major currencies: the U.S. dollar, the Euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. On March 8, 2018, the IMF exchange rate for one SDR was $1.4529 U.S. dollars. *See http://www.imf.org/external/np/fin/data/rms_five.aspx*.

[101] *See* Copenhagen Economics, Terminal Dues: Impact on financial transfers among designated postal operators of the Universal Postal Union 2018-2021 cycle agreements, September 22, 2017 (available at*: https://www.prc.gov/sites/default/files/reports/Terminal%20Dues_Impact%20on%20financial%20transfers_FINAL%2022%20September%202017.pdf*).

global net financial transfer among designated postal operators that ranges from 2.1 billion to 2.4 billion SDR in 2018 to 2.8 billion to 4 billion SDR in 2021.[102]

The Commission finds that FY 2017 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission directs the Postal Service, within 90 days, to submit an update on its collection of accurate shaped-based data, and development of costing models for Inbound Letter Post using this shape-based data if it has not yet filed a rulemaking proposal to implement shape-based costing for Inbound Letter Post in the Domestic Processing Model and the ICRA.

The Commission recommends that the Postal Service identify and implement operational strategies to lower costs for Inbound Letter Post in FY 2018, particularly the costs for small packets. The Commission also recommends that the Postal Service continue to pursue compensatory terminal dues in the UPU and to pursue bilateral agreements that contain rates for UPU letter post mail that are more compensatory than UPU terminal dues.

b. Quality of Service Link to UPU Terminal Dues

(1) Background

The Postal Service did not maximize revenue for Inbound Letter Post in FY 2017. Under the UPU Quality Link Measurement System (QLMS), terminal dues can be adjusted downward if service performance does not achieve the UPU-established annual service performance target; they can also be adjusted upward if the Postal Service achieves or exceeds the target. In FY 2017, the Postal Service did not achieve the annual target.[103] The Postal Service also reported the amount of its forfeited revenue due to not meeting the UPU service performance target. *Id.,* question 4.

In Calendar Year (CY) 2017, the Postal Service's service performance for Inbound Letter Post under QLMS decreased from CY 2016. Because service performance declined and volumes increased, the amount of forfeited revenue increased as compared to CY 2016. *Id.*

However, in the FY 2017 ACR, the Postal Service reports that its service performance for Inbound Letter Post improved from 81.4 percent in FY 2016 to 85.5 percent in FY 2017. FY 2017 ACR at 52. The service performance results that the Postal Service cites in the FY 2017 ACR reflect the results of its International Mail Monitoring System (IMMS), not QLMS. The Postal Service explains that IMMS and QLMS differ with respect to the third party conducting the sampling, the mail flow measured, the measurement period, the geographical area measured, the means of measurement, and the calculation of performance. Responses to CHIR No. 5, question 8.

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[102] A global net financial transfer is the difference between the actual compensation that designated postal operators receive from delivering inbound cross-border letter mail at UPU terminal dues and the compensation that they would require in a situation without the UPU terminal dues system in place (*i.e.*, domestic postage rates).

[103] Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 1, January 12, 2018, question 4 (Responses to CHIR No. 1); *see id.*, questions 2 and 3.

The Postal Service notes that even though CY 2017 (year-to-date[104]) service performance for Inbound Letter Post measured in QLMS decreased from CY 2016, it improved compared to CY 2015. Responses to CHIR No. 5, question 7.

The Postal Service explains that the CY 2017 performance results could have been affected by miscommunication that resulted in the Postal Service prematurely ending its relationship with the International Post Corporation (IPC) as provider for QLMS measurement at the start of 2017 without arranging for an alternative provider to begin sampling. *Id*. The Postal Service states that, although there was "no provider or valid sample size information from January through the first week of March 2017, the International Post Corporation had some results for January and February."[105] The Postal Service further explains that because the number of samples increased during the remainder of the calendar year, the annual total was based on a statistically valid sample size. *Id.*

In addition to the change in service provider, the Postal Service cites the following reasons for the decline in service performance:

- high volume of Inbound Letter Post letters and flats comingled with small packets negatively affected mail processing flows because small packets are processed in separate facilities;
- reallocation of mail processing equipment from an International Service Center to a domestic processing facility; and
- natural disasters such as hurricanes and wildfires impacted operations from late August to the end of October.

Responses to CHIR No. 5, question 7.

(2) Commission Analysis

In the FY 2016 ACD, the Commission directed the Postal Service to provide a report on Inbound Letter Post service performance as part of the FY 2017 ACR. FY 2016 ACD at 68. This report was to include monthly service performance reports for Inbound Letter Post, aggregations of weekly failure reports, an analysis of the failures, and steps being taken to improve service performance. The Postal Service provided this information for IMMS under seal in the FY 2017 ACR. *See* Library Reference USPS–FY17–NP30.

The Commission notes that the QLMS results, not the IMMS results, determine whether the Postal Service will receive lower or higher terminal dues based on its service performance.

[104] The Commission notes that due to time lags in data reporting, the Postal Service was only able to provide data from January 2017 through November 2017 in the FY 2017 ACR.

[105] Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 14, February 12, 2018, question 1 (Responses to CHIR No. 14).

Therefore, citing improvements in IMMS results and not the decline in QLMS results does not address the concerns that the Commission expressed in past ACDs regarding forfeited revenue for Inbound Letter Post. *See* FY 2016 ACD at 67-68.

Additionally, the Commission is concerned about the reliability of the CY 2017 service performance results reported in QLMS. The Postal Service indicates that the results for January and February were not statistically valid. Responses to CHIR No. 14, question 1. Because the annual total is statistically valid, however, the overall performance results and resulting penalties are likely to be reliable and accurate.

The Commission concludes that the Postal Service's service performance for Inbound Letter Post declined in FY 2017. As a result of decreased service performance and increased Inbound Letter Post volume in FY 2017, the Postal Service forfeited more revenue than in FY 2016 for not meeting the UPU service performance target.

The Commission directs the Postal Service to provide both IMMS and QLMS CY 2017 and CY 2018 performance reports for Inbound Letter Post, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve service performance in the FY 2018 ACR.

c. International Ancillary Services

(1) Background

International Ancillary Services consists of International Certificate of Mailing, International Registered Mail, International Return Receipt, and Customs Clearance and Delivery Fee. *Mail Classification Schedule*, Section 1510. In FY 2017, International Ancillary Services had a cost coverage of 86.2 percent, and, therefore, did not cover its attributable cost. FY 2017 ACR at 43. This failure to cover cost, which resulted in a negative contribution of $5.7 million, was due to the negative contribution from International Registered Mail. FY 2017 ACR at 43-44. International Ancillary Services covered its attributable cost as a whole in FY 2016 even though International Registered Mail did not. FY 2016 ACD at 70.

The Postal Service states that "International Ancillary Services would have covered its attributable costs in FY 2017 but for a loss on Inbound Registered Mail." FY 2017 ACR at 44. The rate for International Registered Mail is set by the UPU. The Postal Service notes that the additional payment per item for International Registered Mail increased from 0.69 SDR in CY 2017 to 1.1 SDR in CY 2018, which should help to improve cost coverage.[106]

The Postal Service further states that it participates in the voluntary supplementary remuneration for inbound registered items, which should also lead to additional revenue. FY 2017 ACR at 44. In addition, the Postal Service indicates that more foreign postal

[106] *Id.* While the Postal Service indicates that the CY 2017 rate for registered items is 0.69 SDR, it is 0.67 SDR. Universal Postal Convention, Article 29.8, effective CY 2014 to CY 2017.

operators became parties to the Inbound Market Dominant Registered Service Agreement 1, which creates a separate revenue source associated with registered mail from postal operators that exchange mailpieces under this agreement.[107] The Postal Service notes that it began reporting the revenue from the Inbound Market Dominant Registered Service Agreement 1 separately from International Registered Mail, which may explain the decrease in unit revenue for International Registered Mail. Response to CHIR No. 3, question 3.

The Postal Service provides two reasons why unit cost increased for International Registered Mail. First, the Postal Service states that cost decreased less than volume decreased and one reason for this is because "most of the costs are in Delivery which has less than 100 percent volume variability." *Id.* Second, the Postal Service suggests that a costing methodology change could have contributed to the increased unit cost. *Id.* The Postal Service also states that due to the small IOCS sample size, the coefficient of variation for International Registered Mail is 13 percent, meaning "the cost coverage would range from 13 percentage points below the current point estimate to 21 percentage points higher." *Id.*, question 4.

(2) Comments on International Registered Mail

The Public Representative points out that the Postal Service provided the same rationale for the failure of International Registered Mail to cover its attributable cost in the FY 2016 ACR. PR Comments at 44; *see* FY 2016 ACR at 62-63. The Public Representative recommends that the Commission ask the Postal Service to report on why its strategy does not appear to be working. PR Comments at 44.

The Postal Service notes that the increase in the additional payment per item for International Registered Mail between CY 2017 and CY 2018, from 0.69 SDR to 1.1 SDR, is significantly greater than the increase that occurred between CY 2016 and CY 2017. Postal Service Reply Comments at 10.

The Postal Service also notes that it already provided the additional information requested by the Public Representative. *Id.* Specifically, the Postal Service states that it provided information concerning factors that contributed to the decrease in unit revenue cost and the increase in unit cost for International Registered Mail from FY 2016 to FY 2017. *Id.*

(3) Commission Analysis

The Commission finds that the 64.2 percent price increase in the UPU registered mail rate in CY 2018 should result in compensatory cost coverage for International Registered Mail

[107] *Id.* In the FY 2016 ACD, the Commission urged the Postal Service to promote greater participation by foreign postal operators in the Inbound Market Dominant Registered Service Agreement, noting that it provides more compensatory prices for registered mail from participating foreign postal operators. FY 2016 ACD at 70.

and International Ancillary Services in FY 2018.[108] This 64.2 percent price increase is far greater than the 2.8 percent price increase in the UPU registered mail rate in CY 2017.[109]

The Commission finds that in FY 2017, International Ancillary Services did not cover its attributable cost due to the failure of International Registered Mail to cover its attributable cost. The Commission urges the Postal Service to continue to promote greater participation by foreign postal operators in the Inbound Market Dominant Registered Service Agreement 1, which provides more compensatory remuneration for registered mail from participating foreign postal operators. The Commission also recommends that the Postal Service identify and implement ways to reduce costs for International Registered Mail.

7. Market Dominant International Products Consisting of NSAs

a. Background

As an alternative to default UPU rates, the Postal Service may enter into bilateral NSAs with foreign postal operators that include negotiated rates for some or all Inbound Letter Post items. *See Mail Classification Schedule*, Section 1602. These negotiated rates are generally higher than the default UPU terminal dues.

The Postal Service reports financial results for four inbound international products that consist of NSAs: Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, Inbound Market Dominant Exprès Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, and Inbound Market Dominant PRIME Tracked Service Agreement. All are included on the market dominant product list.

The statutory test for compliance of Market Dominant NSAs is found in 39 U.S.C. §§ 3622(c)(10)(A)(i) and (ii), and requires that the Commission determine whether such NSAs improve the net financial position of the Postal Service or enhance operational performance. The Commission compares the cost coverage for each NSA at negotiated rates with the cost coverage at UPU terminal dues to make the determination of net financial benefit.

During FY 2017, the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product was comprised of nine bilateral agreements with six foreign postal operators: the Australian Postal Corporation (Australia Post), Canada Post Corporation (Canada Post), China Post Group, Hongkong Post, Korea Post, and Royal PostNL.[110] For FY 2017, the Postal Service reports that these NSAs, collectively, maintained

[108] This assumes that there is no significant change in volume or attributable cost and no significant change in cost coverage for other sub-products within the International Ancillary Services product.

[109] The rate for Inbound Registered Mail in CY 2016 was 0.652 SDR, as compared to 0.670 SDR in CY 2017. Universal Postal Convention, Article 29.8, effective CY 2014 to CY 2017.

[110] Royal PostNL is the postal operator of the Netherlands.

a cost coverage above 100 percent; however, the NSA with Royal PostNL failed to cover its attributable cost. FY 2017 ACR at 48. This agreement expired on December 31, 2016. *Id.*

In the FY 2016 ACD, the Commission requested that in future ACR filings the Postal Service provide financial documentation demonstrating that noncompensatory bilateral agreements improve the net financial position of the Postal Service over UPU default terminal dues. FY 2016 ACD at 69. The financial results show that cost coverage at the negotiated rates for all nine agreements, including the agreement with Royal PostNL that did not cover its attributable cost, exceeded cost coverage at UPU default rates. These results confirm that all NSAs within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product improved the Postal Service's net financial position. In FY 2017, the Inbound Market Dominant Exprès Service Agreement 1 and the Inbound Market Dominant Registered Service Agreement 1 products covered their attributable costs and improved the Postal Service's net financial position.

(1) Comments on International Market Dominant NSAs

No participants filed comments on Market Dominant international products consisting of NSAs.

(2) Commission Analysis

The FY 2017 financial results for the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product appear to advance the Postal Service's strategy, discussed in previous ACRs, of negotiating bilateral NSAs with some of the larger foreign postal operators that exchange inbound international mail items with the Postal Service.[111] These bilateral NSAs within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product benefit the Postal Service because the rates negotiated in the agreements are higher than the default UPU terminal dues.

In FY 2017, the Inbound Market Dominant PRIME Tracked Service Agreement product neither covered its attributable cost nor improved the Postal Service's net financial position. Under the Inbound Market Dominant PRIME Tracked Service Agreement, the Postal Service can receive supplementary remuneration from other participating foreign postal operators, in addition to UPU terminal dues, for meeting specified service performance criteria for tracked letter post items. In the FY 2017 ACR, the Postal Service failed to report that the Inbound Market Dominant PRIME Tracked Service Agreement product did not cover its attributable cost or improve the Postal Service's net financial position or operational performance. *See* FY 2017 ACR at 48.

The Postal Service confirmed the accuracy of the volume and revenue of the Inbound Market Dominant PRIME Tracked Service Agreement product that it provided under seal. Responses to CHIR No. 1, question 5. The Postal Service also explained why actual volume and revenue differed from the volume and revenue estimates that the Postal Service

[111] Docket No. ACR2012, *Annual Compliance Report*, December 28, 2012, at 17 (FY 2012 ACR).

provided in Docket No. R2017-3. *Id*. The Postal Service provided its response under seal. *Id*.; Library Reference USPS–FY17–NP31, Preface.

The Postal Service filed revised financial workpapers for the Inbound Market Dominant PRIME Tracked Service Agreement to reflect the actual FY 2017 volume, revenue, and cost data from participating countries. Responses to CHIR No. 5, question 9. The Postal Service provided details regarding the expected improvements to its net financial position to reflect actual data. *Id.* The Postal Service's responses indicate that Inbound Market Dominant PRIME Tracked Service Agreement product did not cover cost or improve the net financial service position or operations of the Postal Service. *See* Responses to CHIR No. 5, question 9.

The Commission finds that the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, Inbound Market Dominant Exprès Service Agreement 1, and Inbound Market Dominant Registered Service Agreement 1 products satisfy 39 U.S.C. § 3622(c)(10). The Commission finds that the Inbound Market Dominant PRIME Tracked Service Agreement product did not meet the criteria of 39 U.S.C. § 3622(c)(10). The Commission directs the Postal Service to encourage more countries to participate in the Inbound Market Dominant PRIME Tracked Service Agreement, as more volume exchanged within this agreement should improve cost coverage. In addition, in 90 days, the Postal Service shall file revised financial workpapers in Docket. No. R2017-3 to reflect actual year-to-date volume, revenue, and cost in FY 2018.

8. Media Mail/Library Mail

In FY 2017, Media Mail/Library Mail had a cost coverage of 75.7 percent, a 0.5 percent increase compared with FY 2016.[112] Unit contribution increased 4.9 cents per piece from FY 2016 to FY 2017. *Id.* FY 2017 was the eleventh consecutive year that Media Mail/Library Mail did not generate sufficient revenues to cover attributable costs. Docket No. R2018-1 included an above-average price increase for Media Mail/Library Mail. FY 2017 ACR at 40. The Postal Service states that it intends to continue to improve the cost coverage of Media Mail/Library Mail through above-average price increases. *Id.* at 40-41. Table III-12 shows the history of price increases for Media Mail/Library Mail under the PAEA.

Table III-12
Media Mail/Library Mail
Price Adjustment vs. Price Adjustment Authority

Docket No.	Media Mail/Library Mail Price Adjustment	Price Adjustment Authority (Price Cap)
R2008-1	4.538%	2.900%
R2009-2	7.468%	3.800%

[112] *See* Library Reference PRC–LR–ACR2016/1, Excel file "Summary_LR1.xlsx."

R2011-2	1.964%	1.741%
R2012-3	2.581%	2.133%
R2013-1	3.469%	2.570%
R2013-10	2.061%	1.696%
R2015-4	2.197%	1.966%
R2017-1	1.135%	0.871%

Source: Library Reference PRC–LR–ACR2017/6.

The Public Representative notes the small increase in cost coverage for Media Mail/Library Mail in FY 2017 compared with FY 2016. PR Comments at 38. She points to the decrease in cost-per-piece of 12.5 cents and the decrease of 6.5 cents in revenue-per-piece as relative improvements over FY 2016, when the improvements were 7.0 and 11.0 cents, respectively. *Id.* She notes the Postal Service's intent to continue improving the cost coverage over time through above-average price increases, and suggests the educational, cultural, scientific, or informational value exception to the cost coverage requirement applies in this proceeding, as it did in previous years. *Id.*

Media Mail/Library Mail did not cover its attributable cost or make a contribution to institutional costs in FY 2017. The Commission has previously recognized that Media Mail/Library Mail has educational, cultural, scientific, or informational value to the recipient of the mail matter. *See, e.g.*, FY 2016 ACD at 71; FY 2015 ACD at 67.

The Commission finds that FY 2017 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail.

9. Domestic Market Dominant NSAs

Domestic Market Dominant NSAs must comply with 39 U.S.C. § 3622(c)(10). That section requires that such agreements either "improve the net financial position of the Postal Service" or "enhance the performance of mail preparation, processing, transportation, or other functions" and that they "not cause unreasonable harm to the marketplace." 39 U.S.C. § 3622(c)(10).

After approving a Market Dominant NSA, the Commission evaluates it for compliance with 39 U.S.C. § 3622(c)(10). The Commission reviews the NSA's performance during "contract years," 12-month periods measured from the time the contract was implemented. The Commission reviews the contract year that ended during the fiscal year covered by the ACD.

For domestic Market Dominant NSAs, the current accepted analytical principle for estimating volume changes due to the Postal Service's pricing incentive programs uses price elasticity to estimate the new volume generated.[113] This principle provides for consideration of "the financial impact of price incentives to increase mail volume or to shift mail volume between products should be based on the Postal Service's best estimate of the price elasticity of the discounted product." Order No. 738 at 3.

In FY 2017, one domestic Market Dominant NSA was in effect: the PHI Acquisitions, Inc. (PHI) NSA.[114] The Commission evaluates the PHI NSA based on its performance during Contract Year 3 (July 1, 2016 through June 30, 2017), which ended in FY 2017.

PHI qualified for $123,000 in discounts in Contract Year 3. Using the elasticity-based accepted analytical principle, the Postal Service estimates that the PHI NSA resulted in a net contribution of negative $123,000.[115] The Postal Service states that due to operational challenges faced by PHI, annual volume was less than the baseline, thus there were no incremental pieces to generate additional contribution. *Id*. at 46-47.

For Contract Year 4 Quarters 3 and 4 (January 1, 2018 through June 30, 2018), PHI and the Postal Service agreed to suspend the Postal Service's obligation to pay rebates.[116] The Postal Service acknowledges that the PHI NSA did not comply with 39 U.S.C. § 3622(c)(10)(A) in FY 2017, but contends that the recent notice of contract suspension should militate against any additional corrective action at this time. *Id.* at 47.

Contract Year 4, Quarters 1 and 2 are complete. Due to the suspension of the contract for Contract Year 4 Quarters 3 and 4, it is unlikely that PHI will meet the annual baseline volume for Contract Year 4. If the Postal Service pays any rebate in Contract Year 4 Quarters 1 and 2 and there is no volume in Quarters 3 and 4, the entire rebate will be negative financial contribution.

The PHI NSA is a 5-year NSA approved by the Commission in Docket Nos. MC2014-21 and R2014-6. In Contract Year 1, the PHI NSA made a net financial contribution of $112,000. In Contract Year 2, the PHI NSA made a net financial contribution of negative $1,047,000. In Contract Year 3, the PHI NSA made a net financial contribution of negative $123,000. To date, the PHI NSA made a net financial contribution of negative $1,058,000. In Contract Year 4, the PHI NSA will likely make zero or negative financial contribution. When amending the contract, the Postal Service and PHI should create prices and terms that

[113] Docket No. RM2010-9, Order Terminating Proceeding, May 27, 2011, at 1 (Order No. 738) (quoting Docket No. RM2008-4, Order No. 104, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008, at 9).

[114] FY 2017 ACR at 46. International Market Dominant NSAs are discussed in section B.8.d., *supra*.

[115] FY 2017 ACR at 46.

[116] *See* Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Temporary Suspension of Contract, December 8, 2017.

maximize positive contribution in order to offset the negative contribution from Years 2, 3, and potentially 4.

The Commission is concerned that the Postal Service's actions regarding the PHI NSA indicate a continuing lack of institutional oversight. The Commission reminded the Postal Service in its FY 2016 ACD that it is responsible for negotiating and overseeing NSAs and ensuring that any Market Dominant NSA it enters into continues to improve the net financial position of the Postal Service. *See* 39 U.S.C. § 3622(c)(10)(A). The fact that the Postal Service decided only in Contract Year 4 to temporarily suspend the contract is troubling, given that it had ample opportunity to either terminate the contract or negotiate an amendment to the contract sooner.

The Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 3. If the Postal Service provides the Commission with the amended contract for review, the filing shall include a volume forecast for the remainder of the PHI NSA and an estimate of the total contract net financial contribution. If an amended contract is not in effect by June 30, 2018, the PHI NSA will remain suspended.

C. **Other Issues**

1. First-Class Mail Product Cost Coverage Disparity

The Major Mailers Association, National Association of Presort Mailers, and National Postal Policy Council (First-Class Business Mailers) contend that the Commission should apply its just analysis from Order No. 4257 in this proceeding. Specifically, the First-Class Business Mailers contend that First-Class Mail Presorted Letters/Postcards rates are unjust. The Postal Service provided reply comments regarding the use of Order No. 4257 in the instant proceeding.

The First-Class Business Mailers assert that the high cost coverage of First-Class Mail Presorted Letters/Postcards, particularly when compared to other classes and products, demonstrates that these rates are unjust. First-Class Business Mailers Comments at 2-3. These mailers also observe that this cost coverage is high despite this product having a relatively low price elasticity of demand. *Id.* at 3. These mailers apply the analytical tools developed in Order No. 4257 to evaluate the justness of First-Class Mail Presorted Letters/Postcards rates in FY 2017 and conclude that these rates were unjust in FY 2017. *Id.* at 4-5. The First-Class Business Mailers acknowledge that a decrease in First-Class Mail Presorted Letters/Postcards rates in Docket No. R2017-1 and a revised definition of attributable cost slightly reduced cost coverage for First-Class Mail Presorted Letters/Postcards but urge the Commission to find First-Class Mail Presorted Letters/Postcards rates unjust. *Id.* at 5.

As in previous ACR proceedings, Pitney Bowes acknowledges a disparity in cost coverage between First-Class Mail Single-Piece Letters/Cards and First-Class Mail Presorted Letters/Postcards, and suggests rebalancing cost coverage and contributions among First-

Class Mail products. Pitney Bowes Comments at 3. Frontiers of Freedom, the National Taxpayers Union, and the American Consumer Institute Center for Citizen Research (ACI) also express concern with continued price increases for already-profitable First-Class Mail Single-Piece Letters/Cards, and warn that this volume may be inappropriately subsidizing other products.[117]

In its reply comments, the Postal Service urges the Commission not to stray beyond the scope of the section 3653 review by applying the conclusions of Order No. 4257 to this proceeding. Postal Service Reply Comments at 2-3. The Postal Service notes that the price cap is applied at the class level, affording the Postal Service the flexibility to apply non-uniform price adjustments within a class. *Id.* at 9. The Postal Service states that the cost coverage for First-Class Presorted Letters/Postcards has been higher than the cost coverage of other products throughout the PAEA period without a finding of noncompliance, and that no basis exists to render a different decision. *Id.* at 4. The Postal Service also states that it is complying with Commission directives regarding underwater products. *Id.* GCA also submits that the basis for the First-Class Business Mailers' submission is their longstanding disagreement with the definition of compensable worksharing, not anything new from Order No. 4257. GCA Reply Comments at 1.

To the extent that the First-Class Business Mailers take issue with the metrics and determination reached in Order No. 4257, these issues are more appropriate for Docket No. RM2017-3. However, the Commission notes that the First-Class Business Mailers rely on the supplementary analysis used in Order No. 4257 in presenting their comments in this ACD. Under the Commission's determinative metric for just rates in Order No. 4257, the Commission concluded that the system maintained just rates during the PAEA era because price increases were not excessive to mailers.

The Commission has previously noted that the Postal Service's pricing flexibility, subject to the inflation-based cap, can be used to apply non-uniform price adjustments within a class.[118] *With respect to First-Class Mail cost coverage disparities, the Commission continues to encourage the Postal Service to balance its own needs with those of its customers.*

2. First-Class Mail Volume Decline

The First-Class Business Mailers observe that First-Class Mail volume fell 4.1 percent in FY 2017, and note that the Postal Service does not discuss in detail the cause of this decline. First-Class Business Mailers Comments at 7-8. These mailers also express concern with the Postal Service's volume forecasts relying heavily on intervention variables and time trends without economic rationale or a narrative discussion of the decline. *Id.* at 8-9. These mailers assert that the pricing of First-Class Mail, coupled with the rate shock of the exigent

[117] Comments of Frontiers of Freedom, February 1, 2018, at 1-2 (Frontiers of Freedom Comments); Comments Pete Sepp, President, National Taxpayers Union, February 1, 2018, at 1-3 (NTU Comments); Comments of American Consumer Institute Center for Citizen Research, January 30, 2018, at 1-2 (ACI Comments).

[118] *See supra*, at page 5 n.2.

surcharge, caused the electronic diversion that the Postal Service asserts is responsible for this volume decline. *Id.* at 9-10. The First-Class Business Mailers encourage the Commission to direct the Postal Service to address why volume is falling, why its demand models did not forecast this decline, and how it plans to slow or reverse the decline. *Id.* at 10.

In its reply comments, the Postal Service urges the Commission not to stray beyond the scope of the annual compliance review by accepting the First-Class Business Mailers' recommendation, which these mailers expressly state are not required by the Commission's rules. Postal Service Reply Comments at 2-3.

The Commission's rules do not explicitly direct the Postal Service to discuss significant volume declines or require the Postal Service to address plans to stem or reverse such losses. The Commission declines to direct the Postal Service to provide the requested information.

3. First-Class Mail Cost Avoidance Models

The First-Class Business Mailers note that First-Class Mail Presorted Letters/Postcards have an exceptionally high cost coverage despite a 98.3 percent passthrough for 5-Digit Automation Letters. These mailers assert that this reflects certain cost characteristics, such as local entry, traying and facing, entry near the destination, and a lower cost sales channel, not being included in the workshare calculations for Presorted Letters/Postcards. First-Class Business Mailers Comments at 5-6. They observe that workshare discounts only explain 8.7 cents of the 17.8 cent difference in costs per piece between First-Class Mail Presorted Letters/Postcards and First-Class Mail Single-Piece Letters/Cards. *Id.* at 6. They assert that the remainder of the cost differential arises from low-cost characteristics not included in worksharing calculations, and thus not recognized in First-Class Mail Presorted Letters/Postcards prices. *Id.*

In its reply comments, GCA observes that the argument the First-Class Business Mailers has raised is not new, and that the characteristics raised by the First-Class Business Mailers do not dispense with a function the Postal Service would otherwise have to perform or potentiate the worksharing effect. GCA Reply Comments at 1-2. In addition, in its reply comments, the Postal Service states that the mail characteristics cited by the First-Class Business Mailers do not constitute "workshare activity." Postal Service Reply Comments at 4. Both GCA and the Postal Service maintain that the analytical principles applied in creating workshare cost avoidance models have been subject to separate proceedings, and GCA contends that proposal to expand the definition of worksharing is not a matter for consideration in an annual compliance review. *Id.* at 4; GCA Reply Comments at 2.

The Commission declines to reconsider whether the mail characteristics identified by the First-Class Business Mailers constitute workshare activity within the meaning of section 3622(e).

CHAPTER 4: COMPETITIVE PRODUCTS

A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2017 were not in compliance with 39 U.S.C. § 3633, which:

- Prohibits subsidization of Competitive products by Market Dominant products: 39 U.S.C. § 3633(a)(1)
- Requires that each Competitive product cover its attributable cost: 39 U.S.C. § 3633(a)(2)
- Requires that, collectively, Competitive products cover an appropriate share of the Postal Service's institutional costs: 39 U.S.C. § 3633(a)(3)

The principal FY 2017 findings for Competitive products are:

- Revenues, as a whole, exceeded incremental costs. Competitive products were not subsidized by Market Dominant products during FY 2017, thereby satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for seven Competitive products did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2). The Competitive products that did not cover attributable costs are: four domestic NSAs, International Money Transfer Service—Outbound (IMTS—Outbound), International Money Transfer Service—Inbound (IMTS—Inbound), and International Ancillary Services.
- Collectively, Competitive products satisfied the requirement that they provide a minimum contribution of 5.5 percent of institutional costs. *See* 39 C.F.R. § 3015.7(c). As a result, Competitive products satisfied 39 U.S.C. § 3633(a)(3) during FY 2017.

B. Cross-Subsidy Provision: 39 U.S.C. § 3633(a)(1)

39 U.S.C. § 3633(a)(1) requires that Competitive products not be subsidized by market-dominant products. To determine compliance, the Commission uses the incremental cost test, which calculates the costs incurred by Competitive products collectively, and compares those costs to the revenue generated by Competitive products collectively. As long as the revenue from Competitive products exceeds those products' incremental cost, the Commission can conclude that no cross-subsidization has occurred.[119]

[119] *See* Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 65 (Order No. 26).

Because the collective incremental costs of Competitive products are greater than the sum of the attributable cost of each product, using collective incremental costs raises the Competitive product cost floor when testing for cross-subsidies.[120] Therefore, the incremental cost model provides a more rigorous test for determining compliance with 39 U.S.C. § 3633(a)(1) than the attributable cost coverage requirement of 39 U.S.C.§ 3633(a)(2).

In Order No. 399, the Commission approved a hybrid incremental cost methodology, wherein the incremental costs are calculated for domestic Competitive products, but volume-variable costs and product-specific costs are used for Competitive international mail as a proxy for incremental costs, due to the lack of disaggregated international data. Order No. 399 at 4-5.

In FY 2017, the Postal Service was able to disaggregate the international mail cost pools between Market Dominant and Competitive products. FY 2017 ACR at 67-68. This allows for the calculation of incremental costs for Competitive international mail and, by extension, the calculation of incremental costs for Competitive mail collectively. *Id*.

The Public Representative identifies this calculation of incremental costs as a new measure, but concludes that Market Dominant products did not subsidize Competitive products in FY 2017. PR Comments at 56-57.

Using the new methodology provided by the Postal Service, in FY 2017 the incremental costs of Competitive products were $13.884 billion and the total revenues of Competitive products were $20.689 billion. FY 2017 ACR at 68. Accordingly, in FY 2017 revenues from Competitive products exceeded incremental costs.

For purposes of this ACD, the Commission accepts the Postal Service's estimates of Competitive product incremental costs and finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2017. The Commission concludes, however, that this is a change in analytical principles that the Commission has not approved, and directs the Postal Service to file a petition for the initiation of a proceeding to consider this proposed change in analytical principles within 90 days of issuance of this ACD.

C. **Product Cost Coverage Provision: 39 U.S.C. § 3633(a)(2)**

39 U.S.C. § 3633(a)(2) requires the revenue for each Competitive product to cover its attributable cost. Below, the Commission discusses the FY 2017 financial performance for five separate Competitive product groupings:

[120] Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two through Twenty-Five), January 27, 2010, at 4-5 (Order No. 399).

- Competitive domestic products with rates of general applicability
- Competitive domestic products consisting of NSAs[121]
- Competitive international products with rates of general applicability
- Competitive international products consisting of NSAs
- Competitive nonpostal services

1. Competitive Domestic Products with Rates of General Applicability

In FY 2017, there were 12 Competitive domestic products with rates of general applicability: Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services;[122] Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

In FY 2017, every Competitive domestic product with rates of general applicability covered its attributable cost and thereby satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2).

2. Competitive Domestic Products Consisting of NSAs

As shown in Table IV-1, in FY 2017, there were 846 Competitive domestic products consisting of NSAs.

[121] As discussed in Chapter 3, an NSA is a written contract between the Postal Service and a mailer, to be in effect for a defined period, which provides for customer-specific rates or fees and/or terms of service in accordance with the terms and conditions of the contract. *See* 39 C.F.R. § 3001.5(r).

[122] The Competitive Ancillary Services product consists of the following services: Adult Signature and Package Intercept Service. *See Mail Classification Schedule*, Section 2645.

Table IV-1
Competitive Domestic NSA Products in Effect During FY 2017

Competitive Domestic NSA Product Groupings	Number of Products[a]
First-Class Package Service Contracts	53
Parcel Return Service Contracts	8
Parcel Select & Parcel Return Service Contracts	3
Parcel Select Contracts	20
Priority Mail—Non-Published Rates[b] Contracts	316
Priority Mail & First-Class Package Service Contracts	46
Priority Mail Contracts	319
Priority Mail Express & Priority Mail Contracts	32
Priority Mail Express Contracts	29
Priority Mail Express, Priority Mail & First-Class Package Service Contracts	18
Priority Mail & Parcel Select Contracts	2
Total	**846**

[a] With the exception of NSAs entered into under the Priority Mail—Non-Published Rates (NPR) product, each Competitive domestic NSA is a separate product.

[b] The Priority Mail—NPR product allows the Postal Service to enter into Priority Mail NSAs without filing the agreements with the Commission for pre-implementation review.

Source: Library Reference USPS–FY17–NP27, December 29, 2017 (revised January 5, 2018).

a. Attributable Cost Coverage

39 U.S.C. § 3633(a)(2) requires each Competitive domestic NSA product to cover its attributable cost. The Commission finds that all but four Competitive domestic NSAs covered their attributable costs and complied with this statutory requirement. The Competitive domestic NSAs that did not cover their attributable costs were Priority Mail Contract 123, Priority Mail Contract 183, Priority Mail Contract 214, and Priority Mail Contract 228.[123]

The Postal Service states that three of these contracts either expired or were terminated.[124] The fourth, Priority Mail Contract 123, fell minimally below 100 percent and is being monitored pending reevaluation. *Id.* The Postal Service states that this contract's failure to cover costs was due to a shift to lighter weight packages. *Id.* It notes that the contract involves return packages, which incur lower unit delivery costs due to bulk delivery, and states that it is reviewing the underlying cost model and will renegotiate pricing if necessary. *Id.* at 70.

The Public Representative notes that a total of four domestic NSAs failing to cover their costs represents a significant improvement over the previous fiscal year.[125] The Public

[123] Library Reference USPS–FY17–NP27, December 29, 2017.

[124] FY 2017 ACR at 69.

[125] PR Comments at 62.

Representative appreciates the Postal Service's progress in monitoring cost coverage for domestic NSAs. *Id.*

The Commission finds that Priority Mail Contract 123, Priority Mail Contract 183, Priority Mail Contract 214, and Priority Mail Contract 228 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. Because Priority Mail Contract 183, Priority Mail Contract 214, and Priority Mail Contract 228 are no longer active, no further action is required. The Commission directs the Postal Service to report within 30 days of issuance of this ACD on the result of its review of the cost model underlying Priority Mail Contract 123 and on any additional steps it plans to take to improve cost coverage.

The Commission acknowledges the Postal Service's improvements in its monitoring and reporting practices for domestic NSAs.

b. Reliance on Estimated Customer Profiles to Calculate Cost Coverage

The Postal Service identified nine Priority Mail NSAs for which the data collected are insufficiently detailed to determine the weight and zone of the customer's pieces.[126] The collected data for these contracts are less granular than the cost model for Priority Mail NSAs, making the collected data unsuitable for calculating the cost coverage using that model.[127] For two of these NSAs, the Postal Service instead relies on sampled data to calculate cost coverage. NP45 Preface at 2. For the remaining seven NSAs, the Postal Service relies on the forward-looking customer weight and zone profile estimates submitted as part of the initial review process. *Id*. The Commission has reviewed the data used to calculate cost coverage for these agreements. The data represent the best information available to assess compliance of the relevant NSAs.

Therefore, the Commission finds the identified contracts to be in compliance. Going forward, the Commission will increase its scrutiny of estimated customer profiles that will be relied upon for cost coverage calculations. The Commission will continue to evaluate on an ongoing basis whether the data provided by the Postal Service are sufficient to assess compliance.

3. Competitive International Products with Rates of General Applicability

Ten Competitive international mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; Inbound Parcel Post (at UPU rates); Outbound Single-Piece First-Class Package International Service; International Surface Airlift; International Priority Airmail; International Direct

[126] Preface to Library Reference USPS–FY17–NP45, March 6, 2018, at 2 (NP45 Preface).

[127] *See id.*; Preface to Library Reference USPS–FY–NP38, February 2, 2018, at 6.

Sacks—M-Bags; IMTS—Outbound; IMTS—Inbound;[128] and International Ancillary Services.[129]

The Commission finds that three products, IMTS—Outbound, IMTS—Inbound, and International Ancillary Services did not satisfy 39 U.S.C. § 3633(a)(2).

a. International Money Transfer Service

Revenues for both the IMTS—Outbound and IMTS—Inbound products were less than attributable costs in FY 2017. By comparison, in FY 2016, revenue for IMTS—Outbound exceeded attributable cost, while revenue for IMTS—Inbound did not.

The Postal Service observes that the volumes for the IMTS—Outbound and IMTS—Inbound products continue to be small and that "it is difficult to obtain enough IOCS tallies through sampling to reliably estimate attributable cost for IMTS, resulting in relatively volatile unit costs."[130] FY 2017 ACR at 70. The Postal Service reports that only seven IOCS tallies were recorded for both the IMTS—Inbound and IMTS—Outbound products combined. *Id.* The Postal Service's data systems produced a 95 percent confidence interval range extending from 34 percent below to 127 percent above the reported FY 2017 cost coverage. Responses to CHIR No. 1, question 11.

The Postal Service states that prices for IMTS—Outbound increased substantially in January 2017, and that the product almost covered its attributable cost in FY 2017. FY 2017 ACR at 70-71. The Postal Service also states that prices will increase further in January 2018. *Id.* at 71.

The Public Representative notes that the cost volatility has declined slightly from previous fiscal years, and that the January 2018 price increase should allow the IMTS—Outbound product to cover its cost in FY 2018. PR Comments at 57-58. The Postal Service states that it has provided additional information about IMTS—Outbound in its Responses to CHIR No. 1, questions 11 to 13, which should aid the Commission in its evaluation of the product. Postal Service Reply Comments at 22.

In the FY 2015 ACD, the Commission directed the Postal Service to report on the obstacles to exiting or renegotiating the agreements that comprise IMTS—Inbound. FY 2015 ACD at 85. The Postal Service reported that terminating or renegotiating these agreements requires a delegation of authority from the Department of State under the Circular 175

[128] IMTS—Inbound consists of bilateral and multilateral agreements with foreign postal operators.

[129] International Ancillary Services consists of Certificates of Mailing, Registered Mail, Return Receipt, Restricted Delivery, Insurance, and Customs Clearance and Delivery Fees.

[130] The In-Office Costing System (IOCS) collects data on the proportion of time spent by an employee performing various functions for different mail products or services. These proportions of time are used to estimate the costs of such products or services (*e.g.*, the time city carriers spend in a delivery office sorting mail). "Tally takers" collect the time data, so "tallies" are used as the source of the data.

process.[131] In the FY 2016 ACD, the Commission recommended that the Postal Service request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product. FY 2016 ACD at 84. The Postal Service reports that it did not undertake a request for this authority due to the number of pending priorities this year. Responses to CHIR No. 1, question 13.

The Public Representative observes that this is the fourth year in which IMTS—Inbound has failed to cover cost, and strongly recommends that the Postal Service follow the Commission's recommendation and request the authority necessary to terminate or renegotiate the agreements in IMTS—Inbound. PR Comments at 58-59. The Postal Service states that it has provided additional information about IMTS—Inbound in its Responses to CHIR No. 1, questions 11 to 13, which should aid the Commission in its evaluation of the product. Postal Service Reply Comments at 22.

The Commission finds that IMTS—Outbound and IMTS—Inbound were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. Given the recurring volatility in unit costs, the Postal Service has not provided sufficient evidence that the FY 2018 price increases will result in full cost coverage. Therefore, the Commission directs the Postal Service to increase the prices for IMTS—Outbound in order to bring the product into compliance in its next request for a rate adjustment for Competitive rates of general applicability. The Commission expects the Postal Service to request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product, and to provide an update on the status of this process within 120 days of issuance of this ACD. If the Postal Service identifies competing priorities as a reason for it not being able to comply fully with the Commission's directive, it should fully describe those competing priorities and provide a clear justification for why the Commission's directive was not followed.

b. International Ancillary Services

Revenue for International Ancillary Services was less than attributable cost in FY 2017 because Outbound International Insurance did not cover its attributable cost. The Postal Service observes that claims for Priority Mail International (PMI) pieces are assigned to Outbound International Insurance, rather than to the PMI product. FY 2017 ACR at 71.[132] The Postal Service indicates that it will continue to explore this issue to determine if a change in the reporting of the claims costs is in order, and notes that it increased prices for Priority Mail Express International (PMEI) insurance and PMI insurance in FY 2017 and will increase prices again in FY 2018. *Id.*

The Postal Service also reports that only six IOCS tallies were recorded for Outbound

[131] *See* Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, question 2.

[132] All PMI pieces include up to $200 in insurance in the price of postage without an additional fee.

International Insurance, leading to a cost coverage that ranged from 25 percentage points below to 329 percentage points above the reported figure. Responses to CHIR No. 3, question 7.

The Public Representative suggests that the low cost coverage could be related to the relatively high volatility of IOCS-based unit cost estimates. PR Comments at 60. Therefore, she is unable to conclude that the cost coverage is fully reliable. *Id.* The Public Representative agrees with the Postal Service's proposal to explore the reporting of PMI claims, and suggests investigating methods to improve the precision of the cost coverage estimate. *Id.* In its reply comments, the Postal Service restates that it is continuing to explore changes in cost reporting and has provided information on IOCS tallies in response to CHIR No. 1, question 7 in this docket. Postal Service Reply Comments at 23-24.

The Commission agrees that the FY 2018 price increases for Outbound International Insurance may help improve cost coverage. The Commission notes that the Postal Service has discussed cost reporting issues for Outbound International Insurance in prior proceedings.[133] Given the continued cost coverage challenges for Outbound International Insurance, the Commission finds that further information on its cost reporting is warranted. This information may provide insight into ways to reduce the volatility of the cost coverage for Outbound International Insurance, and thereby improve the cost coverage of the International Ancillary Services product.

The Commission finds that International Ancillary Services was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on its evaluation of Outbound International Insurance cost reporting and whether a change in analytical principles is warranted. If the Postal Service does not determine that a change in analytical principles is warranted, the Commission directs the Postal Service to increase the prices for Outbound International Insurance in order to bring the product into compliance.

4. Competitive International Products Consisting of NSAs

Competitive international mail also includes products with rates and fees not of general applicability that are established pursuant to one or more NSAs. These agreements often require a minimum volume and/or revenue commitment by mailers or foreign postal operators in exchange for reduced rates from the Postal Service.

At the request of the Postal Service, and to address administrative concerns involving product reporting and classification on the competitive product list, the Commission permitted the grouping of functionally equivalent international NSAs with the express

[133] *See* Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 8, February 6, 2017, question 2.

understanding that each NSA within a product must cover its attributable cost.[134] Functionally equivalent international NSAs are also collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

The Postal Service reports volume, revenue, and cost data on each Competitive international NSA. For FY 2017, the Postal Service provides this data for 730 international NSAs, 718 of which include negotiated rates for outbound mail and 12 of which include negotiated rates for inbound mail.[135] The financial results for Competitive outbound and inbound international products consisting of NSAs are discussed below.

a. Competitive Outbound International Products Consisting of NSAs

Competitive outbound international products with negotiated rates are classified on the competitive product list. Table IV-2 shows the FY 2017 product category for each of these products for which the Postal Service reports FY 2017 financial results.[136]

Table IV-2
Competitive Outbound International Products by Category (FY 2017)[137]

Product Category	Product Name
GEPS Contracts	GEPS 3 GEPS 5 GEPS 6 GEPS 7
Global Expedited Package Services (GEPS)—Non-Published Rates	Global Expedited Package Services (GEPS)—NPR 7 Global Expedited Package Services (GEPS)—NPR 8 Global Expedited Package Services (GEPS)—NPR 9 Global Expedited Package Services (GEPS)—NPR 10 Global Expedited Package Services (GEPS)—NPR 11 Global Expedited Package Services (GEPS)—NPR 12
Global Plus Contracts	Global Plus 1D Global Plus 3
Global Reseller Expedited Package Contracts	Global Reseller Expedited Package Services 2 Global Reseller Expedited Package Services 4

Source: Library Reference PRC–LR–ACR2017/NP2.

[134] *See*, *e.g.*, Docket Nos. CP2011-34, CP2011-35, CP2011-36, CP2011-37, CP2011-38, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

[135] Library Reference USPS–FY17–NP2, Excel file “NSA Summary (Unified).xlsx.”

[136] The Postal Service does not report FY 2017 financial results for the following Competitive outbound international products: Global Direct Contracts 1, Global Bulk Economy Contracts, Global Plus 2C, GREPS 1, GREPS 3, GEPS—NPR 2, GEPS—NPR 3, GEPS—NPR 4, GEPS—NPR 5, GEPS—NPR 6, Priority Mail International Regional Rate Boxes—NPR, Priority Mail International Regional Rate Boxes 1, and Alternative Delivery Provider (ADP) Contracts 1. There was no volume for these products in FY 2017 and, in many instances, the Postal Service replaced them with products of a similar nature.

[137] This table presents outbound international products by product category as they appear in the Mail Classification Schedule.

The Postal Service also reports financial results for each outbound international NSA within these products. For FY 2017, these results show that all but 6 of the 718 outbound international NSAs generated sufficient revenues to cover their attributable costs.[138] However, none of these six NSAs were standalone products, and each was grouped with other functionally equivalent NSAs to form the products. In each case, the relevant products covered their attributable costs.

The Postal Service states that these NSAs all had little volume. FY 2017 ACR at 71-72; Responses to CHIR No. 3, question 9 (filed under seal). Of these six agreements, three expired and were not renewed, and the Postal Service is monitoring the other three to determine what remedial actions may be necessary. *Id.* The Public Representative states that these actions are appropriate. PR Comments at 61.

The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product. The Commission recommends that the Postal Service take remedial actions on the three unexpired NSAs for which revenue did not cover their attributable costs.

b. Competitive Inbound International Products Consisting of NSAs

As with Competitive outbound international products, Competitive inbound international products with negotiated rates are classified on the competitive product list. Table IV-3 shows the Competitive inbound international products for which the Postal Service reported FY 2017 financial results.[139]

Table IV-3
Competitive Inbound International Products by Category (FY 2017)[140]

Product Category	Product Name
International Business Reply Service Competitive Contracts	International Business Reply Service Competitive Contracts 3
Inbound EMS	Inbound EMS 2
Inbound Air Parcel Post (at non-UPU rates)	Royal Mail Group Inbound Air Parcel Post Agreement
Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1	Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1

Source: Library Reference PRC–LR–ACR2017/NP2.

[138] Library Reference PRC–LR–ACR2017/NP2.

[139] The Postal Service does not report FY 2017 financial results for four Competitive inbound international products: International Business Reply Service Competitive Contract 1, Inbound Direct Entry Contracts with Customers, Inbound Direct Entry Contracts with Foreign Postal Administrations, and Inbound Direct Entry Contacts with Foreign Postal Administrations 1. There was no volume for these products in FY 2017, and in several instances, the Postal Service replaced them with products of a similar nature.

[140] This table presents outbound international products by product category. In the case of Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1, the product name is the same name as the product category.

The Postal Service also reports financial results for each inbound international Competitive NSA. Negotiated rates for 9 of the 12 NSAs generated sufficient revenues to cover their attributable costs in FY 2017. FY 2017 ACR at 72. The three noncompensatory NSAs were part of the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product. *Id*.

The Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product consists of six bilateral NSAs with foreign postal operators for the entry of Inbound EMS and Inbound Parcel Post. For FY 2017, the Postal Service reports that revenues for all but three NSAs within this product covered their attributable costs. One NSA was with Royal Post NL;[141] two were with China Post Group. *Id*. The Postal Service notes that the Royal Post NL NSA and one of the China Post NSAs expired, and states that it intends to monitor the current noncompensatory NSA with China Post Group, which expires on June 30, 2018, in developing any new proposal for a successor agreement. *Id.*

The Public Representative observes that the cost coverage of two other NSAs within the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product is only slightly above 100 percent. PR Comments at 59. She further notes that should any of the remaining agreements fail to cover costs, the entire product risks falling out of compliance. *Id.* The Public Representative recommends that the Postal Service carefully monitor the cost coverage of the remaining agreements within the product and, if necessary, modify rates to ensure adequate cost coverage. *Id.* In its reply comments, the Postal Service states that the Commission recently reviewed one of the remaining three agreements, which is with Canada Post. Postal Service Reply Comments at 22. In addition, the Postal Service states that the other two agreements expire on June 30, 2018, and that the Postal Service will pay particular attention to the cost coverage of these agreements during the negotiation of possible successor agreements. *Id.* at 22-23.

The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenues exceeded attributable costs for each product. The Commission recommends that the Postal Service carefully monitor the cost coverage of the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product, specifically the inbound portion of the NSA with China Post Group, in developing any new proposal to renew the agreement following its expiration on June 30, 2018. The Commission also recommends that the Postal Service carefully monitor the cost coverage of remaining agreements within the product before negotiating possible successor agreements.

[141] Royal PostNL is the postal operator of the Netherlands.

5. Competitive Nonpostal Services

In FY 2017, Competitive nonpostal services[142] generated $149.7 million in revenue and incurred $35.5 million in expenses, which resulted in a net revenue of $113.8 million.[143] This figure represents a 16 percent increase compared to FY 2016.

D. Appropriate Contribution Provision: 39 U.S.C. § 3633(a)(3)

39 U.S.C. § 3633(a)(3) requires the Commission to ensure that all Competitive products collectively cover an appropriate share of the Postal Service's institutional costs. In implementing this section after the PAEA was enacted, the Commission determined that if Competitive products contribute at least 5.5 percent toward the Postal Service's total institutional costs, then, as a whole, they will cover an appropriate share of the Postal Service's total institutional costs. *See* 39 C.F.R. § 3015.7(c).[144]

In FY 2017, the total institutional costs of the Postal Service were $29.700 billion.[145] To comply with 39 U.S.C. § 3633(a)(3) for FY 2017, Competitive products must have contributed at least $1.634 billion toward the Postal Service's institutional costs. *Id.* In FY 2017, the total Competitive products contribution was $6.806 billion (approximately 23 percent), which exceeds the minimum contribution requirement. *Id.* The Public Representative concludes that the Postal Service complied with 39 U.S.C. § 3633(a)(3) in FY 2017. PR Comments at 65.

The Commission finds that in FY 2017 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs.

In FY 2017, the Postal Service transferred $2.599 billion from the Competitive Products Fund to the Postal Service Fund, which the Postal Service represented was "a prepayment

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[142] The seven Competitive products are: (1) Licensing of Intellectual Property Other Than Officially Licensed Retail Products; (2) Mail Services Promotion; (3) Officially Licensed Retail Products (OLRP); (4) Passport Photo Service; (5) Photocopying Service; (6) Rental, Leasing, Licensing or Other Non-Sale Disposition of Tangible Property; and (7) Training Facilities and Related Services. Docket No. MC2010-24, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11. 2012, at 4 (Order No. 1575). The Postal Service did not report volume for Licensing of Intellectual Property Other Than Officially Licensed Retail Products or Training Facilities and Related Services in FY 2017. *See* Library Reference USPS–FY17–NP27, Preface. The Postal Service should remove products that will not be used in the future from the product lists.

[143] Library Reference USPS–FY17–NP27, Preface.

[144] *See* Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 90-92 (Order No. 43). In Order No. 1449, the Commission maintained the appropriate share at 5.5 percent, subject to future revision, if necessary. *See* Docket No. RM2012-3, Order Reviewing Competitive Products' Appropriate Share Contribution to Institutional Costs, August 23, 2012, at 24-25 (Order No. 1449). On February 8, 2018, the Commission issued a notice of proposed rulemaking proposing to replace the static 5.5 percent appropriate share with a dynamic requirement which would be recalculated annually using a formula-based approach. *See* Docket No. RM2017-1, Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, February 8, 2018 (Order No. 4402). This rulemaking proceeding is currently pending before the Commission.

[145] Library Reference PRC–FY17–LR1, tab "Appendix A (Incremental Costs)."

of current and future year's institutional costs."[146] As the Commission found in Order Nos. 1449 and 2329, the Postal Service is not permitted to prepay future years' institutional costs.[147] The Commission also previously held that "the Postal Service is permitted by 39 C.F.R. § 3015.7(c) to pay greater than the 5.5 percent appropriate share set by the rule" to access funds in the Competitive Products Fund; however, "any transfers categorized by the Postal Service as prepayments of future years' institutional costs cannot be used to offset the requirement that competitive products cover the appropriate share of institutional costs each year." Order No. 2329 at 5-6. As a result, to comply with 39 U.S.C. § 3633(a)(3) in future years, the revenues from competitive products rates must, in each fiscal year, satisfy the requirements of 39 U.S.C. § 3633(a)(3). Order No. 1449 at 26; Order No. 2329 at 5.

E. **Other Issues**

1. Other Issues Raised By Commenters

A number of commenters raise methodological issues relating to cross-subsidization of Competitive products by Market Dominant products, and to the allocation of costs to Competitive products.

Frontiers of Freedom (FoF) identifies what it characterizes as "a high threat of cross-subsidization" evidenced by revenue exceeding costs for market-dominant products and the Postal Service's continuous debt.[148] FoF additionally urges increased transparency in cost allocations for each service. Frontiers of Freedom Reply Comments at 2.

National Taxpayer's Union (NTU) urges the Commission to propose "a more effective system to transparently allocate the costs of each service."[149]

United Parcel Service, Inc. (UPS) identifies numerous specific examples of what it characterizes as "troubling costing issues that appear to result in inappropriately low cost attribution to competitive products."[150] UPS additionally identifies two Office of the Inspector General (OIG) reports and two costing issues relating to city carrier routes that it characterizes as unresolved. UPS Comments at 15-19. UPS urges the Commission to use the current docket "to put in motion plans to address these issues" and also to initiate further proceedings. *See id.* at 4, 19.

In its reply comments, Amazon Services, Inc. (ASI) characterizes UPS's comments as speculation that current methodology may understate costs attributed to Competitive

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[146] Library Reference USPS–FY17–39, Competitive Products Fund Report at 4.

[147] Order No. 1449 at 26; Docket No. PI2013-1, Final Order on Competitive Products Fund Inquiry, January 23, 2015, at 5-6 (Order No. 2329).

[148] Reply Comments by Frontiers of Freedom Regarding Docket No. ACR2017, February 1, 2018, at 1-2 (Frontiers of Freedom Reply Comments).

[149] Comments of National Taxpayers Union, February 1, 2018, at 3.

[150] *See* Initial Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2017, February 1, 2018, at 4-14 (UPS Comments).

products.[151] ASI notes that "UPS, however, does not ask the Commission to reach the merits of these issues." ASI Comments at 1. ASI describes the issue before the Commission in the current docket as limited to whether prices in effect in the fiscal year under review were in compliance with applicable statutes and regulations. *Id.* at 3.

The Parcel Shippers Association (PSA) and the American Catalog Mailers Association (ACMA) filed reply comments rebutting the claim that more transparency in cost allocations is required to verify that Competitive products are not being subsidized.[152] PSA and ACMA point out that under Commission-approved costing methods, Competitive product revenues exceed Competitive product costs. PSA & ACMA Comments at 2. PSA and ACMA additionally claim that the $7 billion contribution from Competitive profits is large enough that no plausible adjustment to cost methods could materially affect the Postal Service's compliance with the prohibition against cross-subsidies. *Id.* at 3.

The Postal Service filed reply comments noting that UPS does not challenge the cost models directly, but instead "offers various discrete observations that, in [UPS's] view, cast doubt on the models." Postal Service Reply Comments at 24. The Postal Service characterizes UPS's comments as beyond the scope of the Commission's ACR review. *See id.*

The scope of the Commission's ACR review is limited to determining the Postal Service's compliance with rates and services in FY 2017. 39 U.S.C. § 3653(b). During the statutorily-limited time allotted for the Commission to review the Postal Service's ACR and issue its ACD, there are not sufficient resources to explore, in any meaningful depth, issues relating to methods of cost attribution and allocation. Several commenters, such as FoF and NTU, make broad statements about the adequacy of the cost models used in the ACR and ACD, without any suggestion for improvement.

Such broad-based criticisms are not actionable; further, the cost models at issue have been developed under robust litigated proceedings and continually improved and updated over the ensuing decades. Should any party have actionable improvements for costing models and methodologies, the Commission stands ready to evaluate and work to improve the models. *See* Docket No. RM2016-13, Order Adopting Final Rules on Changes Concerning Attributable Costing, December 1, 2016 (Order No. 3641).

Likewise, UPS brings specific criticisms of costing issues and urges the Commission to take action, but recognizes that such issues will not be resolved in the ACD. Instead, it asks the Commission to prioritize addressing those issues in further proceedings. All of these issues raised by commenters relating to the costing methodology and cost attribution for Competitive products are more appropriately addressed in a separate proceeding. The Commission will continue to work with stakeholders and the Postal Service to improve

[151] Reply Comments of Amazon.com Services, Inc., February 12, 2018, at 1 (ASI Reply Comments).

[152] Reply Comments of Parcel Shippers Association and American Catalog Mailers Association, Inc., February 12, 2018, at 1 (PSA & ACMA Reply Comments).

costing models and methodologies in the most efficient and practicable ways. Where there are potential issues, but no identified improvements at hand, the Commission will continue to explore the issues to identify solutions. *See* Docket No. PI2017-1, Notice and Order Establishing Docket Concerning City Carrier Special Purpose and Letter Route Costs and to Seek Public Comment, May 31, 2017 (Order No. 3926).

2. Palletized Priority Mail Open and Distribute

In Order No. 4390, the Commission noted that the Public Representative in Docket Nos. MC2018-117 and CP2018-159 had specific concerns relating to the cost coverage calculations for Priority Mail contracts that include prices for Palletized Priority Mail Open and Distribute.[153] The Commission deferred review to this docket. Order No. 4390 at 5. The Commission reviewed the Public Representative's concerns and finds the contracts in compliance with statutory requirements. *See* section 4.C.2, *supra*.

[153] Docket Nos. MC2018-117 and CP2018-159, Order Adding Priority Mail Contract 419 to the Competitive Product List, January 19, 2018, at 3, 5 (Order No. 4390).

CHAPTER 5: SERVICE PERFORMANCE

A. **Service Performance Results**

1. Introduction

Each year, the Postal Service must report[154] on each Market Dominant product's "level of service (described in terms of speed of delivery and reliability)." 39 U.S.C. § 3652(a)(2)(B)(i). Speed of delivery is evaluated based on the mailpiece reaching its destination within a given service standard. FY 2016 ACD at 90. The Postal Service defines service standards as "[s]tated delivery performance goals for each mail class and product that are usually measured by days for the period of time taken by [the Postal Service] to handle the mail from end-to-end (that is, from the point of entry into the mailstream to delivery to the final destination)."[155] Reliability refers to consistency of delivery.

To evaluate annual service performance for each Market Dominant product, the Commission compares the percentage of mailpieces that achieve the stated service standard against targets established by the Postal Service.[156]

The products listed in Table V-1 met or exceeded their annual service performance targets for FY 2017.

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[154] "For each product that does not meet a service standard, [the Postal Service's report must include] an explanation of why the service standard is not met, and a plan describing the steps that have or will be taken to ensure that the product meets or exceeds the service standard in the future." 39 C.F.R. § 3055.2(h); *see also* 39 U.S.C. § 3652(d), (e).

[155] United States Postal Service Publication 32, Glossary of Postal Terms, July 2013 (available at: *http://about.usps.com/publications/pub32/pub32_terms.htm*). "Established service standards also include destination entry standards for mail entered by the mailer at or near a postal destination facility. A separate set of standards is established for noncontiguous states such as Alaska and Hawaii and territories such as American Samoa and Guam." *Id.*

[156] FY 2016 ACD at 90. On an annual basis, the Commission compares a product's on-time delivery with the delivery target established by the Postal Service. For Special Services, the Commission evaluates performance data from metrics developed by the Postal Service applicable to each product. *Id.* at 90 n.148. In this ACD, as in past years, the Commission uses the Postal Service's targets because they are a reasonable basis for assessing performance.

Table V-1
Market Dominant Products That Met Annual Service Performance Targets, FY 2017

Class	Product
USPS Marketing Mail	• High Density and Saturation Letters • Carrier Route • Letters • Parcels
Package Services	• Bound Printed Matter Parcels • Media Mail/Library Mail
Special Services	• Ancillary Services • International Ancillary Services • Money Orders • Stamp Fulfillment Services

The products listed in Table V-2 did not meet their targets for FY 2017.

Table V-2
Market Dominant Products That Failed to Meet Annual Service Performance Targets, FY 2017

Class	Product
First-Class Mail	• Single-Piece Letters/Postcards (2-Day; 3-5-Day) • Presorted Letters/Postcards (Overnight; 2-Day; 3-5-Day) • Flats (Overnight; 2-Day; 3-5-Day) • Parcels (2-Day; 3-5-Day) • Outbound Single-Piece First-Class Mail International (Combined) • Inbound Single-Piece First-Class Mail International (Combined)
USPS Marketing Mail	• High Density and Saturation Flats/Parcels • Flats • Every Door Direct Mail – Retail
Periodicals	• In-County • Outside County
Package Services	• Bound Printed Matter Flats
Special Services	• Post Office Box Service

In this chapter, after a summary of the systems the Postal Service uses to measure service performance, the Commission discusses the Postal Service's responses to the FY 2016 directives related to First-Class Mail Single-Piece Letters/Postcards. The Commission then analyzes the Postal Service's FY 2017 service performance results by class of mail.

2. Measurement Systems

The Postal Service uses a variety of measurement systems to measure service performance for Market Dominant products. The Postal Service began reporting service performance results for most Market Dominant products in the third quarter of FY 2011.

Table V-3 identifies each system used to measure those products reported in the Postal Service's *Annual Service Performance Report*. In Table V-3, and the discussion that follows, the Commission uses the following acronyms and abbreviations: *EXFC* for "External First-Class Measurement," *iMAPS* for "Intelligent Mail Accuracy and Performance System," *IMb* for "Intelligent Mail barcode," *IMMS* for "International Mail Measurement System," *PTR* for "Product Tracking and Reporting System," and *SASP* for "Seamless Acceptance and Service Performance."

Table V-3
Service Performance Measurement Systems

	Single-Piece			Presorted		
	Letters	Flats	Parcels	Letters	Flats	Parcels
First-Class Mail	EXFC	EXFC	PTR	iMAPS	iMAPS	N/A
Periodicals	N/A			iMAPS	iMAPS	N/A
USPS Marketing Mail	N/A			iMAPS	iMAPS	PTR
Package Services	N/A		PTR	N/A	iMAPS	PTR
International Mail	IMMS	EXFC as proxy*	PTR as proxy**	N/A		
Special Services	Custom-designed internally based measurement systems					

*The EXFC measurement for domestic First-Class Mail Single-Piece flats serves as a proxy for Single-Piece First-Class Mail International flats due to the small volume in the latter category. After clearing customs, Single-Piece First-Class Mail International flats enter the domestic mainstream and are handled with domestic First-Class Mail Single-Piece flats. Docket No. PI2015-1, Library Reference USPS–LR–PI2015–1/8, February 23, 2017, file "Internal SPM Plan blackline.pdf," at 11 n.5 (Third Revision to the USPS Service Performance Measurement Plan).

**The Postal Service uses the measurement for domestic First-Class Mail parcels as a proxy for Inbound Letter Post parcels. *Id.* at 11 n.6.

Note: In FY 2013, PTR replaced the legacy measurement system, which was referred to as the Product Tracking System. *See* FY 2016 ACD at 93-94.

Source: Third Revision to the USPS Service Performance Measurement Plan at 11; Library Reference USPS–FY17–29, December 29, 2017, file "FY17-29 Methodologies Report.pdf" (FY 2017 Methodologies Report).

N/A – Not applicable

a. External First-Class Measurement System (EXFC)

EXFC is a sampling system managed by an independent contractor. Delivery performance is measured from the street collection box to the delivery mailbox.[157] When evaluating delivery performance, test mailers record the time they place First-Class Mail in the collection box. The pieces are deposited before the last collection-time for the collection box. Those test mailpieces are sent to a nationwide panel of receivers who record when each is delivered. Actual transit time is then compared against First-Class Mail service standards. EXFC provides quarterly service performance measurement scores at the area and district levels.

[157] FY 2009 ACD at 49.

b. Intelligent Mail Accuracy and Performance System (iMAPS)

iMAPS provides an end-to-end service performance measurement by using documented mail arrival time at a designated postal facility to start a measurement clock and an IMb scan by an external, third-party reporter to stop the clock. The measurement involves two distinct steps. The Postal Service obtains processing times based on IMb scans reported through the SASP system. SASP uses data provided by commercial mailers with Full-Service Intelligent Mail, such as acceptance time, payment, and verification, to enable the Postal Service to monitor service delivery and overall performance.[158] Information collected also helps to determine address accuracy, verify the quality of mail preparation, and track individual pieces as they move through the mail system.

Throughout FY 2017, SASP captured data from all Full-Service Intelligent Mail.[159] This is combined with a last mile factor that is developed through scans by third-party reporters upon receipt of the mail. Service performance is measured by comparing the overall transit time to the service standards to determine the percentage of mail delivered on-time.

Section 3055.5 of Title 39 of the Code of Federal Regulations requires the Postal Service to "file notice with the Commission describing all changes to measurement systems, service standards, service goals or reporting methodologies, including the use of proxies for reporting service performance, 30 days prior to planned implementation."

During Quarter 1 of FY 2017 (November 2016), without providing the required notice to the Commission, the Postal Service changed the methodology for estimating performance for First-Class Mail Presorted Letters/Postcards, the presort portion of First-Class Mail Flats, USPS Marketing Mail, Periodicals, and Bound Printed Matter Flats.[160] This change was first identified in the narratives accompanying each affected product's service performance scores for Quarter 1 of FY 2017, which were filed on February 9, 2017.[161]

This is not the first time that the Postal Service failed to notify the Commission of a change prior to implementation. During the FY 2016 ACD proceeding, the Commission became aware that the Postal Service had changed the system used to measure service performance for parcels three years prior to disclosing this change to the Commission. *See* FY 2016 ACD at 93-94. The Postal Service indicates that the failure to provide advance notice of the change to the iMAPS methodology occurred because the personnel

[158] United States Postal Service, Guide to Seamless Acceptance, Version 2.1, June 2015 _(available at: *http://postalpro.usps.com/storages/2016-12/657_GuidetoSeamlessAcceptance.pdf*).

[159] Library Reference USPS–FY17–29, file "FY17-29 Service Perf Report.pdf," at 2 (FY 2017 Service Performance Report).

[160] FY 2017 Service Performance Report at 8, 14, 17-18, 22; Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 4, question 1.b. (Responses to CHIR No. 4).

[161] *See, e.g.*, United States Postal Service *Quarterly Service Performance Reports for Quarter 1 of FY 2017*, February 9, 2017, Excel file "FC Flats 171 Scores Report.xlsx," tab "FC Flats Narrative."

implementing the methodological change were unaware of the advance notice requirement when the change was made during Quarter 1 of FY 2017.[162] The Postal Service further indicates that this failure is a legacy remnant of a process flaw that the Postal Service subsequently identified and corrected in February 2017. *See id.* The Postal Service maintains that since February 2017, it has ensured that its Enterprise Analytics organization is aware of the need to confer with its Law Department concerning this requirement. *Id.*, question 2.

In light of the Postal Service's representations, the Commission expects that the necessary internal coordination is occurring and will continue to occur. The Commission reiterates that the Postal Service must file advance notice of changes in compliance with 39 C.F.R. § 3055.5.

In this instance, "[t]he application of the last mile profile was changed from stratification by the type of final processing operation which occurred to stratification by the number of days remaining to meet service standard after final processing occurred." FY 2017 Service Performance Report at 8, 14, 17-18, 22. The Postal Service states that "[t]his methodology change was made to improve the accuracy of the performance estimates as the new methodology better accounts for the relationship between time spent in last mile and time spent in processing." *Id.* at 8, 18, 22. CHIR No. 4, question 1 was issued to explore this change.

The Postal Service's prior methodology grouped mailpieces into one of three types of last processing operations (LPO).[163] The Postal Service explains that this methodology assumed that "time spent in last mile is independent of the time a piece spent in processing, for the given processing and last mile group or 'stratum.'" Responses to CHIR No. 4, question 1.c. The Postal Service asserts that this assumption was undermined over time because of changes to processing operating windows and service standards, additional operating events, more mail in measurement, and an increased focus on operations, which led to changes in mail transit times. *Id.* The Postal Service concluded that stratification by LPO Type was no longer the best stratification method because the methodology was consistently producing results that underestimated on-time performance compared to the data received from external reporters—particularly for flat-shaped pieces. *Id.* The Postal Service asserts that its data analysis showed that the time in last mile for flats significantly differed when a piece was processed early, compared to when the piece was processed nearer to the service standard date. *Id.*

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[162] Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 12, February 5, 2018, questions 1 and 3 (Responses to CHIR No. 12).

[163] Responses to CHIR No. 4, question 1.a. LPO Type 1 was used to classify a piece that underwent final processing at the expected plant *and* received the finest depth of sort (*e.g.*, Second Pass delivery point sequence (DPS) for letter-shaped pieces; Flats Sequencing System (FSS) or carrier route sorting for flat-shaped pieces). *Id.* LPO Type 2 was used to classify any other piece that underwent final processing at the expected plant. *Id.* LPO Type 3 was used to classify any pieces that underwent final processing at an unexpected plant. *Id.*

Alternative methods were developed and evaluated, and the Postal Service determined that stratification based on the number of days left in processing to meet the service standard would be more accurate. *Id.* The Postal Service quantifies the bias observed at the national level during Quarter 2 of FY 2015 and Quarter 4 of FY 2016 using both the prior and the new methodology for First-Class Mail Presorted Letters/Postcards, the presort portion of First-Class Mail Flats, USPS Marketing Mail Flats, USPS Marketing Mail Letters, and Periodicals. *Id.* Based on a review of the Postal Service's detailed explanation, the Commission accepts the methodological change to the application of the last mile profile used in iMAPS.

c. Product Tracking and Reporting System (PTR)

The Postal Service measures service performance for parcels using PTR, a system that "measures transit time from the time of mailing until the time of delivery for parcels for which a customer requested USPS Tracking Service." FY 2017 Service Performance Report at 2. PTR is based on over-the-counter and delivery confirmation scans of retail products, as well as barcode scans of parcels that utilize the Postal Service's tracking service. *Id.* at 2-3. PTR uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock).[164]

d. International Mail Measurement System (IMMS)

Based on a system similar to EXFC, IMMS measures the domestic leg of transit time for international mail. FY 2017 Service Performance Report at 3. It measures the time between the domestic collection point and the outbound international service center for outbound letters and between the inbound international service center and the domestic delivery point for inbound letters.

e. Intelligent Mail Barcode (IMb)

In Quarter 3 of FY 2011, the Postal Service began using IMbs to measure service performance for USPS Marketing Mail, Periodicals, Bound Printed Matter (BPM) Flats, and some First-Class Mail products. The Postal Service currently offers two barcode options for mailers: Basic and Full-Service. The Basic option allows mailers to utilize IMbs for their mailpieces without the added benefit of accounting for each unique piece.[165]

The Full-Service feature allows the mailer to identify unique mailpieces throughout the mailstream, receive start-the-clock notifications, discounts, and automated address corrections. *Id.* Only the Full-Service feature provides the data needed to measure service performance. Mailers are required to prepare mail with IMbs and submit electronic mailing information listing IMbs used. Mail is verified to ensure it meets mail preparation criteria.

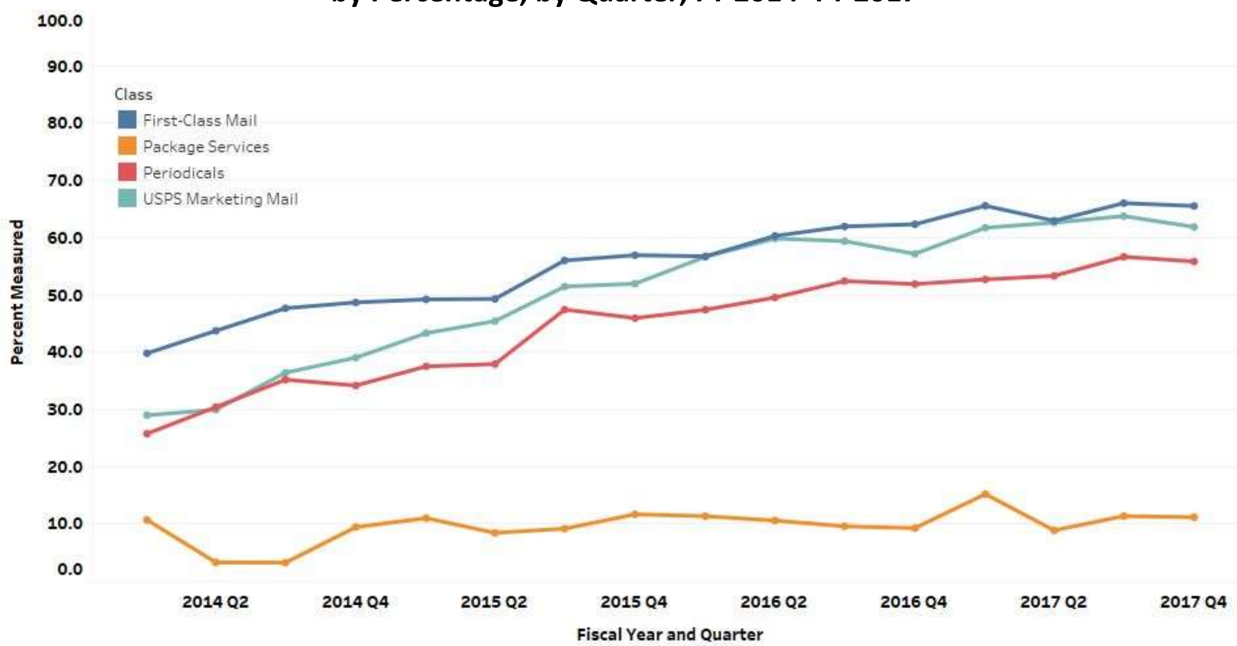
[164] Docket No. ACR2016, Responses of the United States Postal Service to Questions 2-4 and 7-13 of Chairman's Information Request No. 16, February 17, 2017, question 3.

[165] United States Postal Service, Overview to Intelligent Mail - Basic Service, August 2012 (available at: *http://ribbs.usps.gov/intelligentmail_guides/documents/tech_guides/OverviewIntelligentMailBasicService.pdf*).

Mail that does not meet mail preparation requirements is excluded from service performance measurement. *Id.*

Over time, the percentage of mailpieces measured by IMb increased for most mail classes. Figure V-1 illustrates this trend, showing the percentage of First-Class Mail, USPS Marketing Mail, Periodicals, and Package Services[166] volume measured by IMb since FY 2014.

Figure V-1
Nationwide Market Dominant Mail Measured by Full-Service IMb, by Percentage, by Quarter, FY 2014–FY 2017



Source: FY 2014-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail, USPS Marketing Mail, Periodicals, and Package Service Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*; Library Reference USPS–FY17–42, December 29, 2017; Docket No. ACR2016, Library Reference USPS–FY16–42, December 29, 2016; Docket No. ACR2015, Library Reference USPS–FY15–42, December 29, 2015; Docket No. ACR2014, Library Reference USPS–FY14–42, December 29, 2014.

District-level measurement. The Postal Service measures service performance at the district level. These data are aggregated to the area level and then aggregated again to report nationwide service performance results.[167] In order to be representative of the nation as a whole, the nationwide service performance results for each product should include data from all districts. Prior concerns expressed by the Commission with regard to the lack of

[166] BPM Flats is the only Package Services product measured using IMb. The remaining Package Services products are measured using PTR. FY 2016 ACD at 95 n.155.

[167] *See* United States Postal Service *Quarterly Service Performance Reports* Quarters 1-4 of FY 2017 (available at: *https://www.prc.gov/dockets/quarterly-performance*).

reporting data from all districts[168] appear to have been addressed, with the vast majority of districts now reporting statistically meaningful results for all products and service standard levels.

Pieces excluded from measurement. The Commission continues to monitor the issue of mailpieces excluded from measurement. *See, e.g.*, FY 2015 ACD at 99-102; FY 2016 ACD at 96. During FY 2016, the Commission issued an order enhancing the reporting of service performance measurement data.[169] Among other things, this order required the Postal Service to begin providing regular, detailed information concerning mailpieces included and excluded from measurement, as well as the reasons mailpieces are excluded from measurement. Order No. 3490 at 28-35.

In general, the more mail that is measured, the more representative, accurate, and reliable such measurements will be. Table V-4 contains Postal Service data regarding the percentage of mail in measurement, the percentage of mail entered as Full-Service IMb and included in measurement, and the percentage of mail entered as Full-Service IMb and excluded from measurement.[170] Table V-4 also shows that the percentage of mail in measurement increased for all measured products. Except for First-Class Mail Flats and BPM Flats, this increase corresponds to a decrease in the percentage of Full-Service IMb mail excluded from measurement.

[168] *See, e.g.*, FY 2015 ACD at 98-99.

[169] *See* Docket No. PI2016-1, Order Enhancing Service Performance Reporting Requirements and Closing Docket, August 26, 2016 (Order No. 3490).

[170] The formula for the percentage of mail in measurement is mail that is measured / total mail. The formula for the percentage of mail processed at Full-Service IMb prices and included in measurement is Full-Service IMb mail measured / total Full-Service IMb mail. The formula for the percentage of mail entered as Full-Service IMb mail and excluded from measurement is Full-Service IMb mail excluded from measurement / total Full-Service IMb mail.

Table V-4
Mail in Measurement and Excluded from Measurement, by Percentage, FY 2015–FY 2017

<table>
<tr><th rowspan="2"></th><th colspan="3">Percentage of mail in measurement</th><th colspan="3">Percentage of mail entered at Full-Service IMb prices and included in measurement</th><th colspan="3">Percentage of mail processed as Full-Service IMb, but excluded from measurement</th></tr>
<tr><th>FY 2015</th><th>FY 2016</th><th>FY 2017</th><th>FY 2015</th><th>FY 2016</th><th>FY 2017</th><th>FY 2015</th><th>FY 2016</th><th>FY 2017</th></tr>
<tr><td colspan="10">First-Class Mail</td></tr>
<tr><td>Presorted Letters/Postcards</td><td>52.7</td><td>62.5</td><td>64.89</td><td>60.2</td><td>70.2</td><td>72.18</td><td>39.8</td><td>29.8</td><td>27.82</td></tr>
<tr><td>Flats</td><td>12.8</td><td>54.1</td><td>54.53</td><td>54.2</td><td>72.4</td><td>69.57</td><td>45.8</td><td>27.6</td><td>30.43</td></tr>
<tr><td colspan="10">USPS Marketing Mail*</td></tr>
<tr><td>High Density and Saturation Letters</td><td>58.8</td><td>68.8</td><td>72.46</td><td colspan="2" rowspan="5">Data Not Available</td><td>78.97</td><td colspan="2" rowspan="5">Data Not Available</td><td>21.03</td></tr>
<tr><td>High Density and Saturation Flats/Parcels</td><td>21.9</td><td>36.6</td><td>37.39</td><td>60.44</td><td>39.56</td></tr>
<tr><td>Carrier Route</td><td>53.8</td><td>69.6</td><td>72.39</td><td>79.72</td><td>20.28</td></tr>
<tr><td>Letters</td><td>56.0</td><td>69.1</td><td>72.62</td><td>80.79</td><td>19.21</td></tr>
<tr><td>Flats</td><td>45.0</td><td>59.0</td><td>61.36</td><td>73.87</td><td>26.13</td></tr>
<tr><td>Every Door Direct Mail–Retail</td><td>28.0</td><td>63.2</td><td>63.93</td><td colspan="6">Not Applicable</td></tr>
<tr><td>Parcels</td><td>30.4</td><td>44.5</td><td>45.09</td><td colspan="6">Data Not Available</td></tr>
<tr><td>Total USPS Marketing Mail</td><td>50.3</td><td>63.8</td><td>66.72</td><td>65.2</td><td>76.7</td><td>79.19</td><td>34.8</td><td>23.3</td><td>20.81</td></tr>
<tr><td colspan="10">Periodicals</td></tr>
<tr><td>In-County</td><td>Data Not Available</td><td>7.4</td><td>7.88</td><td colspan="6" rowspan="2">Data Not Available</td></tr>
<tr><td>Outside County</td><td>46.7</td><td>57.0</td><td>60.94</td></tr>
<tr><td>Total Periodicals</td><td>42.7</td><td>52.4</td><td>55.77</td><td>61.6</td><td>68.1</td><td>71.18</td><td>38.4</td><td>31.9</td><td>28.82</td></tr>
<tr><td colspan="10">Package Services</td></tr>
<tr><td>Bound Printed Matters Flats</td><td>10.1</td><td>11.4</td><td>11.81</td><td>38.2</td><td>43.5</td><td>42.62</td><td>61.8</td><td>56.5</td><td>57.38</td></tr>
</table>

Note: The total number of Full-Service IMb Pieces was unavailable at the product level for USPS Marketing Mail in FY 2017 Q1. Therefore, the percentage of mail entered at Full-Service IMb prices and included in measurement and percentage of mail processed as Full-Service IMb but excluded from measurement for each USPS Marketing Mail product are based on the data from FY 2017 Q2 to FY 2017 Q4. Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 11, February 7, 2018, question 8 (Responses to CHIR No. 11).

Source: FY 2015 ACD at 100; FY 2016 ACD at 97; Responses to CHIR No. 11, question 8.

The Postal Service cites four main reasons why mailpieces are excluded from measurement.[171] First, "No Start-the-Clock" occurs when the Postal Service lacks a container unload scan or is unable to identify the Facility Access and Shipment Tracking (FAST) appointment associated with the container. *Id.* Without an initial scan or an identified FAST appointment, the Postal Service cannot decipher when the measuring process should begin and therefore excludes these mailpieces from measurement. *See* FY 2016 ACD at 98.

Second, "Long Haul" occurs when a mailpiece verified at a Detached Mail Unit (DMU) is transported by the Postal Service to a mail processing facility in a different district than the DMU. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service considers this an operational failure because it results in a loss of visibility of the mailpiece. *See* FY 2016 ACD at 98.

Third, "No Piece Scan" occurs when no automation scan is reported for the mailpiece. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2016 ACD at 98.

Fourth, "Invalid Entry Point for Discount Claimed" occurs when the discount Entry Point claimed by the mailer in electric documentation (eDoc) is invalid for the entry point and destination of the mailpiece. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service excludes this mail from measurement due to invalid data. *See* FY 2016 ACD at 98.

Table V-5 displays the top three reasons that a mailpiece was excluded from measurement as well as the corresponding percentages, disaggregated by quarter in FY 2016 and FY 2017. The main reasons cited in FY 2016 are consistent with those referenced in FY 2017.

[171] *See* Docket No. PI2016-1, Responses of the United States Postal Service to Questions 1 Through 5 of Chairman's Information Request No. 1, May 3, 2016, question 4, Excel file "Attach.USPS.Resp.ChIR1.Q4.xlsx," tab "4. Exclusion Reason Breakdown" (Docket No. PI2016-1, Responses to CHIR No. 1).

Table V-5
Reasons of Mailpiece Exclusions, by Percentage, by Quarter, FY 2016–FY 2017

Class/Reason	FY 2016 Q1	FY 2016 Q2	FY 2016 Q3	FY 2016 Q4	FY 2017 Q1	FY 2017 Q2	FY 2017 Q3	FY 2017 Q4
First-Class Mail								
No Start-the-Clock	45.57	46.41	40.11	42.88	43.81	37.08	35.07	36.18
Long Haul	24.21	24.57	28.91	28.90	31.93	36.92	40.51	40.89
No Piece Scan	10.54	9.52	10.48	10.06	9.66	7.86	8.09	8.19
USPS Marketing Mail								
No Start-the-Clock	38.82	55.13	44.24	45.79	43.83	42.06	44.76	43.46
No Piece Scan	31.69	22.27	31.53	30.80	32.75	30.11	29.09	29.40
Invalid Entry Point for Discount Claimed	11.48	7.59	7.44	7.55	7.38	10.82	10.49	9.88
Periodicals								
No Piece Scan	54.49	50.11	65.22	62.96	55.38	56.25	58.38	56.54
No Start-the-Clock	13.54	28.53	12.07	15.21	16.83	16.12	15.71	15.50
Invalid Entry Point for Discount Claimed	8.04	5.74	3.35	3.73	3.28	4.29	5.42	5.49
Package Services								
No Piece Scan	65.89	49.79	68.03	72.59	53.93	61.91	68.32	71.46
No Start-the-Clock	11.04	34.29	8.45	8.60	7.33	7.06	5.83	8.59
Invalid Entry Point for Discount Claimed	18.29	10.98	19.67	15.23	19.54	16.10	21.33	14.18

Source: Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 23, March 3, 2017, question 1 (Docket No. ACR2016, Responses to CHIR No. 23). The FY 2017 data was included in the United States Postal Service, *Quarterly Service Performance Report,* Quarter 4, November 9, 2017, Excel file "ExclusionReasonBreakdownFY17Q4.xlsx," tab "Exclusions" (available at: *https://www.prc.gov/docs/102/102451/cover%20lttr%20FY17Q4.pdf*).

f. Proposed Changes to Measurement Systems

In January 2015, the Commission instituted a proceeding to consider the Postal Service's proposal to develop new internal service performance measurement systems for several Market Dominant products.[172] Specifically, for First-Class Mail Single-Piece Letters/Postcards and First-Class Mail Flats, the Postal Service proposes to replace EXFC with a system which measures service performance in three segments: first mile (based on

[172] *See* Docket No. PI2015-1, Notice of Request for Comments and Scheduling of Technical Conference Concerning Service Performance Measurement Systems for Market Dominant Products, January 29, 2015.

scans of sample mailpieces from randomly-selected collection points); processing duration (based on the time from the first processing scan to the last processing scan); and last mile (based on scans of sample mailpieces from randomly-selected delivery points). Third Revision to the USPS Service Performance Measurement Plan at 11-12, 17-18. For First-Class Mail Outbound Single-Piece International flat-shaped pieces, the Postal Service proposes to replace EXFC with the IMMS system that the Postal Service already uses for First-Class Mail Outbound Single-Piece International letter-shaped pieces. *Id.* at 11-12, 34. Finally, for Periodicals, USPS Marketing Mail letter-shaped and flat-shaped pieces, and BPM Flats, the Postal Service proposed replacing the external reporting currently used for the "last mile" segment of these products' service performance measurement with scans of sample pieces from randomly-selected delivery points. *Id.* at 11-12, 41, 49, 52. These proposed changes are currently being evaluated by the Commission in Docket No. PI2015-1.

3. The Postal Service's Responses to the Directives Related to First-Class Mail Single-Piece Letters/Postcards

a. Introduction

In FY 2015, service performance results for First-Class Mail Single-Piece Letters/Postcards declined more rapidly than in prior fiscal years—particularly for the 3-5-Day service standard category. FY 2015 ACD at 132. This decline was especially concerning because "[f]or the first time since the Postal Service began reporting service performance of all Market Dominant mail products, no First-Class Mail product met or exceeded its service performance target[]." *Id.* at 131.

In the FY 2015 ACR and in responses to CHIRs, the Postal Service identified issues surrounding the FY 2015 results and reported that it would continue its existing remediation strategy, which involved using root cause failure analysis to identify problematic facilities and rectify operational issues. *Id.* at 136. The Commission noted several concerns, including the absence of (1) a link between the use of root cause diagnostic tools with Postal Service actions to improve service performance and (2) a quantitative link between the issues identified by the Postal Service with service performance results. *Id.*

Determining that First-Class Mail Single-Piece Letters/Postcards was not in compliance in FY 2015, the Commission issued directives to promote improvement and gain better visibility into the remediation strategy reported by the Postal Service. *Id.* at 136-38. These directives included the Postal Service providing within 90 days of the issuance of the FY 2015 ACD "a detailed, comprehensive plan" along with seven specific sets of data. *Id.* at 138. The Commission also directed the Postal Service to "provide an explanation in the FY 2016 ACR detailing specific efforts targeted to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2016." *Id.*

The Postal Service's responses to these directives described available data and enhanced technology.[173] The Postal Service reported using these tools to identify and correct local deficiencies in FY 2016 and indicated that it would continue these actions in FY 2017.[174] Several CHIRs were issued to obtain data and explanations to enable the Commission's evaluation of this course of action.

In FY 2016, the results for First-Class Mail Single-Piece Letters/Postcards improved. FY 2016 ACD at 130. However, the results remained below target and the Commission remained concerned that results did not return to the level reported before FY 2015. *Id.* at 133. Determining that First-Class Mail Single-Piece Letters/Postcards was not in compliance in FY 2016, the Commission directed the Postal Service to provide FY 2017 results for many of the same data sets that the Postal Service had provided for FY 2015 and FY 2016. *Id.* at 133-35. Additional CHIRs were issued to gather more data and necessary context for those three fiscal years.

The Commission appreciates the Postal Service's provision of data and its robust narrative responses.[175] These responses improve visibility into service performance and the Postal Service's remediation strategy. Moreover, these data, provided consistently year over year, may increase the accuracy of evaluating what actions contribute to improving service performance results and the relative significance of those actions and improvements.

b. Summary of Findings

The Postal Service identifies two groups of indicators it uses to monitor and correct service performance issues. One group of indicators relate to the five processing phases and identify root causes of failure. The second group of indicators are based on the 24-Hour Clock and identify opportunities for individual facilities to accurately process more volume by completing certain processing actions by a particular time of day. The Commission finds utility in continuing to monitor both groups of indicators.

The Commission views the indicators relating to the five processing phases as particularly useful in isolating the root cause(s) of delays specific to the First-Class Mail Single-Piece Letters/Postcards product.[176] These indicators are particularly useful because the Postal Service is able to disaggregate data by service standard category: 2-Day and 3-5-Day.[177]

[173] Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, Service Improvement Plan (Docket No. ACR2015, Service Response).

[174] Docket No. ACR2016, Library Reference USPS–FY16–29, December 29, 2016, file "FY16-29 Service Performance Report.pdf," at 9 (FY 2016 Service Performance Report).

[175] *See, e.g.*, Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 33, December 28, 2017, Excel file "CHIR.33.Qs.2.3.Data.xlsx" (Docket No. ACR2016, December 28, 2017 Public File); Library Reference USPS–FY17–29, Excel file "Response2 - ACD.FCM.FY17Q3Q4.pub.xlsx" (December 29, 2017 Public File); Responses to CHIR No. 2, question 7.a, Excel file "ChIR.2.Q7.24 Hour Clock.xlsx" (24-Hour Clock Results File FY 2017); Responses to CHIR No. 11, question 4, Excel file "CHIR No. 11 Response Q4.xlsx" (24-Hour Clock Results File FY 2015-FY 2016).

[176] Except for the data regarding air capacity gaps and Critically Late Trips (CLTs) discussed in section V.A.3.c.4, *infra*, the data apply to a particular subset of First-Class Mail Single-Piece Letters/Postcards—those mailpieces measured by EXFC.

[177] The First-Class Mail Single-Piece Letters/Postcards product includes two service standards: 2-Day and 3-5-Day.

The Commission focuses its discussion on the 3-5-Day component because the Commission has noted particular concerns with the service performance results for this component. FY 2015 ACD at 132; section V.A.4.a., *infra*. The Commission analyzes trends evident in nationwide quarterly data for these failure indicators from FY 2015 through FY 2017.

The Commission is encouraged by the Postal Service's progress in reducing the levels of several indicators from FY 2015 to FY 2017, particularly for the transit phase. The Commission encourages the Postal Service to continue these efforts. It remains important to make progress at all processing phases because of their interdependent and cumulative nature.

The Commission also evaluates the link between these failure indicators and national service performances results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 through FY 2017. No single processing phase is the sole contributor to service performance results; however, from FY 2015 through FY 2017, certain indicators showed that their related processing phases were more closely linked to nationwide service performance results than others. Accordingly, the Commission focuses its discussion on such indicators. Notwithstanding this focused discussion, the Commission finds that it is important to continue to monitor each indicator because processing network challenges may change over time.

The Commission views the indicators based on the 24-Hour Clock as providing a different type of utility—primarily due to two differences in measurement objectives. First, while the failure indicators for the five processing phases produce data that are disaggregated by product and service standard category, the 24-Hour Clock measurements combine different products and classes. This is because the 24-Hour Clock is used to monitor the relative speed of Postal Service network operations overall. Second, whereas the measurements for the failure indicators for the five processing phases have remained constant from FY 2015 through FY 2017, some of the 24-Hour Clock metrics have been adjusted. This is because the 24-Hour Clock is designed to adjust to network or mail flow changes. Because of these two differences, product-specific quantitative analysis of the 24-Hour Clock metrics is more limited than the quantitative analysis of the failure indicators for the five processing phases.

Therefore, the Commission focuses its discussion of the 24-Hour Clock on the four clearance targets identified by the Postal Service as areas of concern. For each of these four areas, the Commission analyzes the Postal Service's progress from FY 2015 to FY 2017, both qualitatively and quantitatively (as the data allows). Notwithstanding this focused discussion, the Commission finds that it is important to continue to monitor each indicator to ensure clearance of volume through all processing actions in an accurate and timely fashion.

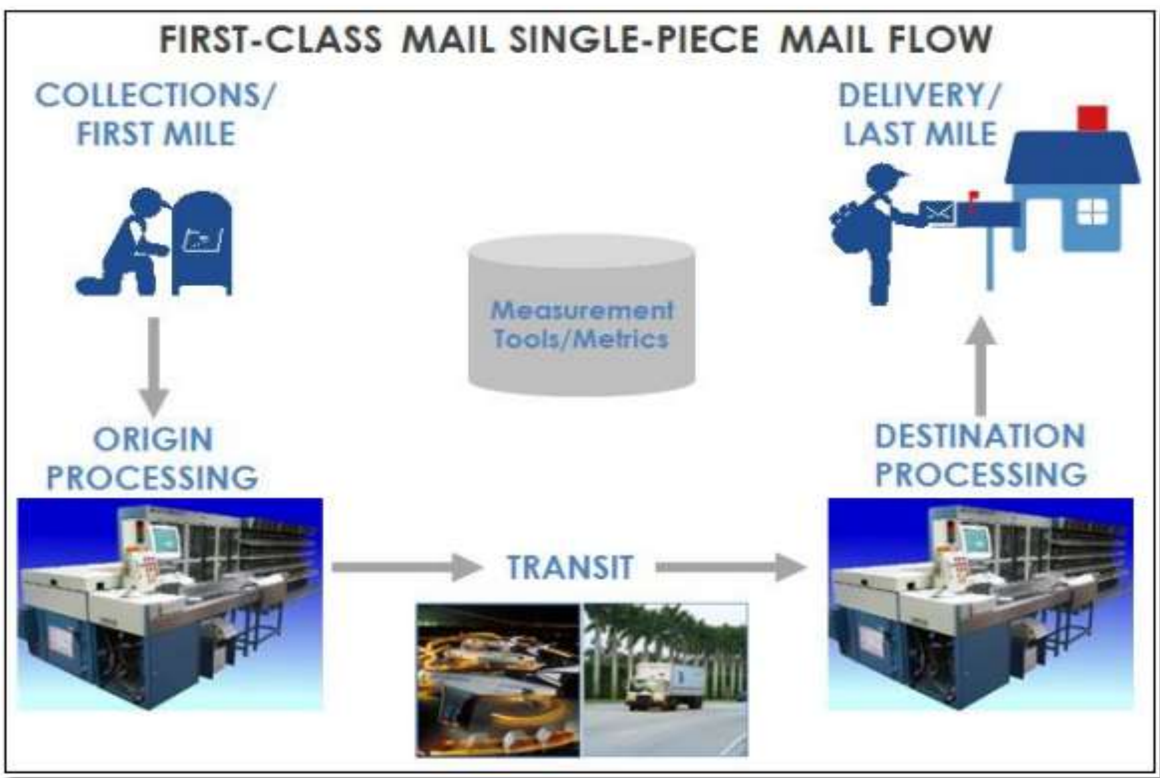
c. The Five Processing Phases

(1) Introduction

The Postal Service explains that the general flow of a First-Class Mail Single-Piece Letter or Postcard involves five processing phases. First, the Collections/First Mile phase refers to the pickup from the collection box, initial transport, and cancellation processing at the origin facility. Second, the origin processing phase refers to the initial sortation(s) and subsequent assignment to ground or air transportation. Third, the transit phase refers to when a mailpiece travels by ground or air transportation to destination processing facilities. Fourth, the destination processing phase refers to the sortation(s) for delivery. Fifth, the Delivery/Last Mile phase refers to the final phase where the carrier delivers the mailpiece.

Figure V-2 depicts the Postal Service's visualization of the five processing phases.

Figure V-2
First-Class Mail Single-Piece Mail Flow



Source: Docket No. ACR2015, Service Response at 3.

The five phases do not have uniform and concrete start and end points; instead, the general processing flow is fluid, reactive, and varies based on local conditions. Because each of the five phases flows into the next,[178] the cumulative effect of a relatively low number of failures at a particular phase (or interim processing action) may have the potential for significant downstream delays. Evaluating the significance of failures occurring throughout the five processing phases on the national service performance results is important to assessing the relative success of the Postal Service's improvement efforts.

The Commission subdivides its discussion according to the five phases identified by the Postal Service. For each phase, the discussion summarizes the general processing flow. To frame the discussion of each phase, the Commission uses a diagram that focuses on the processing actions during that phase that represent opportunities for measurement, data collection, and corrective action.[179] Further discussion and analysis are focused on the metrics identified by the Postal Service relating to each processing phase for 3-5-Day First-Class Mail Single-Piece Letters/Postcards.[180] Generally, the data assigns the root cause of failure to various interim processing action(s) that occur within the five phases.

As discussed in the phase-specific analysis below, the data and explanations provided by the Postal Service suggest that the origin processing, transit, and destination processing phases provide the most opportunities for service performance improvement. The Commission notes that the indicators discussed in the transit and destination processing phases show a correlation to national service performances results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards in FY 2015 through FY 2017.

The remaining indicators, which are not as closely linked to overall FY 2015 through FY 2017 service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, offer additional insight into the Postal Service's processing network. Therefore, the Commission will continue to monitor and evaluate data from all indicators. Based on this analysis and the Commission's findings concerning service performance in FY 2017, the Commission directs the Postal Service to provide updated data related to each processing phase in FY 2018. The exact requirements of this directive are discussed in section V.A.4.a., *infra*.

(2) Collections/First Mile

Collections/First Mile refers to the first phase, in which a First-Class Mail Single-Piece Letter or Postcard proceeds from collection through the cancellation process. *See* FY 2016 ACD at 106. During this phase, the Postal Service collects the mailpiece from a collection

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178 Carriers from the Delivery/Last Mile phase return with mail that will eventually be included in processing.

179 The diagrams are not an exhaustive description of the processing actions that occur. The arrows connecting the measurement points illustrate intra-phase transportation such as from a collection point to a postal facility, mail movement inside a postal facility, or between postal facilities. Opportunities to add visibility into these aspects of each phase also exist.

180 The Commission focuses its discussion on the 3-5-Day service standard because the Commission has noted particular concerns with the service performance results for this service standard. FY 2015 ACD at 137; section V.A.4.a., *infra*.

box or other collection point, transports it to the origin processing facility, unloads the mailpiece, and moves it to a facer-canceller machine to receive a cancellation mark.[181] The diagram below illustrates these three processing points.

The Postal Service monitors collection delays that occur in retrieving mail from a collection box or in the handoff to the facility. Responses to CHIR No. 2, question 8.a. The Postal Service explains that the "Collection Delay failure indicator supersedes all other failure indicators if no subsequent cycle time checkpoints are met." *Id.* Table V-6 shows that for each quarter of FY 2015 through FY 2017, collection delays were reported for fewer than .5 percent of 3-5-Day First-Class Mail Single-Piece Letters/Postcards.

Table V-6
Nationwide Collection Delays Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	0.14	0.19	0.19
Q2	0.25	0.23	0.20
Q3	0.13	0.13	0.13
Q4	0.20	0.11	0.20

Source: Docket No. ACR2016, December 28, 2017 Public File, tab "Q2 and 3a;" Responses to CHIR No. 11, question 5; Docket No. ACR2015, Service Response at 5.

The Commission's preliminary assessment of collection delay data supports the Postal Service's assertion that collection delays did not have a significant impact on national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards in FY 2015 through FY 2017. Nonetheless, continuing to monitor collection delay data provides necessary transparency. Further, continuing to evaluate and correct issues that occur in the first phase of processing helps to ensure that failures at this phase will remain relatively low and minimizes downstream delays.

(3) Origin Processing

Origin processing refers to the phase that includes the first processing operations after a First-Class Mail Single-Piece Letter or Postcard receives a cancellation mark. FY 2016 ACD at 110. These processing actions include an origin primary sortation (as well as a

[181] *Id.* "A cancellation mark, or postmark, is applied to prevent the reuse of the indicia and to provide a date which is recognized as a valid time determinate. The cancellation mark consists of the city, state, and date to identify when and where a mailpiece was processed." Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-5 and 7-21 of Chairman's Information Request No. 1, January 10, 2017, question 3 (Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1).

secondary sortation, if necessary) and then assignment to transit, if necessary. *Id.* The diagram below illustrates the processing points.

The Commission asked the Postal Service to quantify the First-Class Mail Single-Piece Letters/Postcards receiving first processing operations one day after collection. FY 2015 ACD at 138. In response, the Postal Service indicated that it used the Transit Time Measurement System (TTMS) to monitor origin processing delays. Docket No. ACR2015, Service Response at 9. The Postal Service classifies a mailpiece as experiencing an origin processing delay if the mailpiece receives either:

- an outgoing secondary scan after 0:00 on the day of induction or
- a late outgoing primary scan after 23:00 on the day of induction (if no secondary scan exists).

Responses to CHIR No. 2, question 8.a. The Commission recognizes the importance of the origin processing phase due to the potential impact on subsequent processing. Monitoring origin processing delay data is useful to correct failures that occur during early processing and therefore minimize failures downstream.

Table V-7 shows that for each quarter of FY 2015 through FY 2017, origin processing delays were reported for fewer than 5 percent of 3-5-Day First-Class Mail Single-Piece Letters/Postcards.

Table V-7
Nationwide Origin Processing Delays Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	1.47	3.54	3.58
Q2	4.57	2.68	2.57
Q3	2.40	1.32	1.47
Q4	1.57	1.19	1.59

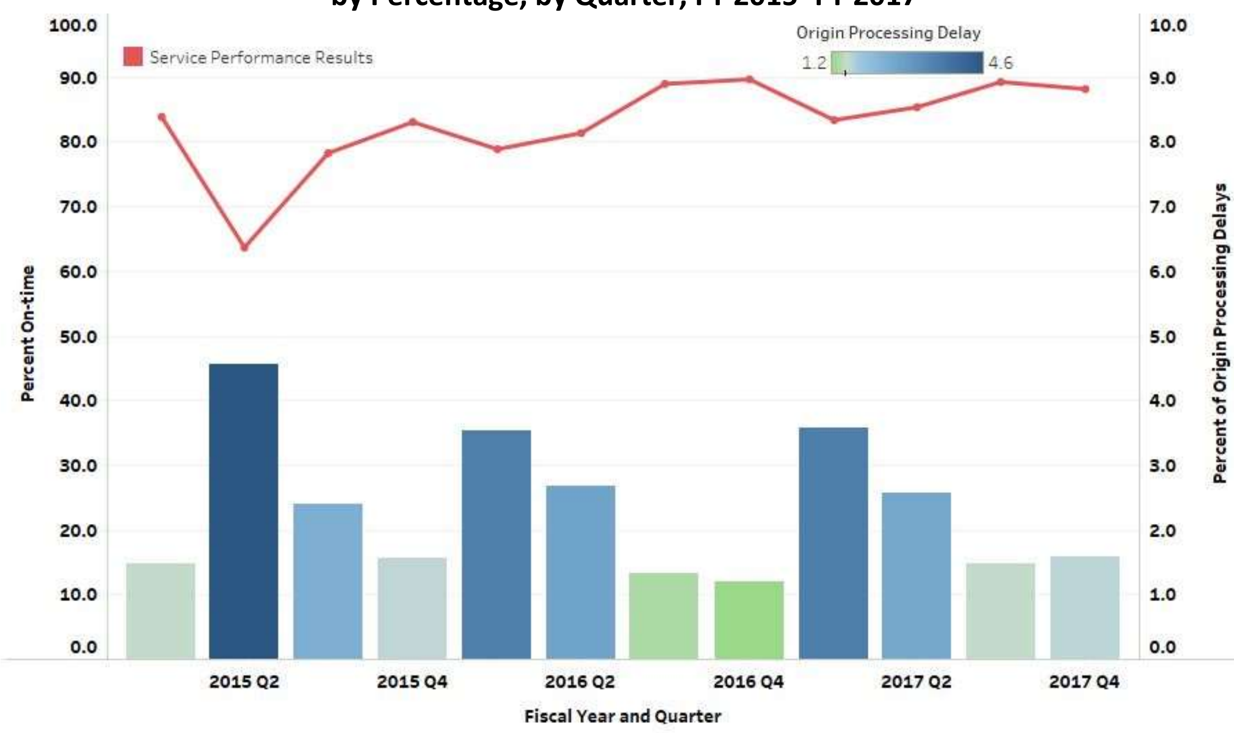
Source: December 29, 2017 Public File, tab "Q3c;" Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 13, February 10, 2017, question 1 (Docket No. ACR2016, Responses to CHIR No. 13).

The results for each quarter of FY 2017 follow a similar quarterly pattern as the results for each quarter of FY 2016. During FY 2016 and FY 2017, origin processing delays were reported to occur at higher percentages in Quarters 1 and 2 and lower percentages in Quarters 3 and 4. FY 2015 does not correspond to the same quarterly pattern—origin processing delays were lowest in FY 2015 Quarter 1 and spiked in FY 2015 Quarter 2. This coincides with the implementation of Phase 2 of Network Rationalization, which began on January 5, 2015, in early FY 2015 Quarter 2. FY 2016 ACD at 118.

Although the percentage of 3-5-Day First-Class Mail Single-Piece Letters/Postcards with origin processing delays reported in Quarters 2 and 3 of FY 2017 improved relative to the levels reported in Quarters 2 and 3 of FY 2015, the data suggest that the significant progress occurred during FY 2016. Moreover, the levels of origin processing delays reported in Quarter 1 increased in each fiscal year; however, FY 2017 Quarter 1 did not report as large an increase over the same period in the prior fiscal year (0.04 percentage points) as FY 2016 did (2.07 percentage points). The Commission encourages the Postal Service to focus on reducing the level of origin processing delays.

Figure V-3 compares quarterly origin processing delays and service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017. Generally, in quarters where origin processing delays decreased, service performance results improved and in quarters where origin processing delays increased, service performance results declined.

Figure V-3
Service Performance Results and Nationwide Origin Processing Delays Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Source: December 29, 2017 Public File, tab "Q3c;" Docket No. ACR2016, Responses to CHIR No. 13, question 1. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*.

As seen in Figure V-3, the correlation between the changes in origin processing delays and changes in service performance results, while evident, is not consistent from FY 2015 through FY 2017. The Commission notes two primary explanations. First, the Postal Service has the ability to accelerate mail through the collections and origin processing phases using process-advancing techniques. Second, the overall percentage levels of mailpieces impacted by origin processing delays from FY 2015 through FY 2017 remains below 5 percent, which is not sufficient to account for the entire service performance result.

Therefore, the Commission does not view origin processing delays as having been particularly influential on 3-5-Day First-Class Mail Single-Piece Letters/Postcards service performance results for FY 2015 through FY 2017. Nonetheless, continuing to monitor origin processing delays provides necessary transparency. Further, continuing to evaluate and correct issues that occur in the earlier processing phases helps to ensure that failures at this phase will remain relatively low and minimizes downstream delays.

(4) Transit

Transit refers to the transportation of a mailpiece that is destined for an address outside of the local service area from which it was mailed. FY 2016 ACD at 115. During this phase, the mailpiece travels from the origin processing facility to the destination processing facility. *Id.* The Commission subdivides its discussion of the transit phase by transportation mode—air and ground. For each mode, the Commission discusses two indicators. The first indicators for each mode provide a good snapshot of particular problems identified by the Postal Service—air capacity gaps and ground trips that arrive more than 4 hours late (CLTs). The second indicators for each mode are AADC/ADC processing delays, which correlate to national service performances results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards in FY 2015 through FY 2017. Taken together these four indicators help gauge the efficacy of the Postal Service's transit network.

(i) Air Transit

With respect to air transit, the Postal Service follows five general steps. The Postal Service's first air transit processing action—securing capacity and assigning the mailpiece to the appropriate air carrier and intermediate ground carrier(s)—follows the last step of the origin processing phase. Second, the mailpiece is transferred to an intermediate ground carrier contracted to deliver the mailpiece to the air carrier. Third, after traveling some distance by ground, the intermediate operator transfers the mailpiece to the contracted air carrier. Fourth, the mailpiece is transported to the destination processing facility. Finally, the mailpiece is unloaded at the destination processing facility. FY 2016 ACD at 115-116. The diagram below illustrates the processing points.

The Commission focuses on two sets of air transit-related data provided by the Postal Service. The first is air capacity gaps, which correspond with the first point on the diagram and may contribute to additional downstream delays. The Commission finds air capacity gap data are useful to assessing the service network. The second is AADC/ADC processing delays (specific to First-Class Mail Single-Piece Letters/Postcards traveling by air), which captures delays that may occur at any of these five processing points. The Commission finds that a relatively close and consistent correlation exists between air transit AADC/ADC processing delays and service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 through FY 2017.

The air capacity gap refers to the difference between the airplane space secured and the space requested by the Postal Service. The Postal Service stated that Phase 2 of Network Rationalization resulted in insufficient air carrier capacity, which the Postal Service asserted was one of the primary reasons for the dramatic decline in First-Class Mail service performance results in FY 2015. FY 2015 ACD at 133. In response to CHIRs and the FY 2016 ACD, the Postal Service provides air capacity gap data for each fiscal quarter since Phase 2 of Network Rationalization was implemented.

Table V-8 and Figure V-4 display the air capacity gap reported by quarter for FY 2015 Quarter 2 through FY 2017 Quarter 4.

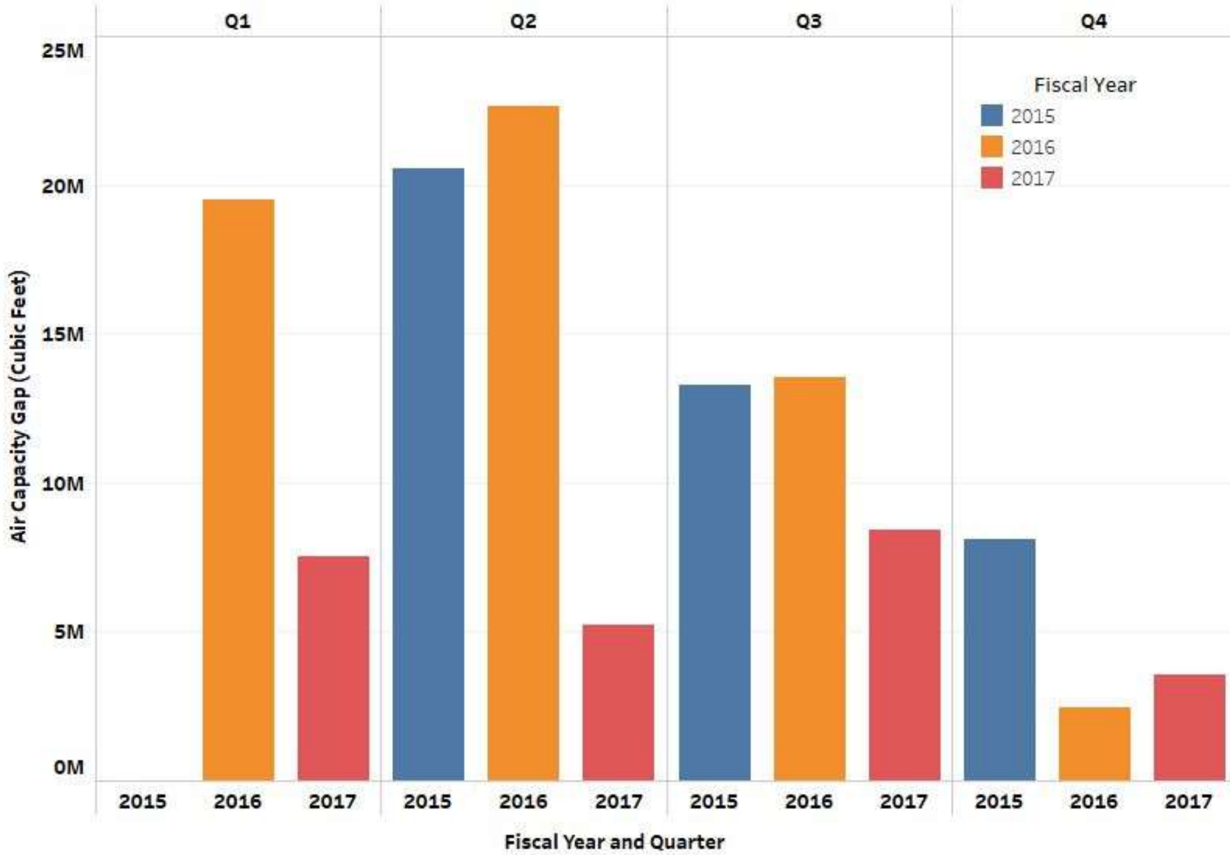
Table V-8
Air Capacity Gap, by Volume, by Quarter, FY 2015–FY 2017

	Air Carrier Capacity Requested	Air Carrier Capacity Received	Air Capacity Gap
FY 2015 Q2	172,802,712	152,268,168	20,534,544
FY 2015 Q3	166,389,873	153,097,529	13,292,344
FY 2015 Q4	164,085,103	155,999,285	8,085,818
FY 2016 Q1	212,745,658	193,238,920	19,506,738
FY 2016 Q2	252,678,595	230,048,715	22,629,880
FY 2016 Q3	212,352,972	198,815,088	13,537,884
FY 2016 Q4	198,440,550	195,992,958	2,447,592
FY 2017 Q1	203,329,800	195,798,675	7,531,125
FY 2017 Q2	199,514,640	194,290,278	5,224,362
FY 2017 Q3	186,500,834	178,092,434	8,408,400
FY 2017 Q4	177,735,982	174,191,004	3,544,977

Note: Data is calculated using average daily cubic feet volume. "Data is not provided for [FY 2015] Quarter 1 because Phase 2 of Network Rationalization was implemented on January 5, 2015, at the beginning of FY 2015 Quarter 2." FY 2015 ACD at 133 n.231.

Source: December 29, 2017 Public File, tab "Q4a;" Docket No. ACR2016, Response of the United States Postal Service to Question 1 of the Chairman's Information Request No. 28, March 17, 2017, question 1 (Docket No. ACR2016, Responses to CHIR No. 28); Docket No. ACR2015, Responses of the United States Postal Service to Questions 15-26 of Chairman's Information Request No. 2, January 19, 2016, question 19.b. (Docket No. ACR2015, January 19, 2016 Responses to CHIR No. 2).

Figure V-4
Air Capacity Gap, by Volume of Cubic Feet, by Quarter, FY 2015–FY 2017



Note: Data is calculated using daily cubic feet volume. "Data is not provided for [FY 2015] Quarter 1 because Phase 2 of Network Rationalization was implemented on January 5, 2015, at the beginning of FY 2015 Quarter 2." FY 2015 ACD at 133 n.231.

Source: December 29, 2017 Public File, tab "Q4a;" Docket No. ACR2016, Responses to CHIR No. 28, question 1; Docket No. ACR2015, January 19, 2016 Responses to CHIR No. 2, question 19.b.

Generally, the air capacity gap has decreased since FY 2015. For FY 2017 Quarters 1 and 2, the air capacity gaps have decreased over 60 percent relative to the same Quarters in FY 2016. For FY 2017 Quarter 3, the air capacity gap decreased over 38 percent relative to FY 2016 Quarter 3. Although the FY 2017 Quarter 4 air capacity gap was slightly higher than the gap reported for FY 2016 Quarter 4, the FY 2017 Quarter 4 air capacity gap has decreased over 56 percent relative to FY 2015 Quarter 4.

The Postal Service's focus on securing adequate levels of air capacity has yielded a 57 percent decrease in the total air capacity gap reported between FY 2016 (58,122,094 cubic feet) and FY 2017 (24,708,864 cubic feet). These results show that the Postal Service requested and secured more appropriate quantities of air capacity to meet service needs in FY 2017. The Commission views these data as useful to assessing the air transit network. The Commission commends the Postal Service for its progress and encourages the Postal Service to continue these efforts.

The Postal Service also monitors air transit based on AADC/ADC processing delays. The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard as experiencing an AADC/ADC processing delay if the mailpiece receives a processing scan at the expected AADC plant after 12:00 PM on the day before the expected day of delivery, and fails to meet any subsequent processing cycle time checkpoints.[182] Table V-9 shows the percentage of AADC/ADC processing delays reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards using air transit for FY 2015 through FY 2017.

Table V-9
Nationwide AADC/ADC Processing Delays (Air Transit) Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	14.33	14.67	10.20
Q2	26.13	13.73	10.24
Q3	14.87	7.63	7.47
Q4	14.53	7.07	7.91

Source: December 29, 2017 Public File, tab "Q4c_air;" Docket No. ACR2016, Responses of the United States Postal Service to Questions 2-4 and 7-13 of Chairman's Information Request No. 16, February 17, 2017, question 2 (Docket No. ACR2016, February 17, 2017 Responses to CHIR No. 16).

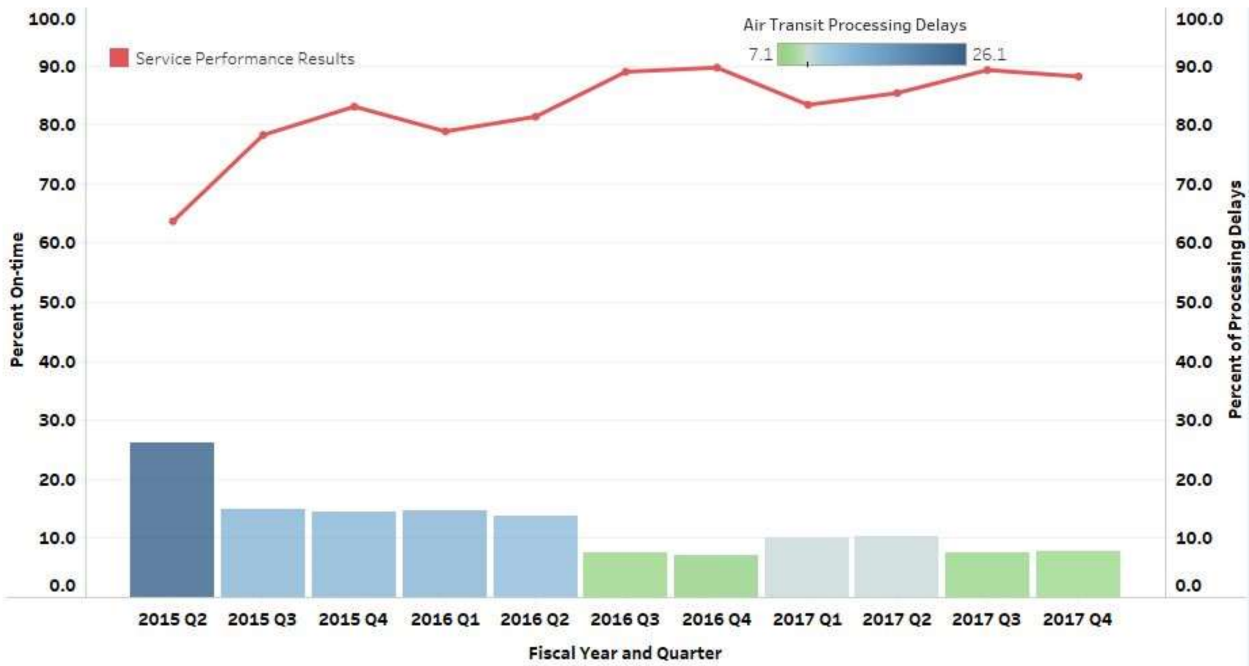
Air transit AADC/ADC processing delays tend to follow a cyclical pattern. The spike in FY 2015 Quarter 2 coincided with the implementation of Phase 2 of Network Rationalization, which began on January 5, 2015. FY 2016 ACD at 118.

Generally, the Commission finds that the FY 2017 quarterly results for air transit AADC/ADC processing delays have improved since FY 2015, particularly for Quarter 2. FY 2017 Quarter 2 air transit AADC/ADC processing delays decreased over 60 percent relative to FY 2015 Quarter 2.

Figure V-5 shows a relatively strong and consistent inverse correlation between AADC/ADC processing delays (air transit) and service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017.

[182] Responses to CHIR No. 2, questions 7.c. ii. and 8.a. For flat-shaped pieces, this metric refers to a piece that receives a processing scan at the expected ADC plant after 12:00 PM on the day before the expected day of delivery, and fails to meet any subsequent processing cycle time checkpoints. *Id.*

Figure V-5
Service Performance Results and Nationwide AADC/ADC Processing Delays (Air Transit) Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Source: December 29, 2017 Public File, tab "Q4c_air;" Docket No. ACR2016, February 17, 2017 Responses to CHIR No. 16, question 2. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*.

These data suggest that proper assignment and timely air transport of First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard corresponded with improved service performance results from FY 2015 through FY 2017. The Commission encourages the Postal Service to focus on further reducing air transit AADC/ADC processing delays.

(ii) Ground Transit

With respect to ground transit, the Postal Service generally follows three steps. The first processing action requires the transfer of the mailpiece to the contracted ground transportation provider. Second, the ground transportation provider transports the mailpiece to the destination processing facility. En route to the destination processing facility, the mailpiece may be transferred to and transported by additional ground transportation providers. Throughout ground transit, the Postal Service attempts to minimize delays and use more direct routes. Finally, the mailpiece is unloaded at the destination processing facility. The diagram below illustrates the processing points.

The Commission focuses on two sets of ground transit-related data provided by the Postal Service. The first is CLTs, which the Postal Service defines as any trip arriving more than 4 hours past the scheduled arrival time.[183] The Commission finds CLT data are useful to assessing the service network. The second is AADC/ADC processing delays (specific to First-Class Mail Single-Piece Letters/Postcards traveling by ground), which captures delays that may occur at any of these three processing points. The Commission finds that a correlation exists between ground transit AADC/ADC processing delays and service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 through FY 2017. The Commission notes that this correlation is not as strong and consistent as the link observed for air transit AADC/ADC processing delays.

The Postal Service identifies a CLT by comparing the actual arrival scan to the scheduled arrival scan at the destination facility. Responses to CHIR No. 2, question 7.b.iii. The Postal Service reports using its Surface Visibility (SV)[184] diagnostic tool to identify the route, trip, and the destinating area and district. Responses to CHIR No. 2, question 7.b.iii.

Figure V-6 shows the volume of CLTs in FY 2015 through FY 2017, disaggregated by area. As illustrated by Figure V-6, in FY 2017, the number of CLTs reported for each area significantly declined from the levels reported in FY 2015 and FY 2016.

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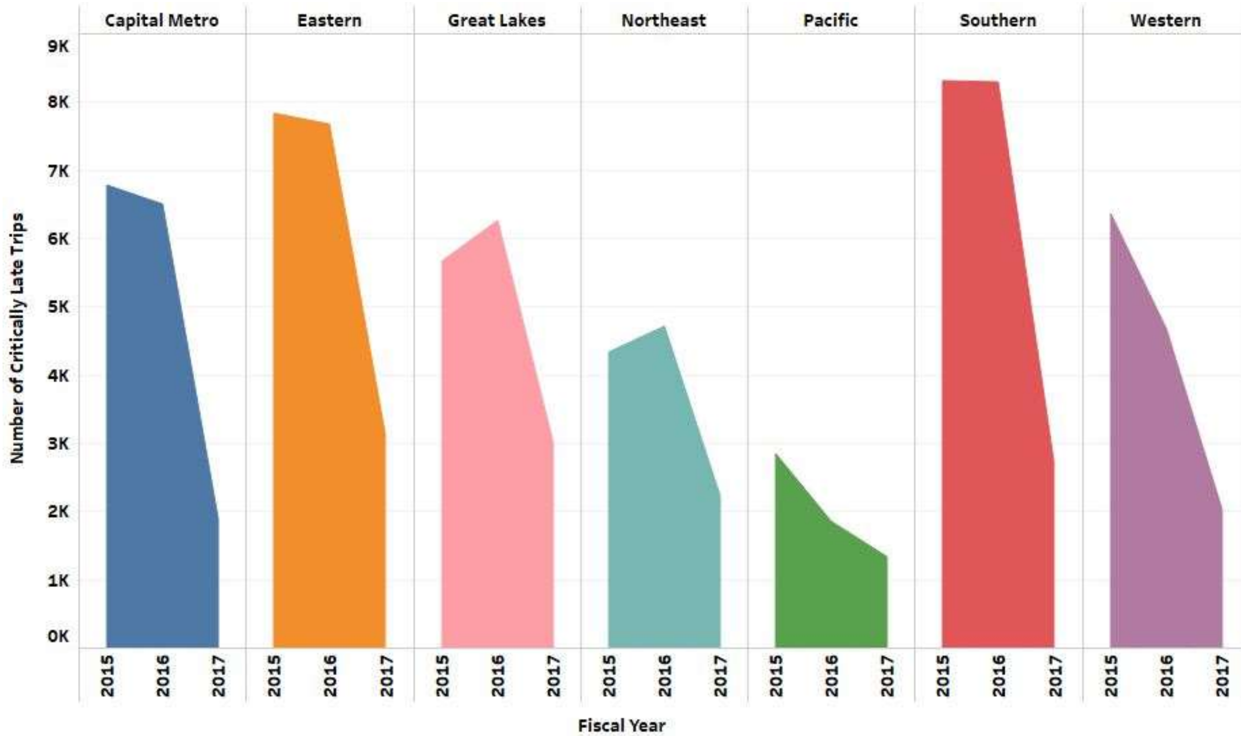
[183] Responses to CHIR No. 2, question 7.b.ii. The causes of these delays include postal dock operation errors, surface transportation contractor mechanical problems, or scheduling conflicts. Docket No. ACR2015, Service Response at 11. The Postal Service emphasizes that data are not sufficiently granular to determine whether a failed piece was delayed at origin, destination, or during transit. *Id.* at 15.

[184] During FY 2016, the Postal Service expanded SV to include more processing facilities. Docket No. ACR2015, Service Response at 13. During FY 2017, sites using SV were able to access an improved interface known as SVWeb, which increased the data and analytical capabilities of the diagnostic systems and dashboards. *See id.*; *see also* Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 14.

Figure V-6
CLTs, by Area, FY 2015–FY 2017



Note: SV identifies the CLT based on the destinating district and area. Responses to CHIR No. 2, question 7.b.iii.

Source: December 29, 2017 Public File, tab "Q4e;" Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 13.

Table V-10 compares the percentage decrease of CLTs to the percentage increases in service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 to FY 2017 for each Postal Service area and the nation.

Table V-10
Declines in CLTs and Increases in 3-5-Day First-Class Mail Single-Piece Letters/Postcards Service Performance Results, by Area and Nationwide, FY 2015 to FY 2017

	CLTs			On-time Service Performance Results
Area	**FY 2015**	**FY 2017**	**% Decrease**	**% Increase**
Capital Metro	6779	1896	**72.0%**	**11.4%**
Eastern	7824	3133	**60.0%**	**8.8%**
Great Lakes	5668	2991	**47.2%**	**10.8%**
Northeast	4338	2228	**48.6%**	**13.3%**
Pacific	2840	1324	**53.4%**	**15.7%**
Southern	8311	2718	**67.3%**	**13.8%**
Western	6366	2029	**68.1%**	**11.1%**
Total	42126	16319	**61.3%**	**12.0%**

Note: SV identifies the CLT based on the destinating district and area. Responses to CHIR No. 2, question 7.b.iii.

Source: December 29, 2017 Public File, tab "Q4e;" Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 13.

In FY 2017, the Postal Service reports over 61 percent fewer CLTs nationwide than in FY 2015. In FY 2017, each Postal Service area has reported over 47 percent fewer CLTs than in FY 2015. These declines correspond with increasing area-level and national-level service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 to FY 2017. The Commission views these data as useful to assessing the ground transit network.

The Postal Service attributes the decline in CLTs to "education and focus." Responses to CHIR No. 2, question 7.b.i. With regard to education, the Postal Service determined that scanning, dock operation, and supplier issues were the main variables that contributed the most to late trips. *Id.* In response to this finding, the Postal Service established the Stimulated Action initiative, which requires corrective actions based on occurrences of supplier-related delays. *Id.* Through training Administrative Officials, the Postal Service corrected a problem associated with the preparation of the Contract Route Irregularity Report. *Id.* This correction "allowed for a direct approach to supplier inefficiencies." *Id.* The Postal Service also focused on training to improve dock operations and processing. *Id.* Also, the Postal Service focused on vital facilities through weekly teleconferences between Headquarters Surface Transportation and Area and local teams. *Id.* The Commission commends the Postal Service for its progress and encourages the Postal Service to continue its progress in reducing the number of CLTs.

The Postal Service also monitors ground transit based on AADC/ADC processing delays. The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard as experiencing an AADC/ADC processing delay if the mailpiece receives a processing scan at the expected AADC plant after 12:00 PM on the day before the expected day of delivery, and fails to meet any subsequent processing cycle time checkpoints.[185] Table V-11 shows the percentage of AADC/ADC processing delays reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards using ground transit for FY 2015 through FY 2017.

Table V-11
Nationwide AADC/ADC Processing Delays (Ground Transit) Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	6.36	8.88	6.17
Q2	17.37	7.83	5.70
Q3	8.75	3.74	3.43
Q4	7.36	3.41	3.86

Source: December 29, 2017 Public File, tab "Q4c_surface;" Docket No. ACR2016, February 17, 2017 Responses to CHIR No. 16, question 2.

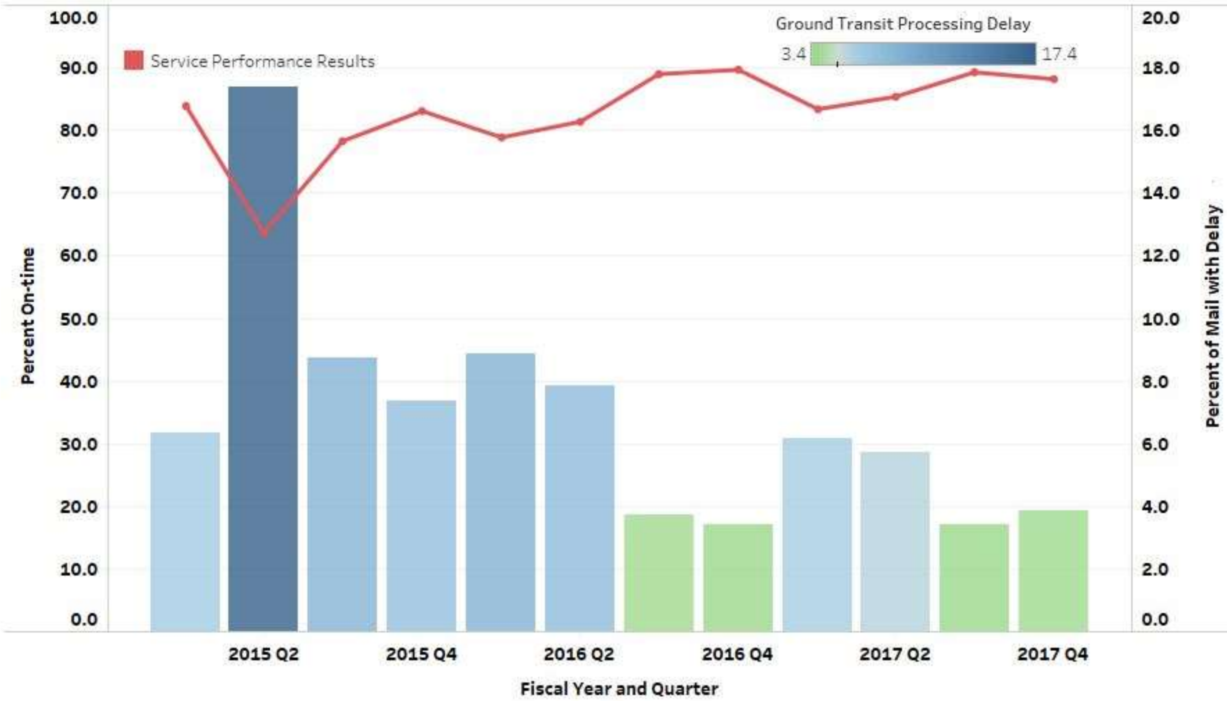
Similar to its air transit counterpart, ground transit AADC/ADC processing delays tend to follow a cyclical pattern. The spike in FY 2015 Quarter 2 coincided with the implementation of Phase 2 of Network Rationalization, which began on January 5, 2015. FY 2016 ACD at 118.

Generally, the Commission finds that the FY 2017 quarterly results for ground transit AADC/ADC processing delays have improved since FY 2015, particularly for Quarter 2. The Commission observes that the levels of ground transit AADC/ADC processing delays reported for FY 2017 Quarters 2 and 3 show two consecutive years of improvement from the levels reported during the same periods in FY 2015 and FY 2016. For FY 2017 Quarters 2 and 3, ground transit AADC/ADC processing delays have decreased over 60 percent relative to the same Quarters in FY 2015.

Figure V-7 compares AADC/ADC processing delays (ground transit) and service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017. Generally, these indicators move in opposite directions on a quarterly basis.

[185] Responses to CHIR No. 2, questions 7.c.ii. and 8.a. For flat-shaped pieces, this metric refers to a piece that receives a processing scan at the expected ADC plant after 12:00 PM on the day before the expected day of delivery, and fails to meet any subsequent processing cycle time checkpoints. *Id.*

Figure V-7
Service Performance Results and Nationwide AADC/ADC Processing Delays (Ground Transit) Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017

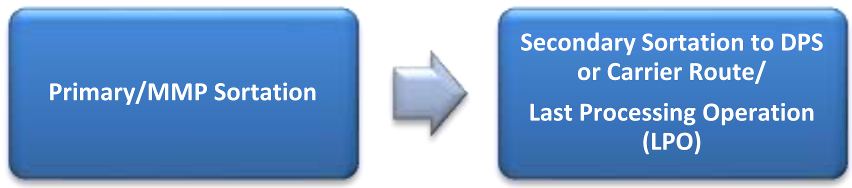


Source: December 29, 2017 Public File, tab "Q4c_surface;" Docket No. ACR2016, February 17, 2017 Responses to CHIR No. 16, question 2. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*.

Generally, ground transit AADC/ADC processing delays corresponded with improved service performance results from FY 2015 through FY 2017. The Commission encourages the Postal Service to continue its efforts to reduce ground transit AADC/ADC processing delays.

(5) Destination Processing

Destination processing refers to the processing phase that occurs after First-Class Mail Single-Piece Letters/Postcards arrive at a destination processing facility. *See* FY 2016 ACD at 124. The basic operational flow for the destination processing phase involves two sortations: a primary sortation and a secondary sortation. First, the mailpiece receives an incoming primary sortation, also known as an MMP sortation. Second, the mailpiece receives an incoming secondary sortation to Delivery Point Sequence (DPS) or Carrier Route sequence. The incoming secondary sort is also known as the Last Processing Operation (LPO) because it is the final automated mail processing operation. The diagram below illustrates the processing points.



The Commission focuses its discussion on 3-5-Day First-Class Mail Single-Piece Letters/Postcards reported to have already missed service standard by LPO ("Miss by LPO"). Miss by LPO aggregates pieces classified by the Postal Service as experiencing root cause failures that may occur during the Collections/First Mile, origin processing, transit, or destination processing phases. Responses to CHIR No. 2, question 8.a.

Table V-12 shows the percentage of 3-5-Day First-Class Mail Single-Piece Letters/Postcards classified as Miss by LPO for FY 2015 through FY 2017.

Table V-12
Nationwide 3-5-Day First-Class Mail Single-Piece Letters/Postcards Reported as Miss by LPO, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	12.50	18.72	13.98
Q2	32.31	16.24	12.04
Q3	18.58	8.89	8.45
Q4	14.90	8.13	9.32

Source: Responses to CHIR No. 20, question 1;
December 29, 2017 Public File, tab "Q5b;" Docket No. ACR2015, Service Response at 18.

Similar to other processing indicators, Miss by LPO tends to follow a cyclical pattern with a spike in FY 2015 Quarter 2, which coincided with the implementation of Phase 2 of Network Rationalization.

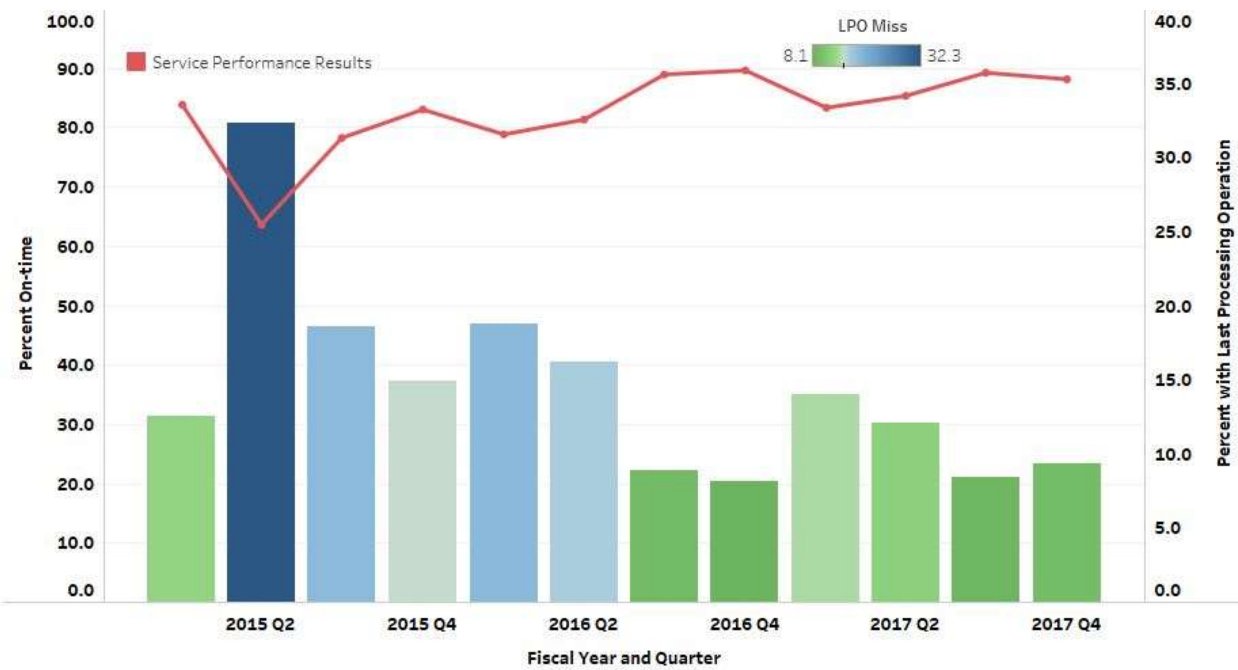
With the exception of Quarter 1, the Commission finds that the FY 2017 quarterly results for Miss by LPO show improvement since FY 2015, particularly for Quarters 2 and 3. The level of mailpieces reported as Miss by LPO for FY 2017 Quarters 2 and 3 decreased over 54 percent relative to the same periods in FY 2015. The Commission observes that the levels of mailpieces reported as Miss by LPO for FY 2017 Quarters 2 and 3 show two consecutive years of improvement from the levels reported during the same periods in FY 2015 and FY 2016.

By contrast, FY 2017 Quarter 4 results did not improve over FY 2016. Instead, the level of mailpieces reported as Miss by LPO for FY 2017 Quarter 4 was slightly higher than the level reported for FY 2016 Quarter 4. Notwithstanding this observation, the level of mailpieces reported as Miss by LPO for FY 2017 Quarter 4 has decreased over 37 percent relative to FY 2015 Quarter 4.

Although the Commission is encouraged by the improvement reported for FY 2017 Quarter 1 relative to FY 2016 Quarter 1, the Commission observes that the level of mailpieces reported as Miss by LPO for FY 2017 Quarter 1 remains higher than the level reported for FY 2015 Quarter 1.

Figure V-8 compares Miss by LPO and service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017.

Figure V-8
Service Performance Results and Nationwide Miss by LPO Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Source: Responses to CHIR No. 20, question 1; December 29, 2017 Public File, tab "Q5b;" Docket No. ACR2015, Service Response at 18. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*.

The Commission finds that this indicator provides valuable insight into nationwide service performance results. This is mainly because the absolute change in quarterly results for Miss by LPO maintains a close inverse relationship with the change in service performance results. For example, the change in the percentage Miss by LPO from the first quarter of FY 2015 to the second quarter of FY 2015 is a decline of 19.8 percentage points, and the change in service performance results for the same time period is an increase of 20.2 percentage points. Table V-13 shows that the difference between the changes in the two indicators is normally within 1 percentage point.

Table V-13
Quarterly Change in Service Performance Results and Miss by LPO Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, FY 2015–FY 2017

	Miss by LPO		Service Performance		Percentage Point Difference Between Quarterly Change
	% Results	Percentage Point Quarterly Change	% On-time Results	Percentage Point Quarterly Change	
FY 2015 Q1	12.5		83.9		
FY 2015 Q2	32.31	-19.81	63.7	20.2	**-0.39**
FY 2015 Q3	18.58	13.73	78.3	-14.6	**-0.87**
FY 2015 Q4	14.9	3.68	83.1	-4.8	**-1.12**
FY 2016 Q1	18.72	-3.82	78.9	4.2	**-0.38**
FY 2016 Q2	16.24	2.48	81.4	-2.5	**-0.02**
FY 2016 Q3	8.89	7.35	89	-7.6	**-0.25**
FY 2016 Q4	8.13	.76	89.7	-0.7	**0.06**
FY 2017 Q1	13.98	-5.85	83.4	6.3	**-0.45**
FY 2017 Q2	12.04	1.94	85.4	-2	**-0.06**
FY 2017 Q3	8.45	3.59	89.3	-3.9	**-0.31**
FY 2017 Q4	9.32	-0.87	88.2	1.1	**-0.23**

Source: Responses to CHIR No. 20, question 1; December 29, 2017 Public File, tab "Q5b;" Docket No. ACR2015, Service Response at 18. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*.

The Commission notes that the quarterly data show the reoccurring tendency of better service performance during Quarters 3 and 4 relative to Quarters 1 and 2. For instance, data for FY 2016 Quarters 1 and 2 show that 18.72 percent and 16.24 percent of mailpieces already missed their service standard by the last processing operation relative to only 8.89 percent and 8.13 percent during Quarters 1 and 2 of the same fiscal year.

These data show a significant difference in effective processing between the first and second halves of the fiscal year. Therefore, the Postal Service should focus its efforts to improve service performance results on reducing the level of 3-5-Day First-Class Mail Single-Piece Letters/Postcards that Miss by LPO, in Quarters 1 and 2.

(6) Delivery/Last Mile

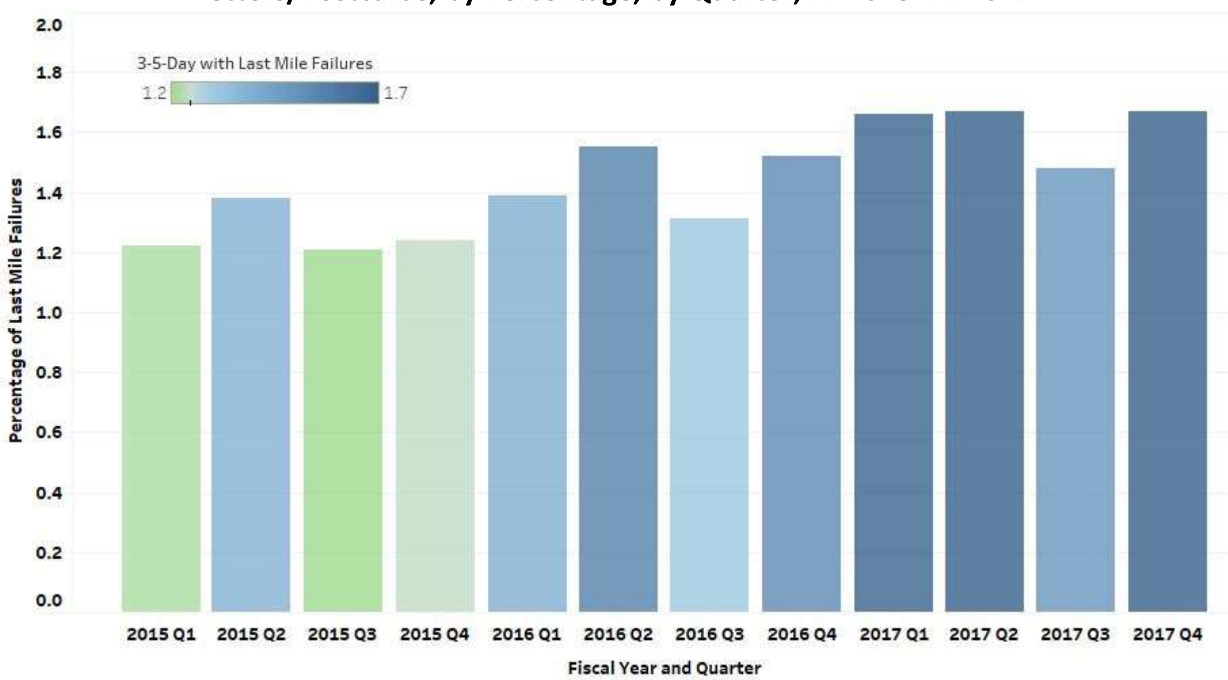
Delivery/Last Mile refers to the final phase during which the mail carrier delivers a mailpiece to the addressee. *See* Docket No. ACR2015, Service Response at 2. The basic operational flow for the Delivery/Last Mile phase involves three major steps: mail dispatch, carrier in office operations, and delivery.[186] The diagram below illustrates three processing points.

[186] First-Class Mail Single-Piece Letters/Postcards that were not processed to the DPS level during the destination processing phase will be manually processed by mail carriers ("cased") before these two steps occur. *See* Docket No. ACR2015, Service Response at 19-20.

The Postal Service assigns a Delivery/Last Mile failure indicator if the failed First-Class Mail Single-Piece Letter or Postcard: has a correct, final scan from the destination plant before 08:00 on the expected day of delivery; has no additional scan anomalies (does not receive a first DPS pass only, does not experience DPS looping, and has the appropriate depth of sort given its destination); and is not delivered by its service standard. Responses to CHIR No. 2, question 8.a. The Postal Service states that Delivery/Last Mile failures may be a result of a delay in mail dispatch from the destination plant or a delay in the Delivery/Last Mile phase. Docket No. ACR2015, Service Response at 18.

Figure V-9 shows the percentage of Delivery/Last Mile failures reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017.

Figure V-9
Nationwide Delivery/Last Mile Failures Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Source: Responses to CHIR No. 11, question 7; December 29, 2017 Public File, tab "Q6a;" Docket No. ACR2015, Service Response at 19.

Each quarter of FY 2017 reports a higher percentage of Delivery/Last Mile failures than the level reported for the same period during the prior two fiscal years.

From FY 2015 through FY 2017, the quarterly Delivery/Last Mile failure percentages were below 2 percent. This supports the Postal Service's assertion that Delivery/Last Mile failures did not significantly impact national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017. This analysis is further corroborated by the Miss by LPO results. Nonetheless, continuing to monitor Delivery/Last Mile failure data provides necessary transparency. Further, continuing to evaluate and correct issues that occur in the final phase of processing helps to ensure that Delivery/Last Mile failures will remain relatively low.

(7) Conclusion

The Commission summarizes key observations for each indicator's quarterly results from FY 2015 through FY 2017:

- Collection delays remained consistently low (fewer than 0.5 percent). Continuing to monitor, evaluate, and correct collection delays is important to ensuring that such failures remain relatively low and minimizes downstream delays.
- Origin processing delays were relatively low (fewer than 5 percent). Continuing to monitor, evaluate, and correct origin processing delays is important to ensuring that such failures remain relatively low and minimizes downstream delays.
- The reduction in air and ground transit failures have improved service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards.
    - The air capacity gap appears to be shrinking from the levels observed in FY 2015.
    - Air transit AADC/ADC processing delays correlate with national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards. This correlation appears to be strong and consistent.
    - The decrease in CLTs correspond with increases in service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards.
    - Ground transit AADC/ADC processing delays correlate with national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards.
- The absolute change in quarterly results for Miss by LPO during destination processing maintains a close inverse relationship with the change in service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards.
- Delivery/Last Mile failures were relatively low (fewer than 2 percent). Continuing to monitor, evaluate, and correct Delivery/Last Mile failures is important to ensuring that such failures remain relatively low.

d. 24-Hour Clock

(1) Introduction

The second group of indicators is based on the Postal Service's national operating plan targets for eight processing actions—referred to as the 24-Hour Clock. For each processing action, the Postal Service sets national clearance goals to process a target percentage of applicable mail by a target time of day. The Commission views the 24-Hour Clock processing metrics as useful indicators for monitoring the relative speed of Postal Service network operations and allowing the Postal Service to monitor service performance trends.

With regard to the 24-Hour Clock processing metrics, the Commission notes that some measurements include several different types of mail products and classes. For each metric, First-Class Mail Single-Piece Letters/Postcards comprise at least some of the applicable mail population measured. In order for the Postal Service to be responsive to the Commission's evaluation of service performance for each Market Dominant product, it should consider designing metrics that highlight data specific to a particular product.

Table V-14 displays the national clearance goals—which include a percentage target and a time target—used during FY 2017 for each processing action included in the 24-Hour Clock. Table V-14 also displays the corresponding processing action(s), and a description of each measurement. The four processing actions identified by the Postal Service as areas of specific concern are bolded in Table V-14 and discussed in more detail below.

Table V-14
24-Hour Clock

Processing Action	Description of Measurement	Percentage Clearance Target	Time Clearance Target (hours)
Cancelled	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards with cancelled postage by the designated clearance time.	80	20:00
Outgoing Primary Cleared	**Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received a primary sortation by the designated clearance time.**	**95**	**24:00**
Outgoing Secondary Cleared	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received a secondary sortation by the designated clearance time.	95	00:30
Assignment to Commercial/FedEx	**Measures the percentage of mail assigned to the air network by the designated clearance time. This metric may include First-Class Mail Single-Piece Letters/Postcards, Presorted Letters/Postcards, Parcels, and Flats. It may also include Priority Mail and First-Class Package Service competitive products.**	**95**	**02:30**
On-time Trips	**Measures the on-time percentage of outbound trips from a mail processing facility between the designated times.**	**88**	**00:00-07:00**
Managed Mail Program (MMP) Cleared	**Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received a primary sortation by the designated clearance time.**	**95**	**15:00 on the day before delivery**
Delivery Point Sequence (DPS) second pass Cleared	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received DPS sortation by the designated clearance time. It may also include Standard Mail Letters.	95	05:00 on the day of delivery
Carriers Returned	Measures the percentage of delivery unit carriers that return to the office by the designated time.	87	17:00 on the day of delivery

Note: Effective September 3, 2017, the Retail (Single-Piece) price category of First-Class Mail Parcels was transferred from the Market Dominant product list to the Competitive product list by the addition of identical services to the existing First-Class Package Service competitive product. Docket No. CP2017-230, Order Approving Price Adjustment for First-Class Package Service Product, August 9, 2017, at 4 (Order No. 4032).

This table displays the national 24-Hour Clock clearance time targets effective for FY 2017. In response to technological improvements, increased visibility, and recent processing trends, the Postal Service reviews and adjusts the 24-Hour Clock targets. Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 22, November 15, 2016, question 2.b.ii. (Docket No. ACR2015, Responses to CHIR No. 22). National 24-Hour Clock clearance time targets for five processing actions (outgoing primary, outgoing secondary, trips departing on-time, MMP, and DPS 2nd pass) were adjusted in FY 2016. *See* 24-Hour Clock Results File FY 2015-FY 2016.

Source: Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 5; Responses to CHIR No. 11, question 1.

The 24-Hour Clock measures a continuous stream of mail processing activities. For each processing action included in the 24-Hour Clock, the Postal Service sets "upper and lower control limits . . . calculated based on average performance and standard deviations" to account for "[s]light variation in performance." Docket No. ACR2015, Responses to CHIR No. 22, question 2.b.i. The Postal Service indicates that the results trigger local action. *Id.*, question 2.b.iv. Specifically, if a facility's performance degrades below the lower control limit established for a processing action, the District Manager, Plant Manager, or both must ensure that the facility implements corrective actions and that the Area Manager of Operations Support receives action plans and results. *Id.*, questions 2.b.i. and 2.b.v. In March 2017, the Postal Service implemented the Operating Plan report, which shows the volume processed after the established 24-Hour Clock clearance time target to monitor daily and weekly performance at the facility level. Responses to CHIR No. 11, question 3.

The Postal Service identified four of the eight 24-Hour Clock clearance targets as areas of specific concern for FY 2017: outgoing primary cleared, assignment to commercial/FedEx, on-time trips, and MMP cleared.[187] The Postal Service indicated that achieving these targets directly influences the ability to achieve subsequent 24-Hour Clock clearance targets. Docket No. ACR2016, Responses to CHIR No. 10, question 2.a. The following discussion focuses on these four areas.

Below, the Commission displays the results for each of these four 24-Hour Clock clearance targets at the national level on a quarterly basis for FY 2015 through FY 2017. In reviewing these results, it is important to note that mailpieces that do not achieve the 24-Hour Clock clearance targets may not necessarily arrive at their destination after the applicable service standard. *See* Responses to CHIR No. 20, question 2.b. However, as the Postal Service explains, failure to meet clearance targets decreases the confidence of delivering the mailpiece on time. *See id.* Also, as discussed specifically for each target below, several of the 24-Hour Clock clearance time targets were adjusted during FY 2015 through FY 2017.

The Commission concurs with the Postal Service that the four identified processing actions have a significant impact on overall service performance results. The Commission finds that the Postal Service should continue its focus on these actions to support improved service performance results. Based on this analysis and the Commission's findings concerning service performance in FY 2017, the Commission directs the Postal Service to provide updated data related to the 24-Hour Clock in FY 2018. The exact requirements of this directive are discussed in section V.A.4.a., *infra*.

(2) Outgoing Primary Cleared

Outgoing primary cleared measures the processing of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that require a primary sortation at the origin processing facility. Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1,

[187] Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-3, 4.a, 4.c, and 5-8 of Chairman's Information Request No. 10, February 7, 2017, question 2.a. (Docket No. ACR2016, February 7, 2017 Responses to CHIR No. 10).

question 5.b.ii. The national clearance time targets for completion of this processing action were:

- FY 2015 Quarter 1 through FY 2016 Quarter 2—23:00 hours and
- FY 2016 Quarter 3 through FY 2017 Quarter 4—24:00 hours.

See 24-Hour Clock Results File FY 2015-FY 2016; Responses to CHIR No. 11, question 1.b.

The Postal Service reports using its diagnostic tools to promote facility actions that focus on flowing pieces to the outgoing primary operation faster during FY 2017. Responses to CHIR No. 11, question 2.a. For instance, facility supervisors monitor pieces flowing from cancellation to outgoing primary and promote the prompt flow of pieces from the Advanced Facer Canceller System (AFCS) to outgoing primary roughly once every 30 minutes or less (instead of batching, which would involve waiting for a certain number of pieces before flowing to the next operation). *Id.* Also, to better ensure that metered pieces (which do not require cancellation) bypass the AFCS and proceed directly to outgoing primary, the Postal Service monitors metered pieces that flow through the AFCS. *Id.*

Table V-15 shows the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards reported as clearing outgoing primary by the national clearance time target for FY 2015 through FY 2017.

Table V-15
Nationwide First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards Reported as Receiving Outgoing Primary Sortation by the Designated National Clearance Time, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	85.5	79.8	90.1
Q2	78.6	83.0	93.0
Q3	84.0	95.4	95.0
Q4	87.2	96.1	95.0

Note: For FY 2015 Quarter 1 through FY 2016 Quarter 2, the national clearance time target for completion of outgoing primary was 23:00; for FY 2016 Quarter 3 through FY 2017 Quarter 4, the national clearance time target for completion of outgoing primary was 24:00. 24-Hour Clock Results File FY 2015-FY 2016; *see also* Responses to CHIR No. 11, question 1.b.

Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016.

The increase observed in the national quarterly results beginning in FY 2016 Quarter 3 coincided with the readjustment of the national clearance time target to one hour later in the day.

The Commission observes that clearing mailpieces through outgoing primary by the designated national clearance time target appears to be closely linked to the subsequent 24-Hour Clock target (outgoing secondary cleared). Outgoing secondary cleared measures the processing of First-Class Mail Single-Piece Letters/Postcards and Presorted

Letters/Postcards that require a secondary sortation at the origin processing facility. Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 5.b.iii.

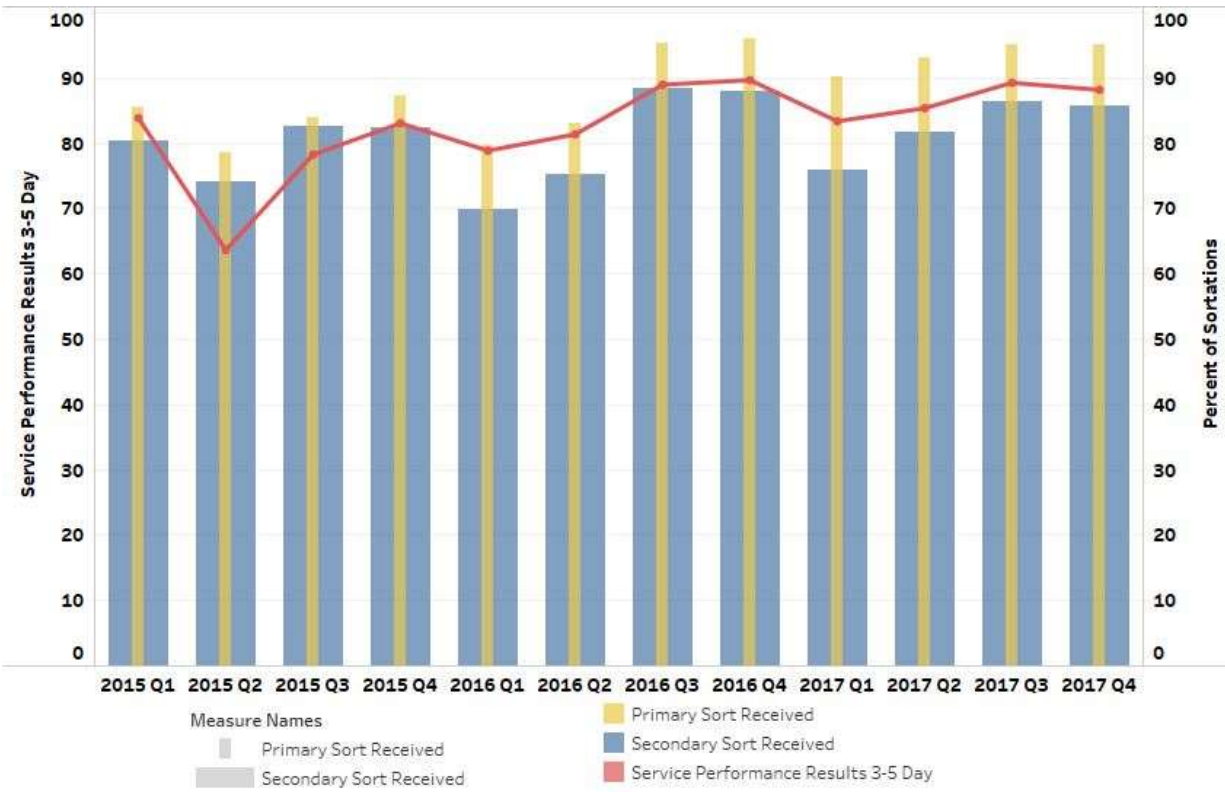
The national clearance time targets for completion of outgoing secondary were:

- FY 2015 Quarter 1 through FY 2016 Quarter 2—24:00 hours (one hour after outgoing primary) and
- FY 2016 Quarter 3 through FY 2017 Quarter 4—00:30 hours (30 minutes after outgoing primary).

See 24-Hour Clock Results File FY 2015-FY 2016; Responses to CHIR No. 11, question 1. This reduction of the targeted time between outgoing primary and outgoing secondary appears to further demonstrate the Postal Service's focus on ensuring the continuous flow of pieces through outgoing primary operations.

Figure V-10 compares the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards reported as clearing outgoing primary and outgoing secondary by the national clearance time target with service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017. Generally, these three indicators move in the same direction on a quarterly basis.

Figure V-10
Nationwide First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards Reported as Receiving Outgoing Primary and Outgoing Secondary Sortations by the Designated National Clearance Times Compared to the Service Performance Results Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Note: For FY 2015 Quarter 1 through FY 2016 Quarter 2, the national clearance time target for completion of outgoing primary was 23:00 and the national clearance time target for completion of outgoing secondary was 24:00. For FY 2016 Quarter 3 through FY 2017 Quarter 4, the national clearance time target for completion of outgoing primary was 24:00 and the national clearance time target for completion of outgoing secondary was 00:30. 24-Hour Clock Results File FY 2015-FY 2016; *see also* Responses to CHIR No. 11, questions 1.b. and 1.c.

Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*.

These data support the Postal Service's continued focus on the continuous flow of pieces through outgoing primary (and secondary) sortations. The Commission encourages the Postal Service to continue its efforts.

(3) Assignment to Commercial/FedEx

Assignment to commercial/FedEx measures the mailpieces reported as assigned to the air network. Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 5.b.iv. The mailpieces measured include First-Class Mail Single-Piece Letters/Postcards, Presorted Letters/Postcards, and Flats, as well as some competitive products (Priority Mail and First-Class Package Service parcels). *Id.* The national clearance time target for completion was 02:30 hours during FY 2015 through FY 2017. *See* 24-Hour Clock Results File FY 2015-FY 2016; Responses to CHIR No. 11, question 1.d.

The Postal Service indicated that this target primarily applies to pieces with a 3-5-Day service standard. Docket No. ACR2016, February 7, 2017 Responses to CHIR No. 10, question 2.a. The Postal Service reports using its diagnostic tools to promote facility actions that focus on avoiding a bottleneck during FY 2017. Responses to CHIR No. 11, question 2.b. For instance, the Postal Service aims to load all available pieces as early as possible to reduce the risk that pieces miss the plane's departure. *Id.*

Table V-16 displays the percentage of mailpieces reported as assigned to the air network by 02:30 hours for each quarter of FY 2015 through FY 2017.

Table V-16
Nationwide Mailpieces Reported as Assigned to FedEx/Commercial Carrier by 02:30 hours, by Percentage, by Quarter, FY 2015–FY 2017

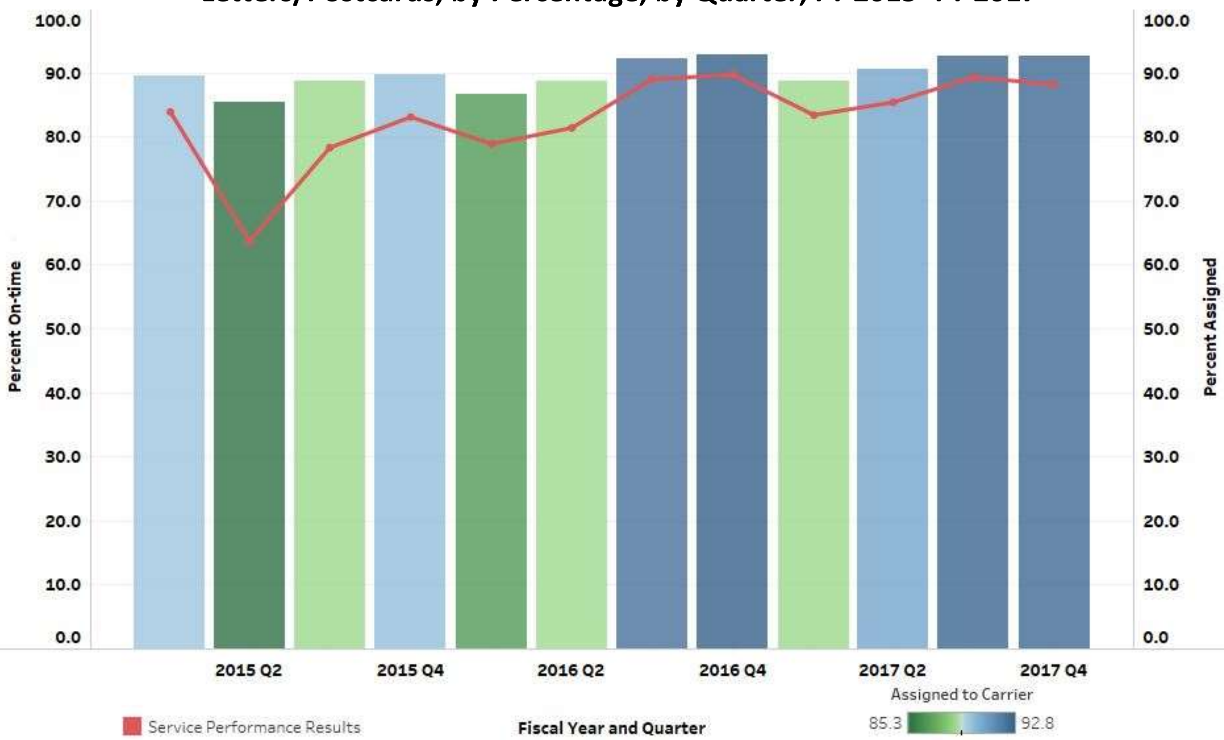
	FY 2015	FY 2016	FY 2017
Q1	89.6	86.6	88.6
Q2	85.3	88.7	90.6
Q3	88.6	92.2	92.6
Q4	89.8	92.8	92.5

Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016.

These data show that the percentage of the mailpieces assigned to the air network by 02:30 hours has generally increased over the past three fiscal years. This trend shows that the Postal Service has made progress in FY 2016 and FY 2017 in assigning a greater percentage of mailpieces to the air network by 02:30 hours.

Figure V-11 compares the percentage of mailpieces reported as assigned to the air network and service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017. Generally, these two indicators move in the same direction on a quarterly basis.

Figure V-11
Nationwide Mailpieces Reported as Assigned to FedEx/Commercial Carrier by 02:30 hours and Service Performance Results Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at http://www.prc.gov/documents/quarterly-performance.

These data support the Postal Service's focus on this processing action to improve service performance results. The Commission encourages the Postal Service to continue its efforts.

(4) On-time Trips

On-time trips measures the on-time percentage of outbound trips from a mail processing facility via the surface network. Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 5.b.viii.

The national clearance time targets for completion of this processing action were:

- FY 2015 Quarter 1 through FY 2016 Quarter 2—04:00 hours through 09:00 hours (5-hour range) and
- FY 2016 Quarter 3 through FY 2017 Quarter 4—00:00 hours through 07:00 hours (7-hour range).

See 24-Hour Clock Results File FY 2015-FY 2016*;* Responses to CHIR No. 11, question 1.e. The adjustment of the national clearance time targets to earlier in the day reflects the

Postal Service's efforts to dispatch the mail to its surface network faster. Further, the adjustment to measure a wider time range reflects the Postal Service's increased attention to ensuring that outbound trips depart on-time.

The Postal Service indicated that these clearance targets primarily apply to the pieces with the Overnight or 2-Day service standard. Docket No. ACR2016, February 7, 2017 Responses to CHIR No. 10, question 2.a. The Postal Service reports using its diagnostic tools (such as SV[188]) to promote facility actions that focus on reducing late departures during FY 2017. Responses to CHIR No. 11, question 2.c. For instance, facilities have used Gemba weeks (Lean Six Sigma techniques that focus on site-specific review and improvement, such as performing process walks) to adjust staffing, improve communication, and dispatch pieces to the surface network faster. *Id.*

Table V-17 shows the percentage of on-time outbound trips departing a mail processing facility between the designated national clearance time targets for FY 2015 through FY 2017.

Table V-17
Nationwide On-Time Outbound Trips from a Mail Processing Facility between the Designated National Clearance Times, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	75.1	75.7	64.6
Q2	77.2	80.0	72.5
Q3	84.2	79.5	86.9
Q4	83.0	85.3	85.6

Note: For FY 2015 Quarter 1 through FY 2016 Quarter 2, the national clearance time targets were 04:00 through 09:00; for FY 2016 Quarter 3 through FY 2017 Quarter 4, the national clearance time targets were 00:00 through 07:00. 24-Hour Clock Results File FY 2015-FY 2016; *see also* Responses to CHIR No. 11, question 1.e.

Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016.

The decline observed in FY 2017 Quarters 1 and 2 relative to the same periods in FY 2016 may reflect the adjusted time clearance target range, which begin earlier in the day and capture a longer duration. FY 2017 Quarter 3 and 4 results improved from the levels observed in the same periods in FY 2016, which used the same time clearance target range. The on-time trip results provide a useful snapshot of the Postal Service's ability to handoff pieces (particularly those with an Overnight or 2-Day service standard) to its ground transportation network. The Commission encourages the Postal Service to increase its focus on this area.

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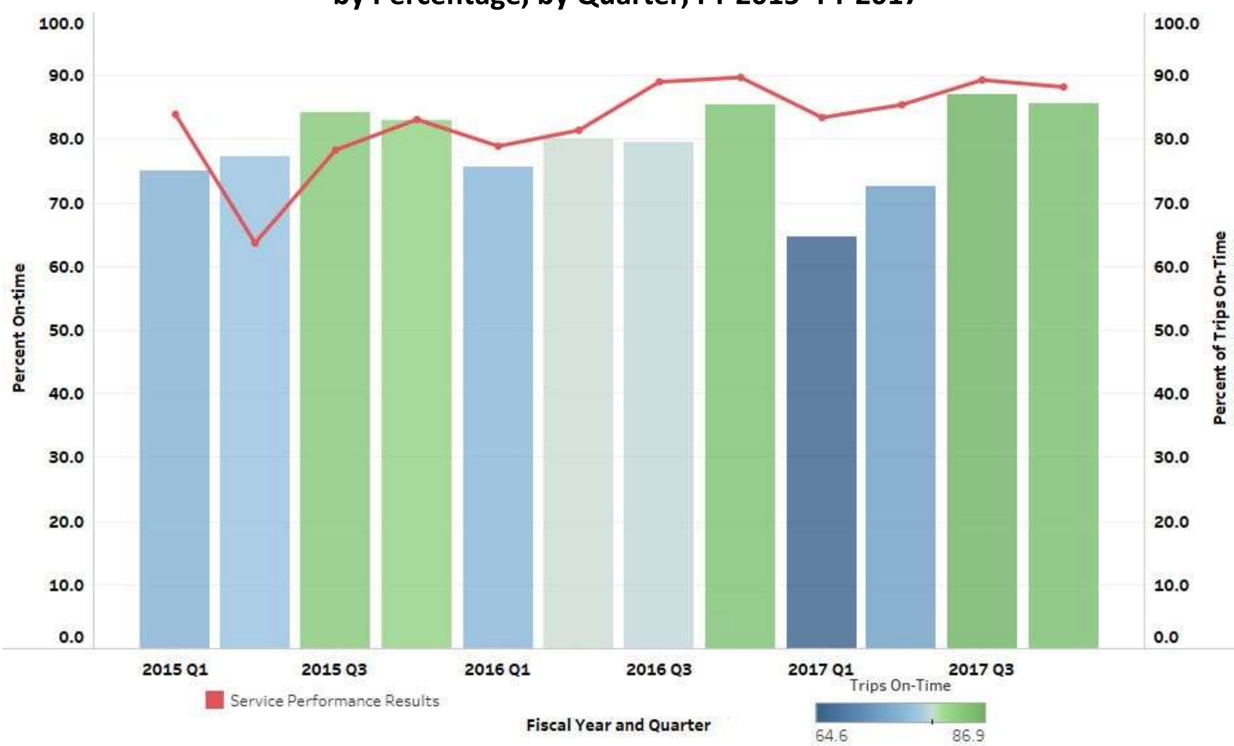
[188] The SV tool is discussed in n.184 , *supra*.

Figure V-12 compares the percentage of on-time outbound trips departing a mail processing facility between the designated national clearance time targets with service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017.

Figure V-12
Nationwide On-Time Outbound Trips from a Mail Processing Facility Between the Designated National Clearance Times Compared to the Service Performance Results Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Note: For FY 2015 Quarter 1 through FY 2016 Quarter 2, the national clearance time targets were 04:00 through 09:00; for FY 2016 Quarter 3 through FY 2017 Quarter 4, the national clearance time targets were 00:00 through 07:00. 24-Hour Clock Results File FY 2015-FY 2016; *see also* Responses to CHIR No. 11, question 1.e.

Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at *http://www.prc.gov/documents/quarterly-performance*.

These data suggest that 3-5-Day First-Class Mail Single-Piece Letters/Postcards service performance results are more closely linked with assignment to air transit rather than on-time trip departure. For example, comparing FY 2015 Quarters 1 and 2 shows that the percentage of on-time trips increased slightly while 3-5-Day First-Class Mail Single-Piece Letters/Postcards service performance results declined sharply.

(5) MMP Cleared

MMP cleared measures the processing of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that require a primary sortation at the destination processing facility. Docket No. ACR2016, January 10, 2017 Responses to CHIR No. 1, question 5.b.iv.

The national clearance time targets for completion of this processing action were:

- FY 2015 Quarter 1—12:00 hours,
- FY 2015 Quarter 2 through FY 2016 Quarter 2—20:00 hours, and
- FY 2016 Quarter 3 through FY 2017 Quarter 4—15:00 hours.

See 24-Hour Clock Results File FY 2015-FY 2016*;* Responses to CHIR No. 11, question 1.f.

Because this target applies to pieces that originate in one service area and destinate in a different service area, it captures pieces that have flowed through more of the Postal Service's transit network. *See* Docket No. ACR2016, February 7, 2017 Responses to CHIR No. 10, question 2.a*.* The Postal Service reports using its diagnostic tools (such as SV[189]) that focus on flowing pieces to the incoming primary operation faster during FY 2017. Responses to CHIR No. 11, question 2.d. For instance, the facilities monitor incoming trips to ensure timely unloading of pieces, begin processing in the morning, and use signs and staging lanes to ensure pieces are processed in an organized First In, First Out (FIFO) order. *Id.*

Table V-18 shows the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards clearing MMP by the national clearance time target for FY 2015 through FY 2017.

Table V-18
Nationwide First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards Reported as Clearing MMP by the Designated National Clearance Time, by Percentage, by Quarter, FY 2015–FY 2017

	FY 2015	FY 2016	FY 2017
Q1	33.8*	67.0	87.8
Q2	64.2	66.7	88.9
Q3	68.1	88.1	89.5
Q4	69.0	89.2	88.2

*For FY 2015 Quarter 1, the national clearance time target was 20:00. The Postal Service states that the FY 2015 Quarter 1 results are artificially low because these results were recast using the 12:00 hours clearance time. 24-Hour Clock Results File FY 2015-FY 2016.

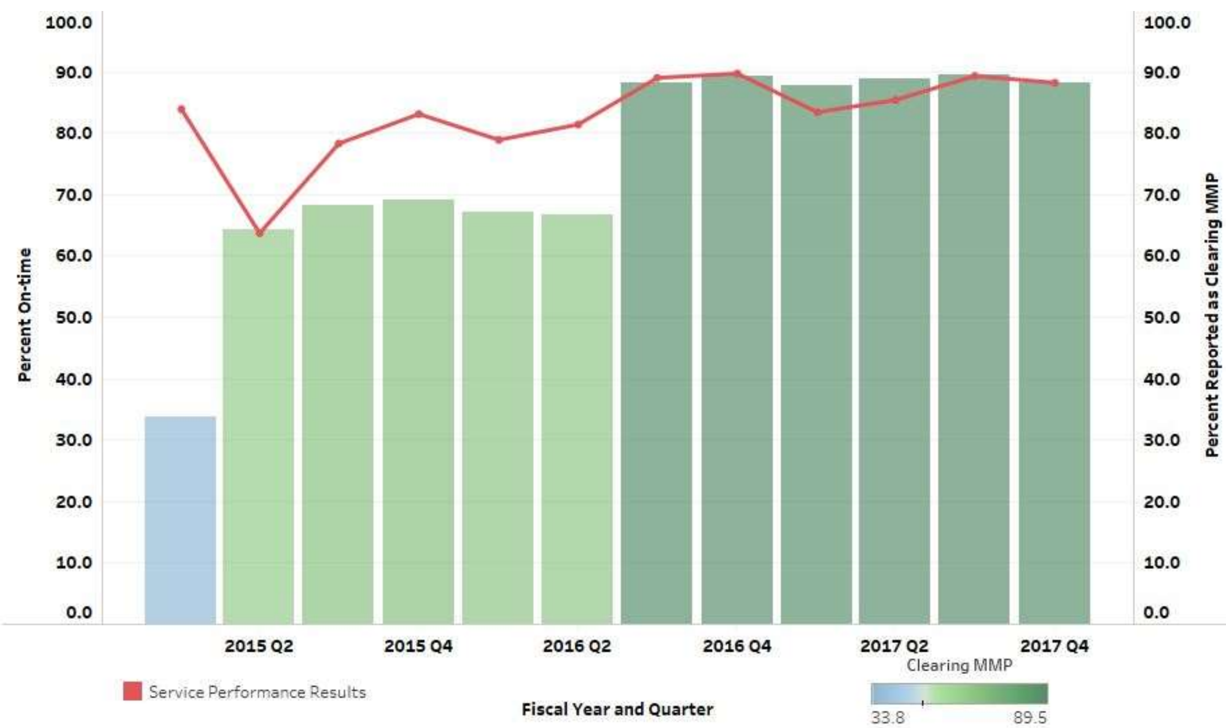
[189] The SV tool is discussed in n.184 , *supra*.

Note: For FY 2015 Quarter 2 through FY 2016 Quarter 2, the national clearance time target was 12:00. For FY 2016 Quarter 3 through FY 2017 Quarter 4, the national clearance time target was 15:00. 24-Hour Clock Results File FY 2015-FY 2016; *see also* Responses to CHIR No. 11, question 1.f.

Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016.

Figure V-13 compares the percentages of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards clearing MMP by the national clearance time target with service performance results reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for FY 2015 through FY 2017.

Figure V-13
Nationwide First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards Reported as Clearing MMP by the Designated National Clearance Time Compared to the Service Performance Results Reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by Percentage, by Quarter, FY 2015–FY 2017



Note: For FY 2015 Quarter 1, the national clearance time target was 20:00; for FY 2015 Quarter 2 through FY 2016 Quarter 2, the national clearance time target was 12:00. The Postal Service states that the FY 2015 Quarter 1 results are artificially low because these results were recast using the 12:00 hours clearance time. For FY 2016 Quarter 3 through FY 2017 Quarter 4, the national clearance time target was 15:00. 24-Hour Clock Results File FY 2015-FY 2016; *see also* Responses to CHIR No. 11, question 1.f.

Source: 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016. FY 2015-FY 2017 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail Single-Piece Letters/Postcards Scores Reports are available at http://www.prc.gov/documents/quarterly-performance.

There is no evident link between the MMP clearance results and quarterly national service performance results for FY 2015 Quarter 1 through FY 2016 Quarter 2. The MMP clearance results provide a useful snapshot of the Postal Service's ability to process pieces that originate in one service area and destinate in a different service area.

(6) Conclusion

For the 24-Hour Clock metrics highlighted by the Postal Service, the Commission summarizes its key observations relating to FY 2015 through FY 2017:

- The Postal Service's focus on ensuring a continuous flow of pieces through outgoing primary sortations by the national clearance time target reduces delays in subsequent processing actions (particularly outgoing secondary).
- The Postal Service's focus on ensuring timely and accurate assignment to the air transit network by 02:30 hours improved service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards.
- The on-time trip results provide a useful snapshot of the Postal Service's ability to handoff pieces (particularly those with an Overnight or 2-Day service standard) to its ground transportation network.
- The MMP clearance results provide a useful snapshot of the Postal Service's ability to process pieces that originate in one service area and destinate in a different service area.

e. Conclusion

The Commission finds that monitoring both groups of indicators provide increased transparency into the mail flow.

For the purposes of assessing and evaluating the service performance of specific Market Dominant products, the Commission finds that the different metrics add different types of value, largely due to their different measurement objectives. The failure indicators from the five processing phases are particularly useful in isolating the root cause(s) of delays specific to the First-Class Mail Single-Piece Letters/Postcards product (and specific to the 3-5-Day service standard component). The Miss by LPO data and the transit data show the closest links with national service performances results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards in FY 2015 through FY 2017.

The 24-Hour Clock is a valuable tool for responding to local level operational issues and for qualitative analysis of the network. However, the quantitative analysis at the national level is more limited because the 24-Hour Clock does not disaggregate data by product (or service standard component) and some measurements are adjusted to respond to operational realities.

The Commission's quantitative and qualitative analysis show that the Postal Service has made progress in improving service performance since the dramatic and rapid decline observed in FY 2015. To promote continued improvement, the Commission will continue to monitor these data. Based on this analysis and the Commission's findings concerning service performance in FY 2017, the Commission directs the Postal Service to provide updated data in FY 2018. The exact requirements of this directive are discussed in section V.A.4.a., *infra*.

4. FY 2017 Service Performance Results by Class

a. First-Class Mail

(1) FY 2016 Directives

Determining that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2016, the Commission directed the Postal Service to improve results for all First-Class Mail products in FY 2017. FY 2016 ACD at 133. The Commission also directed the Postal Service to provide a detailed product-specific plan for any First-Class Mail product for which service performance results did not improve in FY 2017. *Id.* Finding First-Class Mail Single-Piece Letters/Postcards to be out of compliance for the second year in a row, the Commission directed the Postal Service to provide trackable data related to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. *Id.* That directive, the Postal Service's response, and the Commission's analysis are discussed in section V.A.3., *supra*.

The Commission also found that "service performance results for First-Class Mail Flats continue[d] to fall substantially short of annual performance targets." FY 2016 ACD at 135. To address this product's service performance results as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues.[190] That proceeding remains pending.

(2) FY 2017 Results

For the third time since the Postal Service began reporting service performance of all Market Dominant mail products, no First-Class Mail product met or exceeded its service performance target. *See* Table V-2, *supra*. Table V-19 shows service performance results compared to the annual on-time percentage targets for all First-Class Mail products from FY 2012 to FY 2017.

[190] Docket No. RM2018-1, Advance Notice of Proposed Rulemaking to Develop Data Enhancements and Reporting Requirements for Flats Issues, October 4, 2017 (Order No. 4142).

Table V-19
First-Class Mail
Service Performance Results, FY 2012–FY 2017, by Percentage

	FY 2012		FY 2013		FY 2014		FY 2015		FY 2016		FY 2017	
	Target	On-Time	*Target*	On-Time	*Target*	On-Time	*Target*	On-Time	*Target*	On-Time	*Target*	On-Time
Single-Piece Letters/Postcards												
Overnight	*96.65*	**97.0**	*96.70*	**96.8**	*96.80*	**96.7**	*96.80*	**95.8**	*N/A*	**N/A**	*N/A*	**N/A**
2-Day	*94.15*	**95.6**	*95.10*	**96.0**	*96.50*	**95.7**	*96.50*	**94.0**	*96.50*	**95.5**	*96.50*	**95.5**
3-5-Day	*92.85*	**93.2**	*95.00*	**92.5**	*95.25*	**88.6**	*95.25*	**77.3**	*95.25*	**84.8**	*95.25*	**86.6**
Presorted Letters/Postcards												
Overnight	*96.65*	**96.9**	*96.70*	**97.3**	*96.80*	**97.2**	*96.80*	**96.0**	*96.80*	**96.3**	*96.80*	**96.6**
2-Day	*94.15*	**95.9**	*95.10*	**97.2**	*96.50*	**96.6**	*96.50*	**93.8**	*96.50*	**95.2**	*96.50*	**95.8**
3-5-Day	*92.85*	**95.4**	*95.00*	**95.4**	*95.25*	**92.5**	*95.25*	**88.0**	*95.25*	**91.9**	*95.25*	**93.4**
Flats												
Overnight	*96.65*	**89.8**	*96.70*	**86.6**	*96.80*	**84.9**	*96.80*	**83.2**	*96.80*	**84.5**	*96.80*	**84.6**
2-Day	*94.15*	**85.0**	*95.10*	**84.4**	*96.50*	**82.5**	*96.50*	**79.8**	*96.50*	**80.6**	*96.50*	**82.0**
3-5-Day	*92.85*	**80.0**	*95.00*	**77.6**	*95.25*	**72.6**	*95.25*	**65.3**	*95.25*	**70.9**	*95.25*	**73.9**
Parcels												
Overnight	*96.65*	**89.8**	*96.70*	**89.8**	*96.80*	**88.4**	*96.80*	**84.8**	*96.80*	**N/A**	*N/A*	**N/A**
2-Day	*94.15*	**85.8**	*95.10*	**89.1**	*96.50*	**86.8**	*96.50*	**84.2**	*96.50*	**88.7**	*96.50*	**92.4**
3-5-Day	*92.85*	**88.4**	*95.00*	**88.8**	*95.25*	**83.8**	*95.25*	**73.7**	*95.25*	**80.3**	*95.25*	**85.8**
Outbound Single-Piece International												
Overnight		**95.0**		**94.3**		**93.0**		**90.4**		**N/A**		**N/A**
2-Day		**92.9**		**92.7**		**93.2**		**92.5**		**90.6**		**90.8**
3-5-Day		**90.7**		**87.5**		**85.7**		**82.5**		**84.5**		**83.7**
Combined	*94.00*	**91.5**	*94.00*	**88.9**	*94.00*	**87.8**	*94.00*	**85.3**	*94.00*	**86.2**	*94.00*	**85.9**
Inbound Letter Post												
Overnight		**94.1**		**92.3**		**91.8**		**88.6**		**N/A**		**N/A**
2-Day		**91.5**		**90.7**		**89.4**		**83.7**		**88.1**		**90.5**
3-5-Day		**89.2**		**86.5**		**82.9**		**71.3**		**77.7**		**82.7**
Combined	*94.00*	**90.5**	*94.00*	**88.0**	*94.00*	**85.2**	*94.00*	**75.6**	*94.00*	**81.4**	*94.00*	**85.5**

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: FY 2017 Service Performance Report at 4; Docket No. ACR2016, Library Reference USPS–FY16–29, December 29, 2016, file "FY16-29 Service Performance Report.pdf," at 4 (FY 2016 Service Performance Report); Docket No. ACR2015, Library Reference USPS–FY15–29, December 29, 2015, file "Service Performance ACR FY15.pdf," at 4 (FY 2015 Service Performance Report); Docket No. ACR2014, Library Reference USPS–FY14–29, December 29, 2014, file "Service Performance ACR FY14.pdf," at 4 (FY 2014 Service Performance Report); Docket No. ACR2013, Library Reference USPS–FY13–29, December 27, 2013, file "Service Performance ACR FY13.pdf," at 4 (FY 2013 Service Performance Report); Docket No. ACR2012, Library Reference USPS–FY12–29, December 28, 2012, file "Service Performance ACR FY12.pdf," at 4 (FY 2012 Service Performance Report).

(3) Postal Service Report

The Postal Service reports on the decline observed in service performance results for First-Class Mail Single-Piece Letters/Postcards (2-Day) and Outbound Single-Piece International (3-5-Day) from FY 2016 to FY 2017.

The Postal Service notes that FY 2017 results for First-Class Mail Single-Piece Letters/Postcards (2-Day) decreased less than 0.02 percent from the level reported in FY 2016. FY 2017 ACR at 50 n.43. The Postal Service reports that it will continue "[l]everaging available data and enhanced technology" to "identify and correct deficiencies at the local levels." FY 2017 Service Performance Report at 8. The Postal Service also reports that it uses Network Operation Control Centers at each administrative Area office and the national headquarters "to track processing and transportation across the nation in near-real time." *Id.* at 8-9.

The Postal Service notes that FY 2017 results for First-Class Mail Outbound Single-Piece International (3-5-Day) declined from the level reported in FY 2016. FY 2017 ACR at 50 n.43. The Postal Service states that this drove FY 2017 results for First-Class Mail Outbound Single-Piece International (Combined) downward as well. *Id.* With respect to the declining results observed for First-Class Mail Outbound Single-Piece International (3-5-Day and Combined), the Postal Service reports on five actions that it is taking to improve service performance: using leading indicators, such as volumes after clearance time; driving operating plans; employing further communication among the workforce on International Outbound processing; using Informed Visibility (IV) tools to help expose pinch points and improve cycle time; and ensuring dispatch discipline, including sweeping all available International mail. FY 2017 Service Performance Report at 9. The Postal Service identifies late clearance of outgoing mail processing as an opportunity to improve performance. Responses to CHIR No. 2, question 9.

(4) Comments

NTU characterizes the Postal Service's record for meeting its on-time service performance target for First-Class Mail Single-Piece Letters/Postcards, its highest volume product, as "disappointing." NTU Comments at 1. Similarly, FoF remarks that the Postal Service has failed to meet its on-time service performance target for First-Class Mail Single-Piece Letters/Postcards, its highest volume product, three years in a row. Frontiers of Freedom Comments at 1. Referring to this as "an undeniable trend," FoF observes that this "reflects a second-rate image of the agency." *Id.* FoF further perceives the Postal Service leadership's lack of a "conscious or effective effort" to fix the shortfalls to be "even more exasperating." *Id.* ACI also remarks that the Postal Service failed to meet service performance goals for First-Class Mail products. ACI Comments at 1.

The Public Representative notes that First-Class Mail service performance improved from FY 2016 to FY 2017. PR Comments at 4. She characterizes the improvement observed in the 3-5-Day reporting categories as "significant." *Id.* She states that this "may mean that the Postal Service has been successful in addressing related transportation and processing issues." *Id.* She notes that "this is positive news, which demonstrates that the Postal Service is recovering from service performance issues." *Id.*

Observing that all First-Class Mail products remain below target for the third year in a row, the Public Representative suggests that "the Postal Service should continue to develop, and the Commission should continue to promote, methods that will improve service." *Id.* at 4. She further observes that many First-Class Mail products are only a few percentage points away from meeting their applicable service performance targets. *Id.* at 6. She also notes that First-Class Mail Flats "continues to be a low performing product" despite improving in FY 2017. *Id.* She agrees with the Postal Service that the "'efforts and methods' used by the Postal Service are working;" however, she notes that it is unclear which efforts and methods are working. *Id.* (quoting FY 2017 ACR at 53). She suggests that the Commission continue to pursue additional information to help discover which efforts and methods are working and which are ineffective. *Id.*

Reiterating that the on-time performance results for First-Class Mail Flats improved two years in a row, the Postal Service states that "[b]ecause the [Postal Service's] efforts 'are working,' the Public Representative does not demonstrate any need for additional action by the Commission in this area." Postal Service Reply Comments at 17. The Postal Service also notes that it "continues to work diligently with the Commission to identify and address the root causes of problems with service performance, especially with respect to flats." *Id.* at 17-18. The Postal Service references its provision of information in Docket No. RM2018-1.[191]

(5) Commission Analysis

For the third consecutive year, no First-Class Mail product met its percentage on-time service performance target. The Postal Service provides information related to its use of data to improve service performance. FY 2017 Service Performance Report at 8-10.

Except for First-Class Mail Single-Piece Letters/Postcards (2-Day) and First-Class Mail Outbound Single-Piece International (2-Day, 3-5-Day, and Combined), First-Class Mail service performance results have improved for two consecutive years. The Postal Service was responsive to the FY 2016 ACD directives relating to First-Class Mail.

The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2017. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for all First-Class Mail products in FY 2018. If the Postal Service does not maintain or improve its service performance results in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how performance shall be improved.

[191] *Id.* at 18 (citing Docket No. RM2018-1, Response of the United States Postal Service to Commission Information Request No. 1, December 4, 2017 (Docket No. RM2018-1, Responses to CIR No. 1).

Although the improvements observed in the FY 2017 First-Class Mail service performance results are encouraging, particularly after the improvement reported in FY 2016, the Commission remains concerned that the FY 2017 service performance results reported for First-Class Mail Single-Piece Letters/Postcards have not returned to the level reported before FY 2015 and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the third year in a row. The Commission directs the Postal Service to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2018.

To facilitate the monitoring of service performance (particularly for First-Class Mail Single-Piece Letters/Postcards), the Commission also directs the Postal Service to provide trackable data that is consistently collected and will continue to add transparency to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. The Commission directs the Postal Service to provide the following information (as applicable) for FY 2018, Quarter 1, Quarter 2, and "mid-year" within 90 days of the issuance of this report.[192] *The Commission directs the Postal Service to include the following information for FY 2018, Quarter 3, Quarter 4, "second-half" and annualized for the fiscal year, in the FY 2018 ACR.*[193] *Except for items 1a, 1b, 4a, and 4c, all results should be disaggregated by service standard category (2-Day and 3-5-Day).*

1. *The 24-Hour Clock:*
   a. *The national level, area level, and district level performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals) for each quarter and annually for FY 2018.*[194]
   b. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2018. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2018, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2017.*[195]
2. *Collections/First Mile:*
   a. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with collection delays.*[196]
3. *Origin Processing:*

[192] Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2018.

[193] Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2018. Annualized refers to the aggregation of the data for all four quarters of FY 2018.

[194] *See* December 29, 2017 Public File, tab "Q1a."

[195] *See* Library Reference USPS–FY17–NP30, December 29, 2017, Excel file "Response2 - ACD.FCM.FY17Q3Q4.Q1b.NONPUBLIC.xlsx."

[196] *See* December 29, 2017 Public File, tab "Q2b;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q2 and 3a."

a. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays.*[197]

b. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards that are classified as origin processing failures (root cause at origin).*[198]

4. *Transit:*

a. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated using daily cubic feet volume.*[199]

b. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, presented in three separate tables specific to air transportation, ground transportation, and both.*[200]

c. *The national level, area level, and district level of CLTs (any HCR that is late more than 4 hours)*.[201]

5. *Destination Processing:*

a. *The national level, area level, and district level of TTMS aggregate estimates of First-Class Mail Single-Piece Letters/Postcards that have already missed the service standard by the LPO within the destination processing phase.*[202]

b. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards that are classified as destination processing failures (root cause at destination).*[203]

6. *Delivery/Last Mile:*

a. *The national level, area level, and district level of TTMS aggregate estimates of First-Class Mail Single-Piece Letters/Postcards with Delivery/Last Mile failures reported.*[204]

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[197] *See* December 29, 2017 Public File, tabs "Q3b" and "Q3c;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3b."

[198] *See* December 29, 2017 Public File, tab "Q4f;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3d."

[199] *See* December 29, 2017 Public File, tab "Q4a."

[200] *See* December 29, 2017 Public File, tabs "Q4b," "Q4b_air," "Q4b_surface," "Q4c," "Q4c_air," and "Q4c_surface;" Docket No. ACR2016, December 28, 2017 Public File, tabs "Q3c," "Q3c_air," and "Q3c_surface."

[201] *See* December 29, 2017 Public File, tab "Q4e."

[202] *See id.,* tab "Q5b;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3e."

[203] *See* Responses to CHIR No. 11, question 6.

[204] *See* December 29, 2017 Public File, tab "Q6a;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3f."

b. The national level, area level, and district level volume and percentage of First-Class Mail Single-Piece Letters/Postcards subject to the 2-Day or the 3-5-Day service standards.[205]

The Commission expects that the Postal Service will provide this data and information consistent with the methodology used in Docket Nos. ACR2015, ACR2016, and ACR2017 and use an Excel spreadsheet format, if practicable. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2017 should clarification be necessary.

Furthermore, service performance results for First-Class Mail Flats continue to fall substantially short of annual performance targets. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues.

b. USPS Marketing Mail

(1) FY 2016 Directives

In the FY 2016 ACD, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for the USPS Marketing Mail products that failed to meet the applicable annual service performance targets. FY 2016 ACD at 140.

The Commission expressed concern with the declining results for USPS Marketing Mail Every Door Direct Mail—Retail observed in FY 2016. *Id.* The Commission directed the Postal Service to improve results for this product in FY 2017, and, if results failed to improve, the Commission directed the Postal Service to provide a detailed product-specific improvement plan. *Id.*

Finding that "[USPS Marketing] Mail Carrier Route and [USPS Marketing Mail] Flats continued to fall substantially short of intended annual performance targets," the Commission took separate action with respect to these and other flat-shaped mail products. *Id.* To address these products' service performance results as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Order No. 4142. That proceeding remains pending.

(2) FY 2017 Results

FY 2017 annual service performance results for USPS Marketing Mail Letters, Carrier Route, Parcels, and High Density and Saturation Letters exceeded the performance targets set by the Postal Service. Three of the seven USPS Marketing Mail products (High Density

[205] *See* December 29, 2017 Public File, tab "Q6b."

and Saturation Flats/Parcels, Flats, and Every Door Direct Mail—Retail) did not meet their service performance targets.

Table V-20 shows service performance results compared to the annual on-time percentage targets for all USPS Marketing Mail products from FY 2012 to FY 2017.

Table V-20
USPS Marketing Mail
Service Performance Results, FY 2012–FY 2017, by Percentage

	FY 2012		FY 2013		FY 2014		FY 2015		FY 2016		FY 2017	
	Target	**On-Time**	*Target*	**On-Time**	*Target*	**On-Time**	*Target*	**On-Time**	*Target*	**On-Time**	*Target*	**On-Time**
High Density and Saturation Letters	*90.0*	**87.2**	*90.0*	**90.8**	*91.0*	**92.3**	*91.0*	**91.5**	*91.0*	**94.9**	*91.0*	**95.5**
High Density and Saturation Flats/Parcels	*90.0*	**90.8**	*90.0*	**87.0**	*91.0*	**87.2**	*91.0*	**87.0**	*91.0*	**90.0**	*91.0*	**90.0**
Carrier Route	*90.0*	**70.6**	*90.0*	**79.7**	*91.0*	**81.4**	*91.0*	**82.0**	*91.0*	**83.9**	*91.0*	**91.4**
Letters	*90.0*	**80.7**	*90.0*	**85.9**	*91.0*	**87.1**	*91.0*	**85.8**	*91.0*	**90.1**	*91.0*	**91.8**
Flats	*90.0*	**59.9**	*90.0*	**76.9**	*91.0*	**76.2**	*91.0*	**73.8**	*91.0*	**81.4**	*91.0*	**80.4**
Parcels	90.0	**N/A**	90.0	**98.7**	91.0	**N/A**	*91.0*	**98.1**	*91.0*	**98.3**	*91.0*	**98.2**
EDDM—Retail	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	*91.0*	**78.5**	*91.0*	**75.2**	*91.0*	**75.4**

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: FY 2017 Service Performance Report at 12; FY 2016 Service Performance Report at 12; FY 2015 Service Performance Report at 11; FY 2014 Service Performance Report at 11; FY 2013 Service Performance Report at 10; FY 2012 Service Performance Report at 10.

(3) Postal Service Report

The Postal Service reports on its efforts to improve service performance for USPS Marketing Mail. The Postal Service discusses its focus on advancing processing of USPS Marketing Mail products, with weekly messaging and visualizations. FY 2017 Service Performance Report at 15. The Postal Service also explains that it plans to continue to focus on improving service performance for USPS Marketing Mail Flats by "reducing the WIP cycle time through targeting decreases in the time between bundle and next handling processing . . . ."[206] The Postal Service reports that WIP cycle time for USPS Marketing Mail Flats decreased from FY 2016 (54 median hours) to FY 2017 (52 median hours), bringing WIP cycle time back to the level reported in FY 2015. FY 2017 ACR at 28.

(4) Comments

FoF and NTU state that the Postal Service has failed to meet its on-time service performance target for USPS Marketing Mail Letters five years in a row. Frontiers of

[206] *Id.* "The Work in Process (WIP) cycle time measures the time between a mailpiece's arrival at the plant and bundle-to-piece distribution." FY 2017 ACR at 28.

Freedom Comments at 1; NTU Comments at 1. ACI also remarks on the failure to meet service performance goals for USPS Marketing Mail products. ACI Comments at 1.

With respect to the FY 2017 service performance results for USPS Marketing Mail, "[t]he Public Representative is encouraged by the Postal Service's progress." PR Comments at 8. She notes that of the seven USPS Marketing Mail products, in FY 2017 four products met their service performance targets and one product (USPS Marketing Mail High Density and Saturation Flats/Parcels) remained only 1 percentage point away from its target. *Id.* She observes that this marks improvement from FY 2014 (in which only one USPS Marketing Mail product met its target) and FYs 2015 and 2016 (in which only two USPS Marketing Mail products met their targets). *Id.* at 7-8. She also describes how USPS Marketing Mail Flats followed its FY 2016 improvement (reporting a 7.6 increase in on-time performance from FY 2015 to FY 2016) with a decrease in FY 2017 (reporting a 1.0 decrease in on-time performance from FY 2016 to FY 2017). *Id.* at 7.

The Postal Service echoes the Public Representative's comments regarding the improvement observed in the on-time performance results for USPS Marketing Mail. Postal Service Reply Comments at 15. The Postal Service also notes that it "continues to work diligently with the Commission to identify and address the root causes of problems with service performance, especially with respect to flats." *Id.* at 17-18. The Postal Service references its provision of information in Docket No. RM2018-1.[207]

(5) Commission Analysis

In prior fiscal years, no more than two USPS Marketing Mail products met service performance targets. After five consecutive years of failure to meet the service performance target, FY 2017 service performance results for USPS Marketing Mail Letters exceeded the target. The FY 2017 service performance results for USPS Marketing Mail Letters are consistent with the Commission's expectation that the Postal Service would continue to build on the improvement observed in FY 2016. Similarly, after five consecutive years of failure to meet the service performance target, FY 2017 service performance results for USPS Marketing Mail Carrier Route also exceeded the target. Therefore, in FY 2017, the majority of (four of the seven) USPS Marketing Mail products met service performance targets.

Three of the seven USPS Marketing Mail products (Flats, High Density and Saturation Flats/Parcels, and Every Door Direct Mail—Retail) did not meet the percentage on-time service performance target in FY 2017.

For USPS Marketing Mail Flats, FY 2017 marks the sixth consecutive year that the Postal Service failed to meet the applicable target. Furthermore, FY 2017 results for USPS Marketing Mail Flats declined from the level reported in FY 2016.

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[207] *Id.* at 18 (citing Docket No. RM2018-1, Responses to CIR No. 1).

FY 2017 results for USPS Marketing Mail High Density and Saturation Flats/Parcels remain near the 91 percent on-time delivery target.

FY 2017 results for Every Door Direct Mail—Retail increased from the level observed in FY 2016 but remain well below target. Results for this product have been reported for three years only. The target for this product has not been met in any of those three years.

Consistent with the Commission's observations in the FY 2016 ACD, service performance results for USPS Marketing Mail products in the 6-10-Day service standard category, measured End-to-End, remain relatively low compared to the results for all Destination Entry Mail and other End-to-End service standards. *See* FY 2016 ACD at 139; FY 2015 ACD at 140-41. In FY 2017, End-to-End USPS Marketing Mail with a 6-10-Day service standard represented 5.8 percent of total measured USPS Marketing Mail. Responses to CHIR No. 2, question 10. Except for 6-10-Day USPS Marketing Mail Letters, FY 2017 service performance results for USPS Marketing Mail products in the 6-10-Day service standard category have increased for two consecutive years. However, Table V-21 shows that results for each product's 6-10-Day service standard category remain well below the FY 2017 results at the product level.

Table V-21
Service Performance Results for USPS Marketing Mail Products with a 6-10-Day Service Standard, FY 2012–FY 2017, by Percentage

	Results for the 6-10-Day Service Standard Category						Results at the product level (includes all Service Standard Categories)
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2017
High Density and Saturation Letters	82.3	57.9	56.5	57.4	61.5	67.2	95.5
High Density and Saturation Flats/Parcels	N/A	N/A	72.7	54.4	56.9	69.2	90.0
Carrier Route	74.3	64.5	60.2	60.6	67.0	73.5	91.4
Letters	55.7	59.8	56.7	48.6	55.4	53.3	91.8
Flats	59.8	53.1	52.9	45.1	50.3	53.6	80.4

Note: Numbers in red indicate service performance results reported for the 6-10-Day service standard category that did not meet or exceed the annual service performance target for the product. In FY 2012 and FY 2013, the target for all USPS Marketing Mail products was 90.0 percent. In FY 2014 through FY 2017, the target for all USPS Marketing Mail products was 91.0 percent.

Source: *See* United States Postal Service *Quarterly Service Performance Reports*, FY 2012–FY 2017, Quarter 4, USPS Marketing Mail–High Density and Saturation Letters Scores Report, USPS Marketing Mail–High Density and Saturation Flats/Parcels Scores Report, USPS Marketing Mail–Carrier Route Score Report, USPS Marketing Mail–Flats Scores Report, USPS Marketing Mail–Letters Scores Report (available at: *http://www.prc.gov/documents/quarterly-performance*).

The Commission views CLTs occurring during the transit phase of processing as closely linked to service performance for USPS Marketing Mail products with a 6-10-Day service standard. All seven Postal Service areas report fewer CLTs in FY 2017 than in FY 2015. *See* V.A.3.c.4.ii., *supra*. These findings are consistent with service performance results improving from FY 2015 to FY 2017 for USPS Marketing Mail products with a 6-10-Day service standard. The Commission encourages the Postal Service to continue to improve service performance for USPS Marketing Mail with a 6-10-Day service standard by decreasing the number of CLTs.

The Commission finds that the Postal Service has met its service performance targets for USPS Marketing Mail Letters, USPS Marketing Mail Carrier Route, USPS Marketing Mail Parcels, and USPS Marketing Mail High Density and Saturation Letters. The Commission expects that service performance results for these products will continue to meet or exceed the FY 2018 on-time performance target. If the service performance results for these products do not continue to meet or exceed the target in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how service performance will be improved.

The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for the USPS Marketing Mail products that failed to meet the applicable annual service performance targets.

The Commission expects improvement in service performance results for USPS Marketing Mail Every Door Direct Mail—Retail and USPS Marketing Mail High Density and Saturation Flats/Parcels. If the Postal Service does not maintain or improve its service performance results for these products in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how service performance will be improved.

FY 2017 USPS Marketing Mail Flats service performance results declined from the level reported in FY 2016. Moreover, USPS Marketing Mail Flats service performance results continued to fall substantially short of intended annual performance targets. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues.

c. Periodicals

(1) FY 2016 Directives

Finding that FY 2016 “was the fifth consecutive year that Periodicals did not meet its service performance target,” the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. FY 2016 ACD at 142. To address these products’ service performance results as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Order No. 4142. That proceeding remains pending.

(2) FY 2017 Results

FY 2017 annual service performance results for Periodicals increased from FY 2016 levels. Table V-22 shows service performance results compared to the annual target of 91.0 percent on-time for both Periodicals products from FY 2012 to FY 2017.

Table V-22
Periodicals
Service Performance Results, FY 2012–FY 2017, by Percentage

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Target
In-County	**68.7**	**82.0**	**80.9**	**77.7**	**80.1**	**85.6**	*91.0*
Outside County	**68.7**	**82.1**	**80.8**	**77.6**	**79.7**	**85.3**	*91.0*

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: FY 2017 Service Performance Report at 16; FY 2016 Service Performance Report at 18; FY 2015 Service Performance Report at 15; FY 2014 Service Performance Report at 15; FY 2013 Service Performance Report at 13; FY 2012 Service Performance Report at 14.

(3) Postal Service Report

The Postal Service reports on its efforts to improve service performance for Periodicals. The Postal Service reports its continued focus on reducing WIP cycle time—the time between handling and processing—for Periodicals in FY 2015, FY 2016, and FY 2017.[208] The Postal Service also reports its continued efforts to work with the mailing industry to improve the preparation and entry of Periodicals.[209] The Postal Service reports that the FY 2017 WIP cycle time for Periodicals remained the same as the level observed in FY 2016. FY 2017 ACR at 28.

(4) Comments

Although noting that both Periodicals products failed to meet the service performance targets in FY 2017, the Public Representative describes the improvements reported in FY 2017 as "very positive." PR Comments at 8. She notes that if this level of improvement continues into FY 2018, both Periodicals products will come close to meeting the applicable target in FY 2018. *Id.* at 8-9.

The Postal Service echoes the Public Representative's comments regarding the improvement observed in the on-time performance results for Periodicals. Postal Service Reply Comments at 15. The Postal Service also notes that it "continues to work diligently with the Commission to identify and address the root causes of problems with service performance, especially with respect to flats." *Id.* at 17-18. The Postal Service references its provision of information in Docket No. RM2018-1.[210]

(5) Commission Analysis

Neither Periodicals product met service performance targets in FY 2017. Although remaining below target, FY 2017 service performance results for Periodicals show

[208] *See* FY 2015 Service Performance Report at 17; FY 2016 Service Performance Report at 21; FY 2017 Service Performance Report at 18.

[209] *See, supra,* n.208 .

[210] *Id.* at 18 (citing Docket No. RM2018-1, Responses to CIR No. 1).

improvement for two years in a row. The Postal Service should continue to apply its data leveraging techniques to improve service performance for Periodicals.

This was the fifth consecutive year that Periodicals did not meet its service performance targets. In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets. The Commission directs the Postal Service to apply its data leveraging techniques to improve Periodicals service performance. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues.

d. Package Services

(1) FY 2016 Directives

The Commission found that FY 2016 was the fifth consecutive year that the service performance results for Bound Printed Matter (BPM) Flats "were substantially below other Package Services products and the applicable percentage on-time service performance target." FY 2016 ACD at 144. The Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for this product. *Id.* To address this product's service performance results as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Order No. 4142. That proceeding remains pending.

(2) FY 2017 Results

FY 2017 annual service performance results for both BPM Parcels and Media Mail/Library Mail exceeded annual targets for the sixth consecutive year. Service performance results for BPM Flats remain below target.

Table V-23 shows service performance results compared to the annual target of 90.0 percent on-time for all Package Services products from FY 2012 to FY 2017.

Table V-23
Package Services
Service Performance Results, FY 2012–FY 2017, by Percentage

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Target
Bound Printed Matter Flats	54.3	62.6	60.2	45.2	53.6	56.7	*90.0*
Bound Printed Matter Parcels	94.4	98.4	99.3	99.4	99.2	99.1	*90.0*
Media Mail/Library Mail	92.7	93.3	91.7	91.2	92.2	91.0	*90.0*

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

The Commission approved a semi-permanent exception for service measurement of Alaska Bypass. Docket No. RM2015-1, Order Concerning Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Alaska Bypass Service, December 23, 2014 (Order No. 2303).

Source: FY 2017 Service Performance Report at 20; FY 2016 Service Performance Report at 22; FY 2015 Service Performance Report at 18; FY 2014 Service Performance Report at 20; FY 2013 Service Performance Report at 18; FY 2012 Service Performance Report at 19.

(3) Postal Service Report

The Postal Service reports on service performance issues related to BPM Flats and its efforts to improve service performance for the product. The Postal Service restates that mail characteristics for BPM Flats are "not generally compatible with flat or package sorting equipment."[211] The Postal Service also restates that incompatible sorting equipment causes additional manual handling and mail not being presented to delivery at the finest sort depth.[212] In addition, the Postal Service restates that allowing non-automated and automated BPM Flats to be comingled may result in machinable pieces being handled manually.[213]

The Postal Service does not track the volume or percentage of BPM Flats that are processed manually. Responses to CHIR No. 2, question 11. The Postal Service states that manual handling of BPM Flats may be affected by piece weight, entry, and presort level. *Id.* The Postal Service summarizes the RPW data relating to those characteristics. *Id.*

[211] *Compare* FY 2017 Service Performance Report at 22 *with* FY 2016 Service Performance Report at 24-25 *and* FY 2015 Service Performance Report at 20.

[212] *Compare* FY 2017 Service Performance Report at 22 *with* FY 2016 Service Performance Report at 25 *and* FY 2015 Service Performance Report at 20.

[213] *Compare* FY 2017 Service Performance Report at 22-23 *with* FY 2016 Service Performance Report at 25 *and* FY 2015 Service Performance Report at 20-21.

The Postal Service restates that it will continue to focus on reducing WIP cycle time for machine compatible pieces and advancing processing to the day of acceptance.[214] The Postal Service also will "continue[] to review the entry and make-up requirements" for BPM Flats.[215]

(4) Comments

Although noting the improvement in the level of performance for BPM Flats between FY 2016 and FY 2017, the Public Representative characterizes the product's score as remaining "far from its target." PR Comments at 10. Concluding that the Postal Service's efforts to improve this product's service "is not showing significant results," she suggests that the Commission "recommend a new approach." *Id.* She suggests that "the Commission…inquire whether or not the Postal Service believes the Bound Printed Matter Flats service performance target is realistic." *Id.* If the target is unrealistic, she suggests that the Postal Service revise the target observing that "[r]ealistic service performance targets better inform customers of the actual service that is being provided, and allow customers to plan accordingly." *Id.* at 10-11.

The Postal Service replies that the on-time service performance results for BPM Flats from FY 2015 to FY 2017 reflect a growth rate of over 25 percent. Postal Service Reply Comments at 18-19. "[T]he Postal Service concurs that this product is an outlier compared to others in that it is not close to its target." *Id.* at 19. The Postal Service observes that "it is often only in hindsight that one can meaningfully evaluate whether a target was realistic or not." *Id.* The Postal Service also notes that it "continues to work diligently with the Commission to identify and address the root causes of problems with service performance, especially with respect to flats." *Id.* at 17-18. The Postal Service references its provision of information in Docket No. RM2018-1.[216]

(5) Commission Analysis

Service performance results for BPM Parcels and Media Mail/Library Mail have exceeded the applicable service performance targets since FY 2012.

The FY 2017 service performance results for BPM Flats are substantially further from its target than any other product. Setting a target for BPM Flats' service performance results that is ambitious and achievable can help to drive performance. However, setting an overly ambitious "stretch" target for this unique product, which produces too large of a gap between the target and the actual obtainable result, may be counterproductive. Such an approach might discourage improvement because regularly missing the target by vast

[214] *Compare* FY 2017 Service Performance Report at 23 *with* FY 2016 Service Performance Report 9 at 25 *and* FY 2015 Service Performance Report at 21.

[215] *Compare* FY 2017 Service Performance Report at 23 *with* FY 2016 Service Performance Report at 25 *and* FY 2015 Service Performance Report at 21.

[216] *Id.* at 18 (citing Docket No. RM2018-1, Responses to CIR No. 1).

margins becomes routine. The Postal Service should consider the Public Representative's comments regarding realistic targets for this product.

Although service performance results for BPM Flats improved for two years in a row, this product's FY 2017 service performance results remain more than 30 percentage points below the on-time service performance target. The Commission acknowledges the unique characteristics of BPM Flats; but, the Postal Service's plan for improving the service performance of this product does not appear to include the tracking of data that would demonstrate which (if any) of the Postal Service's multi-year efforts have been successful. The Postal Service should apply its data leveraging techniques to improve service performance for BPM Flats.

Media Mail/Library Mail and BPM Parcels service performance results continue to exceed the Postal Service's annual service performance targets. BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the sixth consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve BPM Flats service performance. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues.

e. Special Services

(1) FY 2016 Directives

Finding that "[t]he Postal Service exceeded service performance results for all Special Services products, except for Post Office Box Service, which was near its service performance target" in FY 2016, the Commission stated its expectation that service performance for Post Office Box Service would improve in FY 2017. FY 2016 ACD at 146. The Commission directed the Postal Service to file a detailed plan to improve performance in its FY 2017 ACR if FY 2017 results for Post Office Box Service did not meet the target. *Id.*

(2) FY 2017 Results

Service performance results exceeded targets for each product within the Special Services class, with the exception of Post Office Box Service. The Post Office Box Service result was 88.9 percent, below the 90.0 percent target. Table V-24 shows the service performance results compared to the annual target of 90.0 percent on-time for all Special Services products from FY 2012 to FY 2017.

Table V-24
Special Services
Service Performance Results, FY 2012–FY 2017, by Percentage

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Target
Ancillary Services	93.4	91.4	92.3	92.1	91.7	91.5	*90.0*
International Ancillary Services	99.6	99.3	99.7	99.7	99.7	99.7	*90.0*
Address List Services	83.3	100	33.3	100	-	-	*90.0*
Money Orders	99.2	99.2	98.3	99.3	99.2	99.1	*90.0*
Post Office Box Service	92.6	90.9	90.2	89.7	89.7	88.9	*90.0*
Stamp Fulfillment Services	96.7	99.5	98.4	97.1	99.4	99.6	*90.0*

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

There were no orders for Address List Services in FY 2016 and FY 2017. FY 2017 Service Performance Report at 25; FY 2016 Service Performance Report at 27. The Commission required the Postal Service to begin reporting on Stamp Fulfillment Services in FY 2012 Quarter 2. Docket No. RM2011-14, Order Establishing Final Rule Concerning Periodic Reporting of Service Performance Measurements for Stamp Fulfillment Services, November 4, 2011 (Order No. 947).

The Commission approved a semi-permanent exception for service measurement of the following Special Services: hard-copy Address Correction Service, Applications and Mailing Permits, Business Reply Mail®, Bulk Parcel Return Service, Certificate of Mailing, Merchandise Return Service, Parcel Airlift, Restricted Delivery, Shipper-Paid Forwarding, Special Handling, Stamped Envelopes, Stamped Cards, Premium Stamped Stationery, Premium Stamped Cards, International Certificate of Mailing, outbound International Registered Mail, International Return Receipt, International Restricted Delivery, International Insurance in conjunction with Inbound Surface Parcel Post (at UPU Rates), Customs Clearance and Delivery Fee, Caller Service, Change of Address Credit Card Authorization, International Reply Coupon Service, International Business Reply Mail, and Money Orders (sales aspect of this service only, not inquiries). Docket No. RM2010-11, Order Concerning Postal Service Request for Semi-Permanent Exceptions from Periodic Reporting of Service Performance Measurement, September 30, 2010 (Order No. 531); Docket No. RM2010-14, Order Approving Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Applications and Mailing Permits, October 27, 2010 (Order No. 570).

Source: FY 2017 Service Performance Report at 25; FY 2016 Service Performance Report at 27; FY 2015 Service Performance Report at 23; FY 2014 Service Performance Report at 25; FY 2013 Service Performance Report at 22; FY 2012 Service Performance Report at 23.

(3) Postal Service Report

The Postal Service reports six actions that it plans to take to address the declining service performance results for Post Office Box Service:

- conducting Lean Six Sigma kaizen events to determine root causes of failures
- establishing standardized methods for workload calculations
- having all sites annually review their Post Office Box times
- creating a product-specific dashboard with key metrics
- ensuring that staffing and scheduling models address the need to meet Post Office Box service standards
- ensuring that daily staffing and scheduling tools clearly identify dedicated staff to meet Post Office Box service standards

FY 2017 Service Performance Report at 27. The planned PO Box Up Service Performance dashboard is expected to display facility-specific results for total expected scans, the number of scans made on or before the scheduled time, the late count (the number of scans made after the scheduled time plus expected scans that were not performed), on time percentage, and late percentage. Responses to CHIR No. 2, question 12.

(4) Comments

The Public Representative observes that FY 2017 service performance results for Post Office Box Service fell below target and decreased nearly 1 percentage point from FY 2016. PR Comments at 12. She appreciates that the Postal Service provided steps to improve performance of this product in FY 2018. *Id.* at 12-13.

(5) Commission Analysis

Service performance results for Ancillary Services, International Ancillary Services, Money Orders, and Stamp Fulfillment Services have exceeded the applicable percentage on-time service performance targets since FY 2012.

For FY 2017, service performance results for Post Office Box Service remained below target and declined from the level reported in FY 2016.

The Postal Service exceeded service performance targets for all reported Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service to improve in FY 2018. If Post Office Box Service does not achieve its service performance target in FY 2018, the Postal Service shall include in its FY 2018 ACR an evaluation of the efficacy of the six planned actions identified in its FY 2017 ACR and a detailed plan for how this product's results will be improved.

5. Other Issues

Three commenters discuss their general views on service performance. NTU states that "in many aspects [s]ervice performance has been on a steady decline for years." NTU Comments at 1. ACI asserts that the Postal Service's FY 2017 ACR "fails to provide consumers with the faith that services will improve anytime soon." ACI Comments at 1. Similarly, FoF states that the Postal Service "needs to transform its ways in order to improve its service and regain the trust of the American people." Frontiers of Freedom Comments at 2. FoF further perceives that the Postal Service leadership has not made a "conscious or effective effort" to fix the shortfalls. *Id.* at 1. ACI and FoF express an interest in stronger enforcement of delivery performance goals. *Id.* at 2; ACI Comments at 2.

PostCom generally endorses efforts to increase the transparency of the ACR process, particularly with respect to operational performance data and service information and describes the continued issuance of CHIRs in this proceeding as "helpful in identifying missing and potentially helpful contextual information." PostCom Comments at 2. PostCom suggests, however, that "if a serious issue has been identified, the Commission should open a new docket, aggressively pursue an answer, and order any relief it finds appropriate." *Id.*

Moreover, PostCom also suggests that the open access to raw information collected through IV, with appropriate safeguards to protect customer and individual employee identities, would benefit all parties. *Id.* at 3.

The Public Representative suggests that for more problematic products, such as flat-shaped mail across classes, the Commission may need to take a more active approach to encourage service performance improvement. PR Comments at 13. She observes that "[t]he Commission may consider working with the Postal Service throughout each year in an effort to bring underperforming products closer to meeting service targets." *Id.* She also notes that some scores are so far below the applicable target that it seems unlikely those products will meet their targets in the next few years, even with steady improvement. *Id.*

The Postal Service replies that these comments "are premised only upon the Postal Service having missed some of its own aggressive service targets." Postal Service Reply Comments at 16. The Postal Service maintains that service performance results continue to improve and that the improvement observed in FY 2016 and FY 2017 demonstrates an effective effort by Postal Service leadership. *Id.* The Postal Service replies that the improvement observed in service performance results "counsels against radical departures" in the approach to service performance. *Id.* at 17. The Postal Service further states that "the Commission should refrain from any approach that imposes unnecessary costs and burdens or may otherwise impede the Postal Service's progress." *Id.*

The Commission acknowledges the issues raised by the commenters and values the commenters' participation and perspectives. These views inform the Commission's work. Many of these issues may relate to separate proceedings that are currently pending before the Commission. For example, to address flat-shaped mailpieces' service performance results, as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues (Docket No. RM2018-1). As another example, the Commission is considering a Postal Service proposal to develop new internal service performance measurement systems for several of its Market Dominant products (Docket No. PI2015-1).

As discussed in this ACD, the decline in service performance results for First-Class Mail Single-Piece Letters/Postcards experienced in FY 2015 remains an area of concern to the Commission. Given the partial recovery observed in FY 2016 and FY 2017, continued monitoring and oversight through the ACR/ACD process appear to be appropriate at this time, consistent with the Commission's historic practice.[217] Individual dockets may be initiated as required to consider improvements to the rules or to consider innovative new approaches to evaluating service performance. Order No. 465 at 25. Moreover, interested

[217] *See, e.g.*, Docket No. RM2009-11, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, May 25, 2010, at 25 (Order No. 465) (Generally, the ACR/ACD process is the appropriate time to look at service performance, including but not limited to, all aspects of data quality and adequacy, as well as proposals for improvement).

parties may request that the Commission initiate a proceeding "to improve the quality, accuracy, of completeness of Postal Service data required by the Commission . . . whenever it shall appear that . . . the quality of service data has become significantly inaccurate or can be significantly improved." 39 U.S.C. § 3652(e)(2)(B).

B. Customer Access

1. Introduction

The PAEA requires the Postal Service to report "measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including…the degree of customer satisfaction with the service provided."[218] 39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to four aspects of customer access: post offices (including closings and emergency suspensions), residential and business delivery points, collection boxes, and wait time in line. Measuring customer access to postal services is important in evaluating universal service and customer satisfaction.

The FY 2017 ACR and Library Reference USPS–FY17–33[219] contain customer access information responsive to the requirements of Title 39 and the Commission's regulations. The Postal Service provides additional information in responses to CHIRs.[220]

The Postal Service also reports the numbers of retail facilities and delivery points in its *Annual Report to Congress*. However, as discussed below, these numbers differ from the information provided in the *ACR* and in CHIR responses. These discrepancies impede the Commission's evaluation of customer access and require the issuance of CHIRs to obtain the most up-to-date information.

In its FY 2018 filings, the Postal Service must ensure that information provided on retail facilities and delivery points is consistent among the FY 2018 Annual Report to Congress, FY 2018 ACR, and past CHIR responses. If there are any discrepancies, the Postal Service must identify them in the FY 2018 ACR.

2. Retail Facilities

For each fiscal year, the Postal Service must provide information on the number of retail facilities at the beginning and end of the fiscal year, as well the number of retail facility closings during the fiscal year. 39 C.F.R. § 3055.91(a)(1) to (3). This information must be disaggregated by type of retail facility and provided at the national and area levels. *Id.* The

[218] 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90.

[219] Library Reference USPS–FY17–33, December 29, 2017.

[220] *See* Responses to CHIR No. 2, questions 13-19; Responses to CHIR No. 7, questions 1 and 2; Responses of the United States Postal Service to Questions 1-2 and 4 of Chairman's Information Request No. 17, February 16, 2018 question 4 (February 16, 2018 Responses to CHIR No. 17); Response of the United States Postal Service to Question 3 of Chairman's Information Request No. 17, February 20, 2018, question 3 (February 20, 2018 Responses to CHIR No. 17).

Postal Service provided this information for FY 2017 in the *Annual Report to Congress*, Library Reference USPS–FY17–33, and CHIR responses.[221] However, the number of retail facilities differs among these sources.[222]

CHIR No. 17 asked for the most up-to-date number of retail facilities for FY 2015, FY 2016, and FY 2017, which the Postal Service provided. Responses to CHIR No. 17, question 4. This information is included in Table V-25 below. Postal-managed retail facilities consist of post offices, stations and branches, and carrier annexes. Non-postal-managed retail facilities consist of contract postal units, Village Post Offices, and community post offices.

Table V-25
Retail Facilities, FY 2015–FY 2017

Facility Type	FY 2015	FY 2016	FY 2017	FY 2017 Change from FY 2016	FY 2017 Change from FY 2015
Post Offices	26,615	26,611	26,410	-201	-205
Classified Stations & Branches and Carrier Annexes	4,991	4,974	4,967	-7	-24
Total Postal-Managed	31,606	31,585	31,377	-208	-229
Contract Postal Units	2,453	2,391	2,249	-142	-204
Village Post Offices	848	854	720	-134	-128
Community Post Offices	512	489	465	-24	-47
Total Non-Postal-Managed	3,813	3,734	3,434	-300	-379
Total Retail Facilities	35,419	35,319	34,811	-508	-608

Source: February 16, 2018 Responses to CHIR No. 17, question 4.

The total number of retail facilities in FY 2017 was 34,811, 508 less than FY 2016. The number of retail facilities for all types decreased between FY 2016 and FY 2017. The largest decrease between FY 2016 and FY 2017 was in the number of post offices, which decreased by 201.

3. Post Office Suspensions

Background. For each fiscal year, the Postal Service must provide information on the number of post office suspensions at the beginning and end of the fiscal year, as well as the number of post offices suspended during the fiscal year. 39 C.F.R. § 3055.91(a)(4) to (6).

[221] FY 2017 *Annual Report to Congress* at 9; Library Reference USPS–FY17–33, Excel file “Post.Office.FY2017.xls,” tab “Post Offices;” Responses to CHIR No. 2, questions 16-18.

[222] *Compare* FY 2017 *Annual Report to Congress* at 9 with Library Reference USPS–FY17–33, Excel file “Post.Office.FY2017.xls” and Responses to CHIR No. 2, questions 16-18.

The Postal Service provided this information for FY 2017 in Library Reference 33.[223] Table V-26 shows post office suspension activity during FY 2017 by facility type. It contains the number of suspended post offices at the beginning and end of FY 2017, as well as the number of post offices suspended, reopened, and closed during FY 2017.

The number of suspended post offices at the end of FY 2017 is calculated by adding the number of post offices suspended during the fiscal year to the number of suspended post offices at the beginning of the fiscal year, and then subtracting the number of post offices reopened and closed during the fiscal year. Table V-26 shows that the number of suspended post offices decreased significantly in FY 2017.

Table V-26
Post Office Suspension Activity during FY 2017

	Under Suspension at the Start of FY 2017	Suspended During FY 2017	Reopened During FY 2017	Closed During FY 2017	Under Suspension at the End of FY 2017
Post Offices	464	63	49	212	266
Stations/Branches	124	6	5	62	63
Carrier Annexes	74	17	12	30	49
Total	662[a]	86	66[b]	304[c]	378

Source: Library Reference USPS–FY17–33, Excel file “Post.Office.FY2017.xlsx,” tab “Suspension Summary.”

[a] There were 655 suspended post offices at the beginning of FY 2017, but an additional 7 post office suspensions were entered into the system retroactively. FY 2017 ACR at 63.

[b] The Postal Service reopened 39 post offices that were suspended prior to the start of FY 2017, and 27 post offices that were suspended and re-opened during FY 2017 for a total of 66 post offices re-opened during FY 2017.

[c] This number of 304 differs from that reported in Library Reference USPS–FY17–33, Excel file “Post.Office.FY2017.xls,” tab “Post Offices” due to different reporting criteria used by Delivery Operations and the Address Management System office in tracking the disposition of suspended post offices. FY 2017 ACR at 63 n.51.

There were 662 suspended post offices at the beginning of FY 2017. In Docket No. ACR2016, the Postal Service stated that its goal was to resolve 360 suspended post offices by the end of the FY 2017.[224] It provided a timeline showing the number of suspensions it expected to resolve in FY 2017 and FY 2018. *Id.*

In the FY 2016 ACD, the Commission stated that it expected the Postal Service to significantly reduce the number of suspended post offices during FY 2017. FY 2016 ACD at 151. It directed the Postal Service to provide an update on the number of suspended post offices within 40 days after the end of each quarter. *Id.* It stated that if the Postal Service is unable to meet its timeline during FY 2017, the Postal Service must include a detailed explanation of why it was unable to do so in the FY 2017 ACR. *Id.*

[223] Library Reference USPS–FY17–33, Excel file “Post.Office.FY2017.xls,” tab “Suspension Summary.”

[224] Docket No. ACR2016, Responses of the United States Postal Service to Questions 5 and 6 of Chairman’s Information Request No. 16, March 17, 2017, question 6 (Docket No. ACR2016, Responses to CHIR No. 16).

The Postal Service filed quarterly updates of suspended post offices during FY 2017 as the Commission directed.[225] In the FY 2017 ACR, the Postal Service reports that "as of the end of FY 2017, it has made substantial progress on resolving a large number of these suspended offices." FY 2017 ACR at 62-63. In total, the Postal Service resolved 343 suspended post offices in FY 2017, falling short of its projected number of 360 suspended post offices. *Id.* at 64.

The Postal Service explains that it did not meet the projected goal "due to the significant amount of time and resources required to individually review and process each [suspended] office, and the difficulty of obtaining data and information on the offices that have been suspended for more extended time periods." *Id.* at 64-65. However, it asserts that it will continue resolving the remaining suspended post offices, either by reopening them or conducting discontinuance studies where necessary. *Id.* at 65. The Postal Service provides an updated timeline for resolving the 378 suspended post offices that remained at the end of FY 2017:

- FY 2018, Quarter 1: 16
- FY 2018, Quarter 2: 23
- FY 2018, Quarter 3: 60
- FY 2018, Quarter 4: 70
- FY 2019, Quarter 1: 70
- FY 2019, Quarter 2: 70
- FY 2019, Quarter 3: 69[226]

Comments. The Public Representative comments that the Postal Service showed marked improvement regarding the number of suspended offices. PR Comments at 14. She observes that in FY 2017, the Postal Service reduced the total number of suspended post offices by approximately 43 percent. *Id.* at 14-15. She states that she finds it encouraging that the Postal Service proposed an ambitious timeline for resolving the remaining suspended post offices. *Id.* at 15.

In its reply comments, the Postal Service acknowledges the Public Representative's comments. Postal Service Reply Comments at 19. It states that it will continue to review the remaining suspended post offices to determine the proper course of action. *Id.* at 19-20.

[225] Docket No. ACR2016, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update, May 10, 2017; Docket No. ACR2016, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update, August 9, 2017; Docket No. ACR2016, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update, November 8, 2017.

[226] *Id.*

Commission analysis. The Postal Service fell short of its goal of resolving 360 suspended post offices in FY 2017. Nonetheless, the Postal Service reduced the number of suspended post offices from 662 to 378 in FY 2017.
For these reasons, the Commission finds that the Postal Service made significant progress in reducing the number of suspended post offices during FY 2017. The Commission also finds that the Postal Service complied with the Commission's directives in the FY 2016 ACD to significantly reduce the number of suspended post offices, file quarterly updates on suspended post offices, and explain why the Postal Service was unable to meet the FY 2017 timeline for resolving suspended post offices. See FY 2016 ACD at 151. *The Commission appreciates that the Postal Service filed quarterly suspension updates on time and also proposed a timeline for resolving the remaining suspended post offices in FY 2018 and FY 2019.*

The initial timeline provided in the FY 2016 ACR showed the number of suspensions the Postal Service expected to resolve in each quarter of FY 2018.[227] The initial timeline indicated that the Postal Service would resolve all remaining suspended post offices by the end of FY 2018. In the FY 2017 ACR, the Postal Service provides an updated timeline revising the number of suspensions the Postal Service expects to resolve during each quarter of FY 2018. *See* FY 2017 ACR at 65. The Commission observes that the updated timeline sets far lower quarterly goals for FY 2018 compared to the initial timeline provided in the FY 2016 ACR. For example, by the end of FY 2018, Quarter 1, the initial timeline proposed resolving 60 suspended post offices by the end of FY 2018, Quarter 1, but the updated timeline proposes to resolve only 16 suspended post offices.[228]

The Commission is concerned about the disparity in FY 2018 quarterly goals between the initial and revised timelines. *The Commission reiterates the importance of resolving the remaining suspended post offices as soon as possible. The Commission expects the Postal Service to resolve all remaining suspended post offices by the end of FY 2019 as proposed in the FY 2017 ACR. See FY 2017 ACR at 65.*

The Commission directs the Postal Service to continue to file quarterly updates on the number of suspended post offices and actions taken to resolve them. The Postal Service must file this information within 40 days after the end of each quarter in FY 2018. If the Postal Service is unable to meet the timeline it provided for resolving suspended post offices, the Postal Service must explain in detail in the FY 2018 ACR why it was unable to do so.

4. Delivery Points

The Postal Service is required to provide information on the number of residential and business delivery points at the beginning and end of the fiscal year. 39 C.F.R. § 3055.91(b). The Postal Service provided this information for FY 2017 in Library Reference USPS–FY17–

[227] Docket No. ACR2016, Responses to CHIR No. 16, question 6.

[228] *Compare* Docket No. ACR2016, Responses to CHIR No. 16, question 6 *with* FY 2017 ACR at 65.

33 and in the FY 2017 *Annual Report to Congress*.[229] The total number of delivery points in FY 2017 was 157,328,676, an increase of 1,234,496 from FY 2016. FY 2017 *Annual Report to Congress* at 9. Table V-27 shows the average number of mailpieces per delivery point between FY 2010 and FY 2017.

Table V-27
Average Number of Mailpieces per Delivery Point, FY 2010–FY 2017

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Total Number of Mailpieces (Billions)	170.859	168.297	159.859	158.384	155.375	154.157	154.323	149.491
Number of Mailpieces per Delivery Point	1,133	1,111	1,051	1,036	1,010	995	989	950

Source: Commission calculation based on FY 2017 *Annual Report to Congress* at 7, 9; FY 2016 ACD at 152.

5. Collection Boxes

The Postal Service must provide, at the national and area levels, information on the number of collection boxes at the beginning and end of the fiscal year, as well as the number of collection boxes added and removed during the fiscal year. 39 C.F.R. § 3055.91(c). The Postal Service filed this data for FY 2017 in Library Reference USPS–FY17–33.[230] Nationally, there were 146,252 collection boxes at the end of FY 2017, 6,287 fewer than in FY 2016.

Comments. The Public Representative comments that the Postal Service accelerated the removal of collection boxes during FY 2017. PR Comments at 15. She observes that the number of collection boxes declined by approximately 4.5 percent between FY 2013 and FY 2016. *Id.* However, in FY 2017 alone, she notes that the number of collection boxes decreased by approximately 4.1 percent, which is an 8.4 percent decrease over a five-year period. *Id.* She expresses concern that the accelerated decrease in collection boxes may adversely affect customers' ability to send mail, but acknowledges that a one-year change does not necessarily indicate a trend. *Id.* at 16. She recommends that the Commission carefully monitor the number of collection boxes reported in FY 2018 to determine whether the reduction in collection boxes is accelerating and what effect, if any, this reduction has on customer access. *Id.*

In its reply comments, the Postal Service responds that to address this matter, it will continue to perform its annual density testing of collection boxes in FY 2018 to ensure that

[229] Library Reference USPS–FY17–33, Excel file "DeliveryPointsFY2017.xlsx;" FY 2017 *Annual Report to Congress* at 9. As previously discussed, the number of delivery points differs between these two sources. The Commission cites to data from the *Annual Report to Congress*.

[230] Library Reference USPS–FY17–33, Excel file "CollectionBoxesFY2017.xlsx."

the collection box network is cost-effective while meeting the needs of its customers. Postal Service Reply Comments at 20.

Commission analysis. The number of collection boxes decreased significantly between FY 2016 and FY 2017 compared to past years. However, as the Public Representative acknowledges, a significant decrease one year does not indicate a trend. The Commission will continue to monitor the number of collection boxes in the FY 2018 ACD.

6. Wait Time in Line

The Postal Service must report the average customer wait time for retail service for the beginning of the fiscal year and for the end of each successive fiscal quarter at the national and area levels. 39 C.F.R. § 3055.91(d). The Postal Service provided this information for FY 2017 in Library Reference USPS–FY17–33.[231] The national average wait time in line improved from 2 minutes 48 seconds in FY 2016 to 2 minutes 28 seconds in FY 2017. FY 2017 ACR at 62. Table V-28 shows the quarterly national average customer wait times in line for FYs 2014, 2015, 2016, and 2017.

Table V-28
National Average Wait Times in Line
By Quarter, FY 2014–FY 2017

	FY 2014	FY 2015	FY 2016	FY 2017
Q1	2:23	2:33	3:12	2:30
Q2	2:35	2:43	3:26	2:39
Q3	2:29	2:40	2:45	2:34
Q4	2:24	2:36	2:17	2:28

Source: Library Reference USPS–FY17–33, Excel file "National WaitTimeInLineFY2017.xslx," tab "Quarter Avg Wait Natl;" FY 2016 ACD at 153.

Comments. The Public Representative comments that wait time in line is an important component of customer access and satisfaction. PR Comments at 17. She comments that although wait times in line have steadily increased since FY 2014, wait times improved during FY 2017. *Id.* at 16-17. She observes that wait times decreased in each postal area by at least 6 seconds and decreased by 20 seconds nationwide during FY 2017. *Id.* at 17. She asserts that wait time in line appears reasonable in light of these comprehensive decreases and commends the Postal Service for notably improving this measure. *Id.* In its reply comments, the Postal Service acknowledges the Public Representative's comments and states that it will continue improving on customer wait times in line. Postal Service Reply Comments at 19-20.

[231] Library Reference USPS–FY17–33, Excel file "National WaitTimeInLineFY2017.xlsx."

Commission analysis. The Commission agrees that the Postal Service has improved customer wait times in line. In FY 2017, national average wait times in line improved for each quarter except for Quarter 4. Specifically, the Postal Service made significant progress from FY 2016 in Quarters 1 and 2, when national average wait times reached a high of 3 minutes 12 seconds and 3 minutes 26 seconds, respectively. The Commission encourages the Postal Service to continue reducing wait times in line.

7. Alternative Access

In addition to providing products and services at retail facilities, the Postal Service continues to expand customer access through alternate channels. The Commission previously recommended that the Postal Service continue to expand alternative retail access channels to ensure customers have ready access to essential postal services.[232] The Postal Service provided information on retail revenue by channel from FY 2014 through FY 2017 in a CHIR response.[233] The major retail revenue channels are:

- Post Offices
- Contract Postal Units
- Click-N-Ship
- Stamp Sales by Partners
- Self-Service Kiosks/Automated Postal Centers
- Stamps by Mail/Phone/Fax

Figure V-14 compares retail revenue by channel from FY 2014 through FY 2017. Figure V-14 groups these retail revenue channels into three groups:

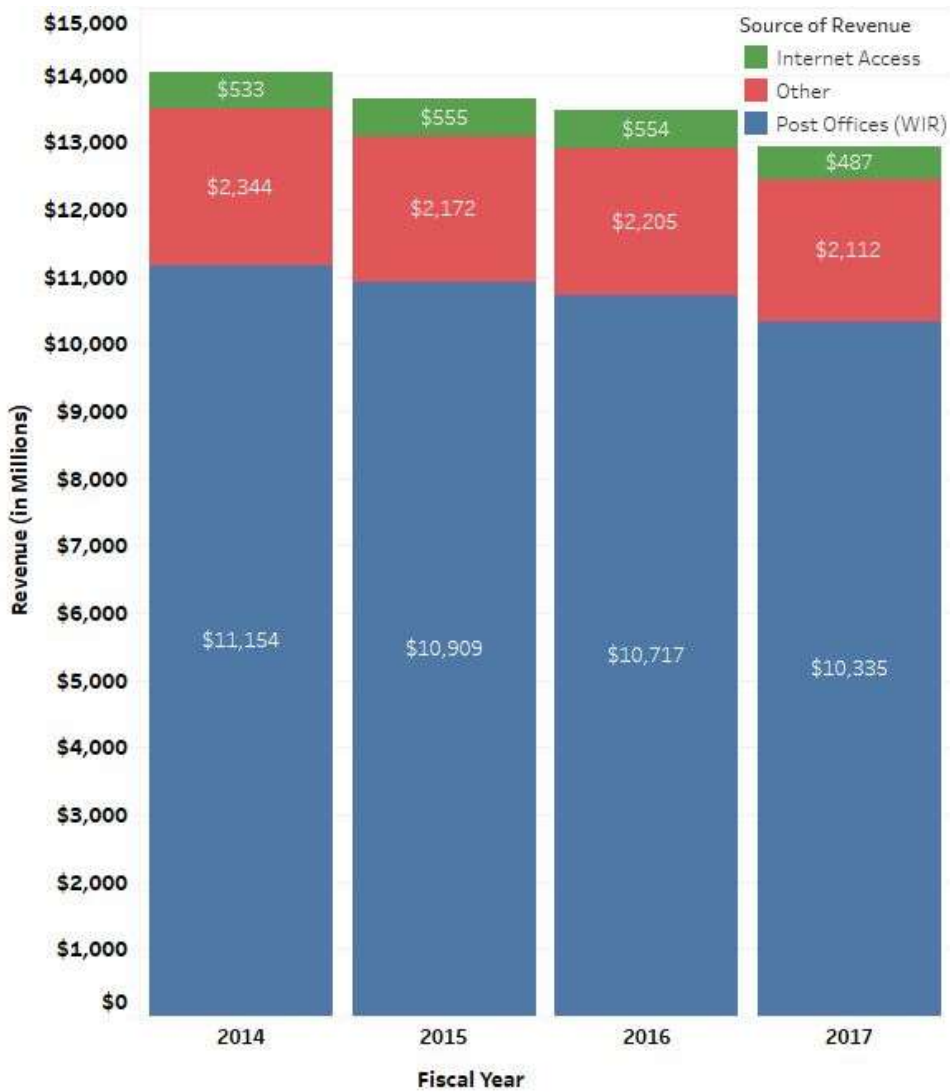
- Post Offices (walk-in revenue (WIR) from post offices and contract postal units)
- Internet Access (Click-N-Ship)[234]
- All Other (including stamp sales by partners, self-service kiosks/automated postal centers, and stamps by mail/phone/fax)

[232] Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 37.

[233] February 20, 2018 Responses to CHIR No. 17, question 3. In this response, the Postal Service corrected information provided in previous CHIRs. *See* Responses to CHIR No. 2, question 14; Responses to CHIR No. 7, question 2.

[234] In FY 2014 and FY 2015, retail revenue from Internet Access included revenue from the PC Postage. Responses to CHIR No. 17, question 3.a. In FY 2016, the Postal Service reclassified PC Postage revenue from retail to commercial. FY 2016 ACD at 154. For this reason, Internet Access retail revenue does not include PC Postage in FY 2016 and FY 2017.

Figure V-14
Retail Revenue by Channel, FY 2014–FY 2017



C. Customer Satisfaction with Market Dominant Products

1. Background

The PAEA requires the Postal Service to report measures of the degree of customer satisfaction with the service provided for each Market Dominant product. 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90. The Postal Service measures customer satisfaction with Market Dominant products and other customer experiences using surveys. The *Annual Compliance Report* must include a copy of each type of customer survey and information obtained from each survey. This information must include a description of the type of customer targeted by the survey, the number of surveys initiated and received, and the number of responses received for each question, disaggregated by each possible response. 39 C.F.R. § 3055.92. The Postal Service provides this information in Library Reference USPS–FY17–38.[235]

In FY 2017, the Postal Service measured customer satisfaction with Market Dominant products by surveying three customer groups: residential, small/medium business, and large business customers. FY 2017 ACR at 56. Residential customers completed the Delivery (Residential) survey.[236] Small/medium business customers (those with fewer than 250 employees at one site) completed the Delivery (Small/Medium Business) survey.[237] A panel of large business customers (those with more than 250 employees at one site) completed the Large Business survey.[238]

To measure customer satisfaction with Market Dominant products, each survey asked customers to rate their level of satisfaction with a Market Dominant class or product, such as First-Class Mail and Media Mail.[239] Customers rate their level of satisfaction with each class or product using a six-point scale ranging from Very Satisfied to Very Dissatisfied. FY 2017 ACR at 56. Customer satisfaction results are calculated as the percentage of customers who selected Very Satisfied or Mostly Satisfied. *Id.* Customers who indicated that they do not use or are unfamiliar with a class or product were excluded from the results. *Id.* Table V-29 compares customer satisfaction results for select Market Dominant classes and products for FY 2015, FY 2016, and FY 2017.

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[235] Library Reference USPS–FY17–38, December 29, 2017.

[236] Library Reference USPS–FY17–38, file "Delivery û USPS FY17 Residential Delivery Survey.docx."

[237] Library Reference USPS–FY17–38, file "Delivery û USPS FY17 Small Business Delivery Survey.docx."

[238] Library Reference USPS–FY17–38, file "Large Business û USPS FY17 LB Panel Survey.docx."

[239] *See, e.g.,* Library Reference USPS–FY17–38, file "Delivery û USPS FY17 Residential Delivery Survey.docx," question 4. The survey question also asks about customer satisfaction with three Competitive products: Priority Mail, Priority Mail Express, and USPS Retail Ground. *Id.*

Table V-29
Comparison of Customer Satisfaction with Market Dominant Products, by Percentage
FY 2015–FY 2017

Market Dominant Class or Product	Residential Customers			Small/Medium Business Customers			Large Business Customers		
	FY 2015	FY 2016	FY 2017	FY 2015	FY 2016	FY 2017	FY 2015[a]	FY 2016	FY 2017
First-Class Mail	89.22	89.13	89.05	84.77	83.34	84.38	83.27	81.49	77.97
Single-Piece International	85.80	84.80	85.18	82.31	81.34	82.69	82.65	74.37	69.98
USPS Marketing Mail	85.11	85.49	83.13	80.82	79.87	80.32	79.49	76.89	71.69
Periodicals	85.50	85.07	85.66	82.42	81.86	82.32	77.10	74.26	70.56
Media Mail	87.17	86.59	86.04	85.18	84.05	85.10	78.61	74.28	69.15
Bound Printed Matter	--[b]	--[b]	--[b]	81.70	80.11	82.77	76.54	73.40	67.70
Library Mail	85.10	85.54	87.28	85.43	83.05	85.98	78.66	70.56	66.41

Results are expressed as the percentage of customers who were Very Satisfied or Mostly Satisfied with a class or product.

[a]—Results reported for Quarter 4 only.

[b]—Number of responses received did not meet minimum threshold for 90-percent level of confidence

Source: FY 2017 ACR at 58; FY 2016 ACR at 74; FY 2015 ACR at 59.

The Postal Service recognizes that it must take steps to increase customer satisfaction for all customers, including large businesses. FY 2017 ACR at 59. It states that it will continue to analyze customer satisfaction results to better understand the key drivers behind them. *Id.* Based on this analysis, the Postal Service asserts that it will be better able to design and implement appropriate customer satisfaction improvements. *Id.* It notes that it will improve overall customer satisfaction by enhancing retail technology, upgrading software, implementing line queue management systems, and modifying employee training to become more customer-centric. *Id.* The Postal Service also describes plans to address mail delivery and carrier performance issues. *Id.* at 59-62.

2. Comments

The Public Representative comments that customer satisfaction with Market Dominant products increased slightly for residential and small/medium business customers. PR Comments at 19. However, she notes that customer satisfaction for large business customers declined for the second year in a row by approximately 4.67 percent on average between FY 2016 and FY 2017. *Id*. 19-21. She asserts that this decline is concerning because large business customers are better able to switch to alternate delivery companies compared to residential and small/medium business customers. *Id.* at 19.

Based on her review of the large business customer survey responses, the Public Representative makes three recommendations for improving large business customer satisfaction with Market Dominant products. First, she recommends that the Postal Service focus on providing a good value for the price and delivering mail in the same good condition as its competitors. *Id*. at 20. Second, she suggests that the Postal Service focus on improving management involvement in addressing customer issues to better understand the business of large business customers. *Id.* Third, she recommends that the Postal Service examine ways to improve its ability to deliver USPS Marketing Mail to the correct address of large business customers. *Id.* The Public Representative also reiterates a prior recommendation that the Commission monitor large business customer satisfaction closely to ensure further declines do not occur. *Id.* at 20-21.

In its reply comments, the Postal Service acknowledges the Public Representative's concerns and asserts that it will continue to identify ways to improve customer delivery experience and management's response to customer issues. Postal Service Reply Comments at 20. The Postal Service states that it does not expect either delivery accuracy or mail condition to decline for Market Dominant products, but asserts that it will explore these concerns. *Id.*

3. Commission Analysis

Customer satisfaction with Market Dominant products remained the same overall for residential and small/medium business customers between FY 2016 and FY 2017. Results ranged between 80 and 89 percentage points. By contrast, customer satisfaction with Market Dominant products for large business customers declined for the second year in a row. Customer satisfaction results for large business customers, which ranged from 66 to 78 percentage points, were far lower than results for residential and small/medium business customers.

In the FY 2016 ACD, the Commission directed the Postal Service to take appropriate steps to improve customer satisfaction and discuss the reasons for any further declines in customer satisfaction. FY 2016 ACD at 157. Although the Postal Service acknowledges the decline in large business customer satisfaction, it does not discuss the reasons for this decline. The Postal Service states that it will analyze all customer satisfaction results to better understand the key drivers behind them. FY 2017 ACR at 59.

The Commission directs the Postal Service to provide an analysis in the FY 2018 ACR to explain why large business customer satisfaction declined between FY 2015 and FY 2017. The Postal Service must also discuss the reasons for any further declines in customer satisfaction for residential, small/medium business, and large business customers.

The Commission finds that the Postal Service should take appropriate steps to improve customer satisfaction with Market Dominant products for all customers as outlined in the FY 2017 ACR. The Commission recommends that the Postal Service monitor the areas identified by the Public Representative to ensure that these concerns are addressed in FY 2018. In the FY 2018 ACR, the Postal Service must describe actions taken to improve customer satisfaction in FY 2018 and explain whether actions were effective.

CHAPTER 6: FLATS COST AND SERVICE ISSUES

A. Introduction

The Postal Service continues to face significant challenges in profitably processing and delivering flat-shaped mailpieces (flats). In the FY 2015 ACD, the Commission identified and analyzed six "pinch points" that contribute to cost and service issues for flats:

- Bundle processing
- Low productivity on automated equipment
- Manual sorting
- Productivity and service issues in allied operations
- Increased transportation time and cost
- Last mile/delivery

FY 2015 ACD at 165.

The Commission directed the Postal Service to identify a method to measure, track, and report the cost and service performance issues concerning flats. FY 2015 ACD at 181. In response, the Postal Service provided a discussion of data systems that could be used to measure certain issues relating to flats.[240]

Citing the compressed nature of ACD proceedings and the need for consistent review of the issues, the Commission initiated a strategic rulemaking to explore potential data enhancements and develop reporting requirements related to flats operational cost and service issues. *See* Docket No. RM2018-1.

B. FY 2017 Results

In FY 2017, the combined attributable costs of Outside County Periodicals and Standard Mail Flats exceeded the products' revenues by $1.3 billion. *See* Chapter 3, *supra,* at 44, 50. Since FY 2008, the combined attributable costs of Periodicals and Standard Mail Flats exceeded their revenues by more than $10.8 billion. *Id.*

[240] *See* Docket No. ACR2015, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, July 26, 2016; Docket No. ACR2015, Response of the United States Postal Service to Commission Information Request No. 1, November 28, 2016.

In FY 2017, service performance improved, however, only USPS Marketing Mail Carrier Route met its target, as discussed in detail in Chapter 5. *See* Chapter 5 at 150 and Table VI-1. Since inception of the current service performance measurement system, the Postal Service has only met one service performance target for flats products.

Table VI-1
Flats Products' Service Performance Results FY 2012–FY 2017

Product	FY 2012		FY 2013		FY 2014		FY 2015		FY 2016		FY 2017	
	Target	% On-Time	Target	% On-Time	Target	% On-Time	Target	% On-Time	Target	% On-Time	Target	% On-Time
First-Class Mail Flats 3-5 Day[241]	92.85	80.00	95.00	77.60	95.25	72.60	95.25	65.28	95.25	70.86	95.25	73.93
USPS Marketing Mail Carrier Route	90.00	70.60	90.00	79.70	91.00	81.40	91.00	82.02	91.00	83.90	91.00	91.36
USPS Marketing Mail Flats	90.00	70.00	90.00	76.90	91.00	76.20	91.00	73.78	91.00	81.40	91.00	80.37
Periodicals Outside County	91.00	68.70	91.00	82.10	91.00	80.80	91.00	77.57	91.00	79.74	91.00	85.32
Bound Printed Matter Flats	90.00	54.30	90.00	62.60	90.00	60.20	90.00	45.20	90.00	53.56	90.00	56.67

Source: PRC–LR–ACR2017/9.

1. Bundle Processing

In FY 2015, the Commission found that current data related to bundle breakage do not fully indicate the scope and scale of bundle breakage. FY 2015 ACD at 167.

For FY 2017, the Postal Service provided the data in Table VI-2 on Bundle Breakage Performance. These data show that the percent of broken bundles increased 0.22 percentage points. Specifically, the total numbers of bundles decreased 1.02 percent, while the number of broken bundles increased 7.11 percent.

[241] 3-5 Day First-Class Mail Flats 3-5 Day denotes First-Class Mail Flats that have a service standard of 3 to 5 days. Most First-Class Flats volume falls into this category.

Table VI-2
Bundle Breakage

FY	Total Bundles	Intact Bundles	Broken Bundles	%Broken
2016	497,658,730	484,698,111	12,960,619	2.60%
2017	492,575,354	478,693,351	13,882,003	2.82%

Source: Response to CHIR No. 14, question 4.

In Docket No. RM2018-1, the Postal Service provided data from Bundle Breakage Visibility Reports and Work In Process Cycle time data.[242] The Commission will continue to review the data and issue information requests to better understand the Postal Service's capability to develop an appropriate metric to measure, track, and report cost and service issues related to bundle processing.

2. Low Productivity on Automation Equipment

In FY 2015, the Commission found that the productivities for the primary machines used to process flats, the automated processing on the Automated Parcel Bundle Sorter (APBS), the Automated Package Processing System (APPS), and the Automated Flats Sequencing Machine (AFSM) 100, were declining. FY 2015 ACD at 167-68. As shown in Table VI-2, the productivities for AFSM100 and APPS continued to decline, while the productivity for APBS improved by 4.1 percent in FY 2017.

[242] *See* Docket No. RM2018-1, Response of the United States Postal Service to Commission Information Request No. 1, December 4, 2017, questions PP1-1d and PP1-2d (Docket No. RM2018-1, Response to CIR No. 1).

Table VI-3
Pieces Per Hour (PPH) Sorted

	AFSM100 Incoming Secondary		SPBS/APBS Incoming		APPS Incoming	
FY	PPH	% Change	PPH	% Change	PPH	% Change
2008	3273		252		498	
2009	3138	-4.1%	224	-10.8%	451	-9.3%
2010	2998	-4.5%	208	-7.2%	430	-4.7%
2011	2898	-3.3%	201	-3.4%	397	-7.7%
2012	2692	-7.1%	220	9.6%	361	-9.0%
2013	2725	1.2%	232	5.4%	350	-3.0%
2014	2685	-1.5%	219	-5.6%	319	-9.1%
2015	2673	-0.4%	205	-6.6%	304	-4.5%
2016	2567	-4.0%	194	-5.3%	271	-11.0%
2017	2326	-9.4%	202	4.1%	265	-2.2%

Source: PRC–LR–ACR2017/9.

In FY 2017, the Postal Service added 1,488 bins for sortation to APBS and APPS machines. In addition, it added seven new Small Package Sorter System (SPSS) and three APBS machines. FY2017 ACR at 27. Due to declining pieces on the AFSM 100, the Postal Service removed 50 AFSM 100 machines. *Id.* The Postal Service asserts that there has been a loss of economies of scale related to volume declines, which has negatively affected the productivity of the AFSM100. *Id.*

The Flat Sequencing System (FSS) is another machine used by the Postal Service to process flats. In FY 2017, 19.4 percent of flats that destinated in FSS zones were not finalized on FSS equipment, which is relatively unchanged from FY 2015 and FY 2016.[243] Each of those metrics declined in FY 2017. The Postal Service spent over $208 million on processing flats on FSS in FY 2017, a 3.0 percent increase over FY 2016. *See* PRC–LR–ACR2017/9. In FY 2017, the cost of operating the FSS increased and the volume processed on the FSS decreased.

From the period of FY 2012 to FY 2015, some metrics associated with the FSS increased. Notably, the Delivery Point Sequence (DPS) percent reached 59.99 percent in FY 2015. The performance of the FSS declined in both FY 2016 and FY 2017. The DPS percent was 54.71 percent in FY 2017, lower than any point since FY 2012. The Postal Service added a new metric to the FSS scorecard in FY 2017. The Postal Service "projects that the DPS percent will increase in future years." Response to CHIR No. 5, question 1. The Postal Service did not provide any evidence supporting its assertion that the observed trend will reverse.

[243] Library Reference USPS–FY17–11, December 29, 2017, Excel file "USPS-FY17-11 MM flats.xlsx," tab "Coverage Factors," cell E79.

In chapter 3, the Commission discussed and analyzed the metrics used in the FSS scorecard.

In Docket No. RM2018-1 the Postal Service provided additional data from Mail Processing Variance Reports and Single-Piece First-Class Mail Root Cause Reports. *See* Docket No. RM2018-1, Response to CIR No. 1, questions PP2-1, and PP2-4. The Commission will continue to review the data and issue information requests to better understand the Postal Service's capability to develop an appropriate metric to measure, track, and report cost and service issues related to low productivity on automation equipment.

3. Manual Sorting

In FY 2017, the Postal Service spent $344.6 million on manually processing flats, a 3.1 percent reduction from FY 2016. *See* PRC–LR–ACR2017/9. The available data for manual sorting lacks transparency, as there is no way to track and report the amount of manual processing that actually occurs. The Commission and the Postal Service previously identified global issues with the cost and service performance of flats that are manually processed.[244] As discussed above, the Postal Service did not propose any metrics to track or measure manual processing that would provide visibility.

In Docket No. RM2018-1, the Postal Service provided data from WebMODS for manual flat operations and manual volume estimates from eFLASH. *See* Docket No. RM2018-1, Response to CIR No. 1, question PP3-1 and PP3-2. The Commission will continue to review the data and issue information requests to better understand the Postal Service's capability to develop an appropriate metric to measure, track, and report cost and service issues related to manual sorting.

4. Productivity and Service Issues in Allied Operations

Visibility into allied operations is limited. One way the Postal Service gains insight into allied operations is through Work In Progress (WIP) cycles. The Postal Service reports that WIP cycle median hours decreased from 54 hours to 52 hours for USPS Marketing Mail Flats and was unchanged for Periodicals at 24 hours. FY 2017 ACR at 28-29.

[244] *See Periodicals Mail Study: Joint Report of the United States Postal Service and Postal Regulatory Commission*, September 2011, at 2.

Table VI-4
Service Performance Diagnostics Tool
Median 5 Day Work In Process
USPS Marketing Mail Flats, FY 2012–FY 2017

Time Period from Service Performance Diagnostics	Median Hours
FY 2012 (Week ending 3/02/12 - 9/28/12)	52.4
FY 2013 (Week ending 10/19/12 - 9/27/13)	50.5
FY 2014 (Week ending 10/01/13 - 9/30/14)	49
FY 2015 (Week ending 10/01/14 - 9/30/15)	52
FY 2016 (Week ending 10/01/15 - 09/30/16)	54
FY 2017 (Week ending 10/01/16 - 09/30/17)	52

As shown in Table VI-3, WIP cycle times have increased 3 hours since FY 2014. In FY 2014, as part of its efforts to improve the productivity of its mail processing network, the Postal Service introduced a load leveling program meant to create loads that can be more evenly processed across the workweek.[245] However, the Postal Service has not quantified any associated cost savings for the load leveling operational changes.[246]

In Docket No. RM2018-1, the Postal Service provided WIP metrics for Actual Entry to Piece Scan and Actual Entry to Bundle Scan, and it also provided Bundle Visibility Reports. *See* Docket No. RM2018-1, Response to CIR No. 1, questions PP4-1 and PP4-2. The Commission will continue to review the data and issue information requests to better understand the Postal Service's capability to develop an appropriate metric to measure, track, and report cost and service issues related to allied operations.

5. Increased Transportation Time and Cost

In the past 5 years, unit transportation costs have increased 12.0 percent overall. However, since FY 2016, unit transportation costs have decreased 11 percent. *See* Table VI-4.

[245] *See* Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-6, 8-10 of Chairman's Information Request No. 11, February 16, 2016, question 9.

[246] *See* Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2, 5-11 and 13-14 of Chairman's Information Request No 3, January 30, 2015, question 6.

Table VI-5
Flats Transportation Costs
FY 2013–FY 2017

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Percent Change FY 2013 to FY 2017
Cost Segment 14 Flats Cost	686,602	669,692	712,179	757,237	628,652	-8.4%
Flats Volume	23,558,663	22,161,652	21,489,192	20,544,661	19,265,292	-18.2%
Flats Transportation Unit Costs	$0.0291	$0.0302	$0.0331	$0.0369	$0.0326	12.0%

Source: PRC–LR–ACR2017/9.

In Docket No. RM2018-1, the Postal Service provided data from SVWeb and Bundle Visibility Reports related to transportation. *See* Docket No. RM2018-1, Response to CIR No. 1, questions PP5-2 and PP5-3. The Commission will continue to review the data and issue information requests to better understand the Postal Service's capability to develop an appropriate metric to measure, track, and report cost and service issues related to transportation.

6. Last mile/delivery

The Postal Service spent a total of $1.1 billion in city carrier in-office costs, which include casing costs for flats in FY 2017. *See* Table VI-5. When the additional mail processing costs associated with the FSS are added to the city carrier in-office costs, the Postal Service spent $1.327 billion processing flats to Delivery Point Sequence (DPS) in FY 2017.[247] This is virtually unchanged from FY 2016, when the Postal Service spent $1.319 billion on processing flats to DPS. FY 2016 ACD at 168. This is nearly the same amount spent casing flats in FY 2008, when volume was 78 percent higher than FY 2017.[248] In FY 2008, the Postal Service manually cased all flats because there were no FSS machines. Despite the addition of 100 FSS machines and lower volume, the Postal Service spent nearly the same total amount in the final sortation operation for flats in FY 2017.

[247] The cost of FSS processing in MODS and NDC facilities was over $205 million. *See* Library Reference USPS–FY17–26.

[248] As detailed in Table VI-5, the cost segment 6 in-office cost for flats in FY 2008 was $1.549 billion, $222 million more than the combined FSS mail processing and in-office cost of $1.327 billion in FY 2017. As further detailed in Table VI-6, flat volume was 34.35 billion pieces in FY 2008 and declined to 19.09 billion pieces in FY 2017, which represents a 44.4 percent decline.

Table VI-6
Cost Segment 6: City Delivery Carriers – Office Activity
Unit Costs FY 2008–FY 2017

Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CS 6 Flat Costs ($ in millions)	1,549	1,519	1,513	1,442	1,274	1,196	1,139	1,143	1,114	1,119
Flats Volumes (millions)	34,356	28,773	26,524	25,719	24,081	23,559	22,162	21,489	20,545	19,265
Unit Costs (cents)	4.51	5.28	5.71	5.61	5.29	5.08	5.14	5.32	5.42	5.81

Source: PRC–LR–ACR2017/9.

In Docket No. RM2018-1, the Postal Service provided data from the Customer Service Daily Reporting System, Service Performance Measurement, Bundle Scanning Visibility Scorecard, and Transit-Time Measurement System. *See* Docket No. RM2018-1, Response to CIR No. 1, questions PP6-1, PP6-2, PP6-3, and PP6-4. The Commission will continue to review the data and issue information requests to better understand the Postal Service's capability to develop an appropriate metric to measure track and report cost and service issues related to last mile/delivery.

C. **Comments**

PostCom, ACMA, and the Public Representative filed comments related to Chapter 6 and Docket No. RM2018-1. The Postal Service and Valpak filed reply comments regarding flats operational changes and Docket No. RM2018-1.

PostCom states that it appreciates the efforts of the Commission to explore the issue of flats costs in a more exhaustive fashion. PostCom Comments at 8. PostCom also suggests that open access to Informed Visibility data, with appropriate safeguards, would be beneficial to all parties. *Id.* at 2-3. Based on the Postal Service's statement that it is unable to estimate the impact of operational initiatives on flats costs, PostCom asserts that the Postal Service is "indifferent to the importance of understanding how its operational decisions impact the costs that it is able to pass directly onto its customers due to its monopoly status." *Id.* at 8. ACMA is hopeful the additional information requested by the Commission in Docket Nos. ACR2015 and RM2018-1 will "further progress on this matter." ACMA Comments at 17.

Based on the Public Representative's review, she could not conclude that the Postal Service fully followed the Commission's directives regarding cost reduction for flats. PR Comments at 34. Valpak asserts that because the Postal Service is still unable to provide financial impacts of operational initiatives, there is no basis to believe any cost reduction efforts will be successful. Valpak Reply Comments at 7-8.

In its reply comments, the Postal Service states that "the appropriate forum for addressing the flats cost issues raised by the parties is Docket No. RM2018-1." Postal Service Reply Comments at 6. In response to comments from PostCom, the Postal Service asserts that it is not "indifferent" to the effect of operations decisions of Flats costs. *Id.*

D. Status of Docket No. RM2018-1

Since FY 2015, the Commission has attempted to identify and develop metrics to measure, track, and report the cost and service performance issues concerning flats. The Postal Service has not successfully identified such metrics at this juncture. The Postal Service has continued to explore what information it possesses that can be used to develop these metrics. The Commission will continue to explore cost and service issues related to flats in Docket No. RM2018-1. Using the information provided by the Postal Service regarding its data systems and soliciting comments from interested parties, the Commission will develop potential data enhancements and consistent reporting requirements that will be used to develop metrics to measure, track, and report the cost and service performance issues concerning flats. The Commission anticipates that the data enhancement and consistent reporting will lead to the development of measurable goals to decrease the costs and improve the service of flats.

Appendix A: Special Study of Delivery Performance in Remote Locations

Pursuant to 39 U.S.C. § 3652(a)(2)(B), which requires the Postal Service to file annual reports regarding its quality of service for each market dominant product, the Commission promulgated 39 C.F.R. § 3055.7 in 2010.[1] This regulation requires the Postal Service to file a report every 2 years on delivery performance, by class of mail, to remote areas of the Alaska, Caribbean, and Honolulu districts. The purpose of this report is to "allow evaluation of the unique aspects of providing service to less populous/more remote areas of these districts, and compare how this service differs from the districts as a whole." Order No. 465 at 39.

In accordance with this requirement, every 2 years, the Postal Service provides a special study conducted by a third party contractor concerning final delivery service performance to the remote locations of the Alaska, Honolulu, and Caribbean Districts.[2] These districts serve remote locations less populated than the average continental district, and large portions of these districts are located far from mail processing facilities.[3] Each of these districts also serves more populated areas, called Gateway cities. The Gateway city for the Alaska District is Anchorage; the Gateway city for the Honolulu District is Honolulu; and the Gateway city for the Caribbean District is San Juan.

The 2017 Study reports service performance results for remote locations, compares those results to service performance for the area's Gateway city, and presents statistically significant differences between these service performance results. 2017 Study at 6.

Specifically, the 2017 Study measures performance for 114 remote 3-Digit ZIP Codes and mail class groupings. *Id.* at 22. Of these 114 groups, the Gateway had better service performance results than the remote 3-Digit ZIP Codes in 59 instance (52 percent). *Id.* There were 26 instances where the remote 3-Digit ZIP Codes had better service performance results than the Gateway (23 percent), and 29 instances where there was no statistically significant difference between the Gateway and the remote 3-Digit ZIP Code (25 percent). *Id*.

[1] *See* Docket No. RM2009-11, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, May 25, 2010, at 61 (Order No. 465).

[2] Library Reference USPS-FY17-29, December 29, 2017, "Offshore Special Study FY17.pdf," at 1 (2017 Study). *See also, e.g.,* Docket No. ACR2015, Library Reference USPS-FY15-29, December 29, 2015, "Special Study of Off-Shore Service Performance FY15.pdf" (2015 Study); Docket No. ACR2013, Library Reference USPS-FY13-29, December 27, 2013, "Special Study of Off-Shore Service Performance FY13.pdf" (2013 Study); Docket No. ACR2011, Library Reference USPS-FY11-29, December 29, 2011, "Special Study of Off-Shore Service Performance FY11.pdf" (2011 Study).

[3] 2017 Study at 1. When referring to non-Gateway ZIP Codes, the 2017 Study uses the terms "remote" and "rural" interchangeably. This Appendix uses the term "remote" to refer to non-Gateway ZIP Codes.

The 2017 Study uses sampling-related margins of error to determine if score differences were statistically significant at a 95-percent confidence level. Due to sample size differences for each measured region, the margins of error will differ for each comparison.[4] In addition, service performance measurement was suspended for mail originating from or destinating to the Caribbean District starting September 16, 2017, due to the severity of Hurricanes Irma and Maria. 2017 Study at 5. This suspension applied to all mail classes for the FY 2017 results. *Id.*

The 2017 Study also compares the FY 2017 results for each 3-Digit ZIP Code to the FY 2015 results. There are 151 comparisons for all 3-Digit ZIP Codes by mail class. *Id.* at 24. Of the 151 comparisons, the Postal Service states that the FY 2017 results improved over the FY 2015 result in 92 instances (61 percent). *Id.* There were 20 instances (13 percent) where the FY 2017 results declined from the FY 2015 results. *Id.* There was no statistically significant difference for the remaining 39 instances (26 percent). *Id.*

The results of the 2017 Study highlight the difficulties the Postal Service has in achieving similar service performance in remote locations as in the Gateways. The FY 2017 Study notes "most of the largest score differences were with ZIP Code[ ] Areas that were both extremely isolated and have low mail volumes…." *Id.* at 23. The FY 2017 Study concludes that the FY 2017 results show the Gateway tends to outperform the rural areas 52 percent of the time from a statistical significance perspective, which is narrower than the gap observed in FY 2015 (58 percent). *Id.* at 24.

The following sections display service performance results for each 3-Digit ZIP Code in the Alaska, Honolulu, and Caribbean Districts; statistically significant differences between the service performance results reported for FY 2015 and FY 2017; and statistically significant differences between the service performance results reported for the Gateway cities and remote locations within each of the three districts.

[4] The 2017 Study notes that it used "sampling related margins of error to determine if score differences were statistically significant." *Id.* at 6, 22. Sample size and margin of error are inversely related, such that as sample sizes increase, margins of error typically decrease. The 2017 Study states that "the goal was to have a minimum of approximately 400 pieces for the fiscal year, assuming an average on-time score of 80 percent." *Id.* at 5. The 2017 Study states that this volume would achieve a 95-percent confidence interval and margin of error of +/- 4.0 percent. *Id.* However, margins of error were adjusted across regions, products, and service standards because sample sizes deviated from the 400-piece target. In these cases, statistical significance was determined by the newly adjusted margin of error. *Id.*

A. First-Class Mail

1. Single-Piece Letters/Postcards/Flats

Table A-1
Single-Piece First-Class Mail Letters/Postcards/Flats
Service Performance Results by 3-Digit ZIP Code, by Percentage
FY 2011, FY 2013, FY 2015, and FY 2017

District/3-Digit ZIP Code	Overnight*				2-Day				3-5-Day			
	FY 2011	FY 2013	FY 2015	FY 2017	FY 2011	FY 2013	FY 2015	**FY 2017**	FY 2011	FY 2013	FY 2015	**FY 2017**
Alaska												
995 Gateway	96.3	97.4	96.6	NSS	99.3	99.4	99.6	**99.1**	90.5	87.6	82.8	**88.9**
995 Remote	NSS	NSS	NSS	NSS	97.9	97.8	97.5	**96.1**	93.7	95.0	91.8	**93.4**
996	NSS	NSS	NSS	NSS	98.1	98.0	96.6	**94.7**	95.3	94.5	90.4	**93.7**
997	NSS	NSS	NSS	NSS	92.9	93.4	88.0	**91.0**	92.9	93.4	92.2	**93.7**
998	NSS	NSS	NSS	NSS	96.5	90.3	94.5	**93.6**	87.6	82.8	84.3	**92.7**
999	NSS	NSS	NSS	NSS	98.5	95.4	93.7	**95.0**	89.1	85.0	84.8	**94.0**
Caribbean												
009 Gateway	94.4	95.1	95.0	NSS	97.2	98.6	96.3	**94.3**	85.6	82.6	65.4	**65.8**
006	93.7	93.7	95.4	NSS	96.4	98.2	93.7	**91.6**	84.5	83.1	65.1	**65.9**
007	93.6	94.3	93.8	NSS	94.7	98.5	95.0	**92.1**	85.7	82.6	65.9	**66.5**
008	87.7	92.4	89.4	NSS	96	98.8	96.9	**94.7**	91.8	94.3	88.0	**89.8**
Honolulu												
968 Gateway	97.7	97.2	97.3	NSS	NSS	12.4	97.4	**97.7**	86.3	86.5	70.5	**77.7**
96700-96798 Hawaiian Islands	97.5	97.4	96.9	NSS	NSS	NSS	97.5	**96.8**	96	95.6	88.3	**93.4**
96799 American Samoa	-	NSS	NSS	NSS	-	12.4	7.8	**7.5**	-	18.7	8.0	**12.4**
969 Guam	91.5	95.5	93.4	NSS	NSS	NSS	97.8	**95.1**	82.8	56.4	21.1	**57.9**

Note: *Effective January 5, 2015, the Postal Service eliminated the overnight service standard for intra-SCF (*e.g.,* mail that is entered and delivered within the 3-Digit ZIP Code areas assigned to that SCF in the Domestic Mail Manual) Single-Piece First-Class Mail. FY 2017 Study at 4. Therefore, the FY 2015 Study's analysis of the overnight results is based on mail received between October 1, 2014, and January 4, 2015. FY 2015 Study at 4.
FY 2017 results are unweighted and based on destinating mail. FY 2017 service performance measurement was suspended in the Caribbean District as of September 16, 2017, due to the severity of Hurricanes Irma and Maria. *See* 2017 Study at 7.
NSS = No Service Standard

Source: 2017 Study at 6-7; 2015 Study at 6; 2013 Study at 8; 2011 Study at 7.

Table A-2
Single-Piece First-Class Mail Letters/Postcards/Flats
Statistically Significant Differences Between FY 2015 and FY 2017 Results

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	12	8	8	28
Number Significantly Higher	5	0	4	9
Number Significantly Lower	2	3	1	6
Number Not Significantly Different	5	5	3	13

Source: 2017 Study at 23.

Table A-3
Single-Piece First-Class Mail Letters/Postcards/Flats
Statistically Significant Differences Between
Gateway and Remote Performance, FY 2017

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	10	6	6	22
Number Significantly Higher	5	1	1	7
Number Significantly Lower	5	2	4	11
Number Not Significantly Different	0	3	1	4

Source: 2017 Study at 8-9 and 22.

2. Presorted First-Class Mail Letters/Postcards

Table A-4
Presorted First-Class Mail Letters/Postcards
Service Performance Results by 3-Digit ZIP Code, by Percentage
FY 2011, FY 2013, FY 2015, and FY 2017

District/3-Digit ZIP Code	Overnight*				2-Day				3-5-Day			
	FY 2011	FY 2013	FY 2015	**FY 2017**	FY 2011	FY 2013	FY 2015	**FY 2017**	FY 2011	FY 2013	FY 2015	**FY 2017**
Alaska												
995 Gateway	96.6	97.9	*98.7*	**98.8**	98	97.7	*No Data*	**No Data**	93.5	93	*88.6*	**94.5**
995 Remote	96.6	97.9	NSS	**NSS**	No Data	No Data	98.2	**99.2**	92.9	92.4	94.2	**96.7**
996	NSS	NSS	NSS	**NSS**	98	97.9	98.3	**98.5**	96	96.7	94.4	**96.6**
997	NSS	NSS	NSS	**NSS**	98	97.7	97.5	**96.0**	95.9	96.5	93.5	**96.2**
998	NSS	NSS	NSS	**NSS**	No Data	95.2	98.9	**No Data**	94.4	95.2	83.6	**93.6**
999	NSS	NSS	NSS	**NSS**	No Data	No Data	No Data	**No Data**	89.5	82.1	78.3	**93.5**
Caribbean												
009 Gateway	No Data	No Data	95.0	**94.0**	No Data	No Data	No Data	**No Data**	85.3	90.2	80.5	**84.7**
006	No Data	No Data	92.1	**90.9**	No Data	No Data	No Data	**No Data**	85.7	90.2	79.3	**83.4**
007	No Data	No Data	92.6	**92.2**	No Data	No Data	No Data	**No Data**	83.7	89.4	79.9	**84.4**
008	No Data	No Data	No Data	**NSS**	No Data	No Data	97.9	**97.6**	84.2	89.7	91.8	**94.0**
Honolulu												
968 Gateway	96.3	99.3	93.6	**97.3**	NSS	No Data	No Data	**NSS**	93.9	94.4	83.5	**88.8**
96700-96798 Hawaiian Islands	97	99.2	95.8	**96.6**	NSS	NSS	NSS	**NSS**	90.5	93.5	94.2	**97.1**
96799 American Samoa	95.9	99.3	NSS	**NSS**	NSS	NSS	No Data	**No Data**	95.9	97.9	12.4	**21.5**
969 Guam	-	NSS	93.3	**90.3**	-	No Data	NSS	**NSS**	-	45.8	53.8	**78.4**

Note: *Effective January 5, 2015, the overnight service standard applies to "intra-SCF domestic Presort First-Class Mail pieces properly accepted at the SCF before the day-zero CET, except for mail between Puerto Rico and the U.S. Virgin Islands, and mail destined to American Samoa and the following 3-digit ZIP Code areas in Alaska (or designated portions thereof): 995 (5-digit ZIP Codes 99540 through 99599), 996, 997, 998, and 999." 39 C.F.R. § 121.1(a)(2). FY 2017 results are unweighted and based on destinating mail. FY 2017 service performance measurement was suspended in the Caribbean District as of September 16, 2017, due to the severity of Hurricanes Irma and Maria. *See* 2017 Study at 9.
NSS = No Service Standard

No Data = There was no data for this service standard in FY17.

Source: 2017 Study at 9; 2015 Study at 8; 2013 Study at 11-12; 2011 Study at 10-11.

Table A-5
Presorted First-Class Mail Letters/Postcards
Statistically Significant Differences Between FY 2015 and FY 2017 Results

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	10	8	7	25
Number Significantly Higher	7	3	4	14
Number Significantly Lower	0	0	0	0
Number Not Significantly Different	3	5	3	11

Source: 2017 Study at 23.

Table A-6
Presorted First-Class Mail Letters/Postcards
Statistically Significant Differences Between
Gateway and Remote Performance, FY 2017

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	5	6	5	16
Number Significantly Higher	3	1	1	5
Number Significantly Lower	0	1	2	3
Number Not Significantly Different	2	4	2	8

Note: There was no data available to compare the Gateway to 3-Digit ZIP Code 008 for the 2-Day service standard in the Caribbean District. 2017 Study at 10. The 2017 Study classifies the results for ZIP Code 008 for the 2-Day service standard in the Caribbean District as not significantly different. *Id.* at 22.
Source: 2017 Study at 22.

B. USPS Marketing Mail

Table A-7
USPS Marketing Mail Letters and Flats
Service Performance Results by 3-Digit Zip Code, by Percentage
FY 2011, FY 2013, FY 2015, and FY 2017

District/3-Digit ZIP Code	Letters								Flats							
	Destination Entry				End-to-End				Destination Entry				End-to-End			
	FY 2011	FY 2013	FY 2015	**FY 2017**	FY 2011	FY 2013	FY 2015	**FY 2017**	FY 2011	FY 2013	FY 2015	FY 2017	FY 2011	FY 2013	FY 2015	**FY 2017**
Alaska																
995 Gateway	80.3	97.8	98.1	**98.8**	31.5	84.7	86.1	**91.7**	46.1	92.8	96.4	**95.2**	27.8	76.3	80.7	**91.9**
995 Remote	75.3	97.7	97.8	**98.6**	31.6	86.5	86.3	**91.2**	36.8	92.9	92.1	**93.1**	18	77	75.3	**89.5**
996	66.8	96.9	97.3	**98.5**	28.1	84.2	84.6	**90.2**	41.4	92.1	91.7	**90.3**	14	77.1	75.6	**87.2**
997	65	96.8	97.5	**98.0**	36.4	87	87.2	**93.0**	32.6	93.1	93.5	**91.1**	21.9	79.9	79.1	**91.7**
998	42.4	80.5	90.1	**88.5**	22.1	71.3	80.1	**83.3**	N/A	96.3	83.4	**84.3**	N/A	79.7	62.4	**73.9**
999	54.3	76.1	89.3	**90.5**	31.7	62.2	76.7	**83.1**	N/A	94.7	73.8	**60.6**	N/A	75	44.2	**45.6**
Caribbean																
009 Gateway	59.9	89.1	89.6	**92.2**	34.1	71.6	72.8	**62.9**	54.9	80.8	87.3	**83.7**	32.4	59.7	61.7	**73.1**
006	78.4	91.5	92.1	**91.1**	31.7	72.9	74.6	**64.4**	57.2	81.4	87.4	**83.8**	24.5	66.2	67.1	**74.7**
007	70.3	88.6	91.1	**90.8**	34.7	71.2	74.8	**65.6**	57.9	84.6	84.9	**82.1**	30	67.1	63.9	**74.7**
008	57.9	87.5	87.3	**89.5**	42.7	69.6	56.9	**58.0**	59.4	76	81.5	**66.2**	29	54.0	51.8	**60.8**
Honolulu																
968 Gateway	14.2	67.4	95.9	**97.8**	7.4	33.1	69.1	**85.8**	7.1	56.6	91.6	**97.6**	2.6	39.0	61.9	**84.0**
96700-96798 Hawaiian Islands	15.1	67.5	96.5	**98.3**	5.7	35.3	69.2	**86.2**	2.7	44.4	80.3	**97.8**	1	31.6	53.3	**81.4**
96799 American Samoa	-	25.1	13.0	**39.0**	-	14	11.0	**22.3**	-	11.7	10.0	**21.7**	-	8.5	6.2	**15.7**
969	0.3	24.9	27.3	**89.8**	4.8	21.9	27.6	**72.6**	1.2	18.3	19.9	**41.7**	1.2	24.1	16.1	**29.6**

Note: In FY 2014 the Postal Service implemented its Standard Mail Load Leveling initiative, under which one day was added to the service standard for destination entry Standard Mail pieces that qualified for a Destination Sectional Center Facility (DSCF) rate and were entered on a Friday or Saturday. FY 2017 Study at 4.
FY 2017 results are unweighted and based on destinating mail. FY 2017 service performance measurement was suspended in the Caribbean District as of September 16, 2017, due to the severity of Hurricanes Irma and Maria. *See* 2017 Study at 11.
Source: 2017 Study at 10-11; 2015 Study at 19; 2013 Study at 13; 2011 Study at 12.

Table A-8
USPS Marketing Mail Letters and Flats
Statistically Significant Differences Between FY 2015 and FY 2017 Results

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	24	16	16	56
Number Significantly Higher	15	6	16	37
Number Significantly Lower	3	7	0	10
Number Not Significantly Different	6	3	0	9

Source: 2017 Study at 23.

Table A-9
USPS Marketing Mail Letters and Flats
Statistically Significant Differences Between
Gateway and Remote Performance, FY 2017

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	20	12	12	44
Number Significantly Higher	1	2	2	5
Number Significantly Lower	12	5	9	26
Number Not Significantly Different	7	5	1	13

Source: 2017 Study at 22.

C. Periodicals

Table A-10
Periodicals
Service Performance Results by 3-Digit ZIP Code, by Percentage
FY 2011, FY 2013, FY 2015, and FY 2017

District/3-Digit ZIP Code	FY 2011*	Destination Entry			End-to-End		
		FY 2013	FY 2015	**FY 2017**	FY 2013	FY 2015	**FY 2017**
Alaska							
995 Gateway	68.7	89.7	89.0	**91.6**	82.1	76.4	**90.0**
995 Remote	57.2	92.0	88.2	**96.0**	81	74.6	**90.2**
996	71.4	90.0	86.7	**95.0**	80.6	74.3	**90.8**
997	63.7	87.1	77.9	**91.4**	74.9	71.9	**91.0**
998	56.7	84.5	59.0	**75.9**	84.9	62.2	**64.5**
999	48.2	73.9	66.7	**84.6**	78.4	64.0	**69.3**
Caribbean							
009 Gateway	41.8	66.9	75.6	**77.3**	65	71.6	**76.0**
006	34.1	70	71.4	**69.2**	67.6	67.9	**80.1**
007	43.7	72.3	69.9	**67.9**	71.4	65.9	**78.0**
008	16.7	76.2	78.4	**87.2**	57.5	63.3	**74.3**
Honolulu							
968 Gateway	73.8	61	76.2	**96.8**	40.1	54.9	**84.5**
96700-96798 Hawaiian Islands	63	66.1	69.9	**96.7**	39.2	53.5	**85.9**
96799 American Samoa	-	4.4	2.0	**No Data**	9.6	6.0	**19.4**
969	80.4	16.5	13.9	**34.0**	24.2	13.9	**34.0**

Note: *In FY 2011, service performance results for Periodicals were not disaggregated by Destination-Entry or End-to-End measurement.
FY 2017 results are unweighted and based on destinating mail. FY 2017 service performance measurement was suspended in the Caribbean District as of September 16, 2017, due to the severity of Hurricanes Irma and Maria. *See* 2017 Study at 13.
Source: 2017 Study at 13; 2015 Study at 20; 2013 Study at 16; 2011 Study at 17.

Table A-11
Periodicals
Statistically Significant Differences Between FY 2015 and FY 2017 Results

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	12	8	7	27
Number Significantly Higher	10	5	7	22
Number Significantly Lower	0	0	0	0
Number Not Significantly Different	2	3	0	5

Source: 2017 Study at 23.

Table A-12
Periodicals
Statistically Significant Differences Between
Gateway and Remote Performance, FY 2017

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	10	6	5	21
Number Significantly Higher	4	3	1	8
Number Significantly Lower	4	2	3	9
Number Not Significantly Different	2	1	1	4

Source: 2017 Study at 22.

D. Package Services

Table A-13
Package Services
Service Performance Results, by Percentage
FY 2011, FY 2013, FY 2015, and FY 2017

District/3-Digit ZIP Code	FY 2011	FY 2013	FY 2015	**FY 2017**
Alaska				
995 Gateway	31.3	89.5	90.8	**92.8**
995 Remote	21.9	70.3	79.7	**81.1**
996	25.9	77	83.6	**87.0**
997	21.5	71.7	83.2	**83.6**
998	21.2	72	80.4	**81.2**
999	21.7	59.9	79.5	**76.2**
Caribbean				
009 Gateway	19.8	53.6	70.5	**69.9**
006	23.9	51.5	71.6	**69.6**
007	24.4	53.2	48.6	**75.4**
008	7.7	28.5	44.1	**25.9**
Honolulu				
968 Gateway	6.9	45.9	64.7	**68.8**
96700-96798 Hawaiian Islands	6	29.2	42.5	**52.7**
96799 American Samoa	-	9.7	25.2	**36.2**
969	8	17.1	19.8	**39.0**

Note: FY 2017 results are unweighted and based on destinating mail. FY 2017 service performance measurement was suspended in the Caribbean District as of September 16, 2017, due to the severity of Hurricanes Irma and Maria. *See* 2017 Study at 15.
Source: 2017 Study at 15; 2015 Study at 15; 2013 Study at 21; 2011 Study at 19.

Table A-14
Package Services
Statistically Significant Differences Between FY 2015 and FY 2017 Results

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	6	4	4	14
Number Significantly Higher	5	1	4	10
Number Significantly Lower	1	3	0	4
Number Not Significantly Different	0	0	0	0

Source: 2017 Study at 23.

Table A-15
Package Services
Statistically Significant Differences Between
Gateway and Remote Performance, FY 2017

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	5	3	3	11
Number Significantly Higher	0	1	0	1
Number Significantly Lower	5	2	3	10
Number Not Significantly Different	0	0	0	0

Source: 2017 Study at 22.

Appendix B: Key Commission Findings and Directives Requiring Postal Service Action for Annual Compliance Reports

KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2017 ACD)

Periodicals Pricing Efficiency:

- *The Commission directs the Postal Service to include an updated version of the Periodicals Pricing Report in its FY 2018 ACR. The report must include an analysis of how the pricing in Docket No. R2018-1 impacted the cost, contribution, and revenue of Periodicals in FY 2018 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2018.* FY 2017 ACD, Chapter 2 at 23.

Marketing Mail Flats:

- *The Commission finds that, in FY 2017, no progress was made toward addressing the issues it raised in the FY 2010 ACD. Despite the Postal Service efforts to reduce flats costs through operational initiatives, unit costs increased substantially from FY 2016. The Commission understands that the migration of Carrier Route Flats played a significant role in the cost increase due to the migration of low cost pieces. However, even when Carrier Route and Flats data are combined, unit costs still increased and unit contribution decreased. The Postal Service must continue responding to the requirements of the FY 2010 ACD directive by proposing above-average price increases for USPS Marketing Mail Flats, striving to reduce USPS Marketing Mail Flats cost, and providing the required documentation of those efforts in future ACRs.* FY 2017 ACD, Chapter 3 at 58.

Money Orders:

- *The Commission finds that FY 2017 revenue for Money Orders was not sufficient to cover attributable cost. The Commission directs the Postal Service to continue its investigation into debit card fee attribution and update the Commission on its progress and any potential corresponding methodological changes within 90 days of the issuance of this ACD.* FY 2017 ACD, Chapter 3 at 63.

Incremental Cost Methodology:

- *For its FY 2018 ACR filing, the Commission directs the Postal Service to reconcile the difference in methodology in calculating total attributable costs between the Incremental Costs Report and the CRA by including incremental costs at the class level in the CRA. The Commission also directs the Postal Service to report the component-level total and institutional costs in the Incremental Costs Report.* FY 2017 ACD, Chapter 1 at 10.

Inbound Letter Post:

- *The Commission finds that FY 2017 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission directs the Postal Service, within 90 days, to submit an update on its collection of accurate shaped-based data, and development of costing models for Inbound Letter Post using this shape-based data if it has not yet filed a rulemaking proposal to implement shape-based costing for Inbound Letter Post in the Domestic Processing Model and the ICRA.* FY 2017 ACD, Chapter 3 at 68.

- *The Commission recommends that the Postal Service identify and implement operational strategies to lower costs for Inbound Letter Post in FY 2018, particularly the costs for small packets. The Commission also recommends that the Postal Service continue to pursue compensatory terminal dues in the UPU and to pursue bilateral agreements that contain Inbound Letter Post rates that are more compensatory than UPU terminal dues.* FY 2017 ACD, Chapter 3 at 68.

- *The Commission directs the Postal Service to provide both IMMS and QLMS CY 2017 and CY 2018 performance reports for Inbound Letter Post, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve service performance in the FY 2018 ACR.* FY 2017 ACD, Chapter 3 at 70.

Market Dominant International Ancillary Services:

- *The Commission finds that in FY 2017, International Ancillary Services did not cover its attributable cost due to the failure of International Registered Mail to cover its attributable cost. The Commission urges the Postal Service to continue to promote greater participation by foreign postal operators in the Inbound Market Dominant Registered Service Agreement 1, which provides more compensatory remuneration for registered mail from participating foreign postal operators. The Commission also recommends that the Postal Service identify and implement ways to reduce costs for International Registered Mail.* FY 2017 ACD, Chapter 3 at 71-72.

Market Dominant International NSAs:

- *The Commission finds that the Inbound Market Dominant PRIME Tracked Service Agreement product did not meet the criteria of 39 U.S.C. § 3622(c)(10). The Commission directs the Postal Service to encourage more countries to participate in the Inbound Market Dominant PRIME Tracked Service Agreement, as more volume exchanged within this agreement should improve cost coverage. In addition, in 90 days, the Postal Service shall file revised financial workpapers in Docket. No. R2017-3 to reflect actual year-to-date volume, revenue, and cost in FY 2018.* FY 2017 ACD, Chapter 3 at 74.

Media Mail/Library Mail

- *The Commission finds that FY 2017 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail.* FY 2017 ACD, Chapter 3 at 75.

PHI NSA:

- *The Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 3. If the Postal Service provides the Commission with the amended contract for review, the filing shall include a volume forecast for the remainder of the PHI NSA and an estimate of the total contract net financial contribution. If an amended contract is not in effect by June 30, 2018, the PHI NSA will remain suspended.* FY 2017 ACD, Chapter 3 at 76-77.

Competitive NSAs:

- *The Commission provisionally accepts the Postal Service's estimates of domestic NSA attributable costs for purposes of the instant docket. The Commission finds, however, that the Postal Service's estimate of domestic NSA attributable costs employs a new methodology, and directs the Postal Service to file a petition for the initiation of a proceeding to consider proposed changes in analytical principles for the new methodology within 90 days of issuance of this ACD.* FY 2017 ACD, Chapter 1 at 11*.*

- *The Commission finds that Priority Mail Contract 123, Priority Mail Contract 183, Priority Mail Contract 214, and Priority Mail Contract 228 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. Because Priority Mail Contract 183, Priority Mail Contract 214, and Priority Mail Contract 228 are no longer active, no further action is required. The Commission directs the Postal Service to report within 30 days of issuance of this ACD on the result of its review of the cost model underlying Priority*

Mail Contract 123 and on any additional steps it plans to take to improve cost coverage. FY 2017 ACD, Chapter 4 at 84.

- *The Commission finds the identified contracts to be in compliance. Going forward, the Commission will increase its scrutiny of estimated customer profiles that will be relied upon for cost coverage calculations. The Commission will continue to evaluate on an ongoing basis whether the data provided by the Postal Service are sufficient to assess compliance.* FY 2017 ACD, Chapter 4 at 84.

IMTS—Outbound and Inbound:

- *The Commission finds that IMTS—Outbound and IMTS—Inbound were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. Given the recurring volatility in unit costs, the Postal Service has not provided sufficient evidence that the FY 2018 price increases will result in full cost coverage. Therefore, the Commission directs the Postal Service to increase the prices for IMTS—Outbound in order to bring the product into compliance in its next request for a rate adjustment for Competitive rates of general applicability. The Commission expects the Postal Service to request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product, and to provide an update on the status of this process within 120 days of issuance of this ACD. If the Postal Service identifies competing priorities as a reason for it not being able to comply fully with the Commission's directive, it should fully describe those competing priorities and provide a clear justification for why the Commission's directive was not followed.* FY 2017 ACD, Chapter 4 at 86.

Competitive International Ancillary Services:

- *The Commission finds that International Ancillary Services was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on its evaluation of Outbound International Insurance cost reporting and whether a change in analytical principles is warranted. If the Postal Service does not determine that a change in analytical principles is warranted, the Commission directs the Postal Service to increase the prices for Outbound International Insurance in order to bring the product into compliance.* FY 2017 ACD, Chapter 4 at 87.

First-Class Mail Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2017. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for all First-Class Mail products in FY 2018. If the Postal Service does not maintain or improve its service performance results in FY 2018, the Postal Service shall include a detailed and* *product-specific plan in its FY 2018 ACR for how performance shall be improved.* FY 2017 ACD, Chapter 5 at 144.

- *Although the improvements observed in the FY 2017 First-Class Mail service performance results are encouraging, particularly after the improvement reported in FY 2016, the Commission remains concerned that the FY 2017 service performance results reported for First-Class Mail Single-Piece Letters/Postcards have not returned to the level reported before FY 2015 and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the third year in a row. The Commission directs the Postal Service to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2018.* FY 2017 ACD, Chapter 5 at 145.

- *To facilitate the monitoring of service performance (particularly for First-Class Mail Single-Piece Letters/Postcards), the Commission also directs the Postal Service to provide trackable data that is consistently collected and will continue to add transparency to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. The Commission directs the Postal Service to provide the following information (as applicable) for FY 2018, Quarter 1, Quarter 2, and "mid-year" within 90 days of the issuance of this report.*[1] *The Commission directs the Postal Service to include the following information for FY 2018, Quarter 3, Quarter 4, "second-half" and annualized for the fiscal year, in the FY 2018 ACR.*[2] *Except for items 1a, 1b, 4a, and 4c, all results should be disaggregated by service standard category (2-Day and 3-5-Day).*

  1. *The 24-Hour Clock:*

     a. *The national level, area level, and district level performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals) for each quarter and annually for FY 2018.*[1]

     b. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2018. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2018, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2017.*[2]

[1] *See* December 29, 2017 Public File, tab "Q1a."

[2] *See* Library Reference USPS–FY17–NP30, December 29, 2017, Excel file "Response2 - ACD.FCM.FY17Q3Q4.Q1b.NONPUBLIC.xlsx."

2. *Collections/First Mile:*

   a. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with collection delays*.[3]

3. *Origin Processing:*

   a. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays.*[4]

   b. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards that are classified as origin processing failures (root cause at origin).*[5]

4. *Transit:*

   a. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated using daily cubic feet volume.*[6]

   b. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, presented in three separate tables specific to air transportation, ground transportation, and both.*[7]

   c. *The national level, area level, and district level of CLTs (any HCR that is late more than 4 hours)*.[8]

5. *Destination Processing:*

   a. *The national level, area level, and district level of TTMS aggregate estimates of First-Class Mail Single-Piece Letters/Postcards that have already missed the service standard by the LPO within the destination processing phase.*[9]

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[3] *See* December 29, 2017 Public File, tab "Q2b;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q2 and 3a."

[4] *See* December 29, 2017 Public File, tabs "Q3b" and "Q3c;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3b."

[5] *See* December 29, 2017 Public File, tab "Q4f;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3d."

[6] *See* December 29, 2017 Public File, tab "Q4a."

[7] *See* December 29, 2017 Public File, tabs "Q4b," "Q4b_air," "Q4b_surface," "Q4c," "Q4c_air," and "Q4c_surface;" Docket No. ACR2016, December 28, 2017 Public File, tabs "Q3c," "Q3c_air," and "Q3c_surface."

[8] *See* December 29, 2017 Public File, tab "Q4e."

[9] *See id.,* tab "Q5b;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3e."

b. *The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards that are classified as destination processing failures (root cause at destination).*[10]

6. *Delivery/Last Mile:*

a. *The national level, area level, and district level of TTMS aggregate estimates of First-Class Mail Single-Piece Letters/Postcards with Delivery/Last Mile failures reported.*[11]

b. *The national level, area level, and district level volume and percentage of First-Class Mail Single-Piece Letters/Postcards subject to the 2-Day or the 3-5-Day service standards.*[12]

The Commission expects that the Postal Service will provide this data and information consistent with the methodology used in Docket Nos. ACR2015, ACR2016, and ACR2017 and use an Excel spreadsheet format, if practicable. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2017 should clarification be necessary.

Furthermore, service performance results for First-Class Mail Flats continue to fall substantially short of annual performance targets. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. FY 2017 ACD, Chapter 5 at 145-148.

Marketing Mail Service Performance:

- *The Commission finds that the Postal Service has met its service performance targets for USPS Marketing Mail Letters, USPS Marketing Mail Carrier Route, USPS Marketing Mail Parcels, and USPS Marketing Mail High Density and Saturation Letters. The Commission expects that service performance results for these products will continue to meet or exceed the FY 2018 on-time performance target. If the service performance results for these products do not continue to meet or exceed the target in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how service performance will be improved.*

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[10] *See* Responses to CHIR No. 11, question 6.

[11] *See* December 29, 2017 Public File, tab "Q6a;" Docket No. ACR2016, December 28, 2017 Public File, tab "Q3f."

[12] *See* December 29, 2017 Public File, tab "Q6b."

The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for the USPS Marketing Mail products that failed to meet the applicable annual service performance targets.

The Commission expects improvement in service performance results for USPS Marketing Mail Every Door Direct Mail—Retail and USPS Marketing Mail High Density and Saturation Flats/Parcels. If the Postal Service does not maintain or improve its service performance results for these products in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how service performance will be improved.

FY 2017 USPS Marketing Mail Flats service performance results declined from the level reported in FY 2016. Moreover, USPS Marketing Mail Flats service performance results continued to fall substantially short of intended annual performance targets. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. FY 2017 ACD, Chapter 5 at 151.

Periodicals Service Performance:

- *This was the fifth consecutive year that Periodicals did not meet its service performance targets. In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets. The Commission directs the Postal Service to apply its data leveraging techniques to improve Periodicals service performance. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues.* FY 2017 ACD, Chapter 5 at 153.

Package Services Service Performance:

- *Media Mail/Library Mail and BPM Parcels service performance results continue to exceed the Postal Service's annual service performance targets. BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the sixth consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve BPM Flats service performance. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues.* FY 2017 ACD, Chapter 5 at 156.

Special Services Service Performance:

- *The Postal Service exceeded service performance targets for all reported Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service to improve in FY 2018. If Post Office Box Service does not achieve its* *service performance target in FY 2018, the Postal Service shall include in its FY 2018 ACR an evaluation of the efficacy of the six planned actions identified in its FY 2017 ACR and a detailed plan for how this product's results will be improved.* FY 2017 ACD, Chapter 5 at 158.

Post Office Suspensions:

- *For these reasons, the Commission finds that the Postal Service made significant progress in reducing the number of suspended post offices during FY 2017. The Commission also finds that the Postal Service complied with the Commission's directives in the FY 2016 ACD to significantly reduce the number of suspended post offices, file quarterly updates on suspended post offices, and explain why the Postal Service was unable to meet the FY 2017 timeline for resolving suspended post offices. See* FY 2016 ACD at 151. *The Commission appreciates that the Postal Service filed quarterly suspension updates on time and also proposed a timeline for resolving the remaining suspended post offices in FY 2018 and FY 2019.* FY 2017 ACD, Chapter 5 at 164.

Customer Satisfaction:

- *The Commission directs the Postal Service to provide an analysis in the FY 2018 ACR and explain why large business customer satisfaction declined between FY 2015 and FY 2017. The Postal Service must also discuss the reasons for any further declines in customer satisfaction for residential, small/medium business, and large business customers.*

  The Commission finds that the Postal Service should take appropriate steps to improve customer satisfaction with Market Dominant products for all customers as outlined in the FY 2017 ACR. The Commission recommends that the Postal Service monitor the areas identified by the Public Representative to ensure that these concerns are addressed in FY 2018. In the FY 2018 ACR, the Postal Service must describe actions taken to improve customer satisfaction in FY 2018 and explain whether actions were effective. FY ACD, Chapter 5 at 171.

STATUS OF KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2016 ACD)

Periodicals Pricing Efficiency:

- *The Commission directs the Postal Service to include an updated version of the 120-day Report in its FY 2017 ACR. The report must include an analysis of how the removal of FSS pricing in Docket No. R2017-1 impacted the cost, contribution, and revenue of*

Periodicals in FY 2017 and whether the removal improved the efficiency of Periodicals pricing in FY 2017. FY 2016 ACD, Chapter 2 at 23.

- ➢ In the FY 2017 ACD, the Commission finds that the Postal Service meaningfully responds to the Commission's directive. In the Periodicals Pricing Report, the Postal Service provided a robust narrative and workpapers containing quantitative analyses. FY 2017 ACD, Chapter 2 at 24.

Special Services:

- *The Postal Service must investigate the accuracy of the incremental costing method with respect to mail processing costs attributed to Money Orders. In future Market Dominant price adjustments, the Postal Service shall improve cost coverage through above-average price increases for this product until such time that cost coverage reaches 100 percent of attributable costs.* FY 2016 ACD, Chapter 3 at 61.
-
    - ➢ The Postal Service's investigation "determined that incremental costs had been overstated" and that "Money Orders would have covered its costs in FY 2017, except for another costing adjustment" that attributed debit card fees to Money Orders. FY 2017 ACR at 45. The Commission directs the Postal Service to continue to improve the accuracy of costing for Money Orders in FY 2018. FY 2017 ACD, Chapter 3 at 64.

- *The Commission finds that FY 2016 revenue for COD was not sufficient to cover attributable cost. The Commission recognizes the difficulty of generating accurate costs for products with low volume and the statistical variation in small sample sizes. The Postal Service shall report in the FY 2017 ACR on the number of In-Office Cost System (IOCS) tallies for the COD product and include the confidence interval for the cost coverage.* FY 2016 ACD, Chapter 3 at 62.

    - ➢ The Postal Service provided this information in FY 2017 ACR and cost coverage was above 100 percent.

- *The Commission finds that FY 2016 revenue for Stamped Envelopes was not sufficient to cover attributable cost. If the Postal Service deems it appropriate to include premium options and shipping fees with Stamped Envelopes, it should realign its revenue and cost calculations for Stamped Envelopes. The Postal Service must improve the product's cost coverage through realignment or above-average price increases in future Market Dominant price adjustments until such time that cost coverage reaches 100 percent of attributable costs.* FY 2016 ACD, Chapter 3 at 63.

    - ➢ The cost coverage for Stamped Envelopes was above 100 percent in FY 2017.

ICRA:

- *The Postal Service used a methodology for the ICRA that was not approved by the Commission. If the Postal Service intends to use this methodology in its FY 2017 ACR, it should file the proposed methodology in a rulemaking proceeding.*

  Additionally, such filing should include a discussion of the following:

  1. *The Postal Service's ability to disaggregate the international mail cost pools between Market Dominant and Competitive products for the incremental cost calculation*

  2. *The accuracy of and potential improvement to the costing system for International Mail, specifically addressing the following points:*

     a. *The availability of International Service Center (ISC)-level Management Operating Data System data*

     b. *Machine productivity at ISC versus non-ISC facilities*

     c. *The proportion of sacked versus non-sacked mail arriving at ISCs*

     d. *The proportion of properly labeled versus improperly labeled mail arriving at ISCs*

     e. *The number of IOCS tallies for International Mail products*

FY 2016 ACD, Chapter 3 at 65.

- The Postal Service proposed a new methodology for the ICRA in Docket No. RM2017-6. The Postal Service also provided updates on the items discussed in the directive. The Commission approved a new methodology for the ICRA at the conclusion of Docket No. RM2017-6.

Inbound Letter Post:

- *The Commission finds that FY 2016 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission's directive in section III.8.a above with respect to the ICRA is intended to address costing issues with Inbound Letter Post. In addition, the Commission recommends that the Postal Service continue to pursue compensatory terminal dues in the UPU and to pursue bilateral agreements that contain Inbound Letter Post rates that are more compensatory than UPU terminal dues.* FY 2016 ACD, Chapter 3 at 67.

- The Postal Service has continued to pursue more compensatory bilateral agreements. However, the cost coverage of Inbound Letter Post declined in FY 2017.

- *The Commission directs the Postal Service to provide a report on Inbound Letter Post service performance as part of the FY 2017 ACR. This report shall include monthly service performance reports for Inbound Letter Post, aggregations of weekly failure reports, as well as an analysis of the failures and steps being taken to improve service performance.* FY 2016 ACD, Chapter 3 at 68.

  - The Postal Service provided the requested Service Performance data in the FY 2017 ACR.

International NSAs:

- *The Commission finds that the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 and Inbound Market Dominant Exprès Service Agreement 1 products satisfy 39 U.S.C. § 3622. The Commission directs the Postal Service, in future ACR filings, to provide financial documentation to demonstrate that noncompensatory bilateral agreements improve the net financial position of the Postal Service over UPU default terminal dues rates.* FY 2016 ACD, Chapter 3 at 69.

  - The Postal Service provided this information in the FY 2017 ICRA.

International Ancillary Services:

- *The Commission finds that International Ancillary Services covered its cost as a whole, but that Inbound Registered Mail failed to cover its cost. The Commission urges the Postal Service to promote greater participation by foreign postal operators in the Inbound Market Dominant Registered Service Agreement 1, which provides more compensatory prices for Inbound Registered Mail from participating foreign postal operators.* FY 2016 ACD, Chapter 3 at 70.

  - More countries have entered into the Registered Services Agreement, although Registered Mail remains noncompensatory.

PHI NSA:

- *The Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 2. However, continuation of the contract may help offset the negative contribution from Contract Year 2. The Postal Service shall report on its forecast for the remainder of the PHI NSA within 90 days of the issuance of this ACD. The report shall include an updated estimate of PHI volume and any amendments to the contract.* FY 2016 ACD, Chapter 3 at 74.

- The Postal Service responded in a timely manner on June 26, 2017.[13] The Postal Service suspended the PHI NSA on December 8, 2017.[14]

Parcel Return Service:

- *In FY 2016, every Competitive domestic product with rates of general applicability, except Parcel Return Service, covered its attributable cost and thereby satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2). The Commission directs the Postal Service to report within 90 days on the results of its investigation into the Parcel Return Service cost estimates in FY 2016. The Postal Service must discuss the corrective actions that it has taken and plans to take to improve cost coverage.* FY 2016 ACD, Chapter 4 at 80.

    - The Postal Service provided a detailed discussion of the issues with the non-NSA Parcel Return Service (PRS) in its Second Response to ACD 2016. All Competitive domestic products with rates of general applicability covered attributable cost in FY 2017. FY 2017 ACD, Chapter 4 at 83.

Competitive NSAs:

- *The Commission finds that Priority Mail Contract 70, Priority Mail Contract 108, Priority Mail Contract 109, Priority Mail Contract 128, Priority Mail Contract 135, Priority Mail Contract 150, Priority Mail Contract 160, Priority Mail Contract 166, Priority Mail Contract 169, Priority Mail Contract 183, Priority Mail Contract 214, Priority Mail Contract 228, and Parcel Return Service Contract 10 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2016. The Commission directs the Postal Service to report within 30 days on the result of the Postal Service's renegotiation efforts and evaluations relating to Priority Mail Contract 150, Priority Mail Contract 160, and Parcel Return Service Contract 10. The Postal Service shall discuss the corrective actions taken or the actions the Postal Service plans to take to improve cost coverage.* FY 2016 ACD, Chapter 4 at 82.

    - The Postal Service provided a detailed discussion of its actions in its First Response to the ACD.[15] Of these NSAs, those that were active in FY 2017 covered costs.

[13] Docket No. ACR2016, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2016 Annual Compliance Determination, June 26, 2017.

[14] *See* Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Temporary Suspension of Agreement, December 8, 2017.

[15] Docket No. ACR2016, First Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2016 Annual Compliance Determination, April 27, 2017.

- *The Commission is required to review each NSA product to determine compliance with 39 U.S.C. § 3633(a)(2). Therefore, for those Competitive domestic NSAs that are not active or are paying published rates, the Postal Service should file a notice of termination so that any such contracts are removed from the competitive product list.243 Furthermore, the Commission directs the Postal Service to identify each NSA product that had no mailpieces shipped under the contract when it files future ACRs.* FY 2016 ACD, Chapter 4 at 83.

    - In Library Reference USPS–FY17–NP27, the Postal Service filed a list of NSAs that had no mailpieces in FY 2017.[16] The Postal Service also explained why each listed NSA lacked volume.

IMTS—Inbound:

- *The Commission finds that IMTS—Inbound was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2016. The Commission recommends the Postal Service request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product.* FY 2016 ACD, Chapter 4 at 84.

    - The Postal Service did not make this request in FY 2017.

[16] Library Reference USPS–FY17–NP27, December 29, 2017, Excel file “NSAsWNoVolume_FY17.xlsx.”

Appendix C: Commenters
2017 *Annual Compliance Determination*

Commenter	Comment Citation	Citation Short Form
Amazon.com Services, Inc. (Amazon)	Reply Comments of Amazon.com Services, Inc., February 12, 2018	Amazon Reply Comments
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association (ACMA), February 1, 2018	ACMA Comments
American Consumer Institute Center for Citizen Research (ACI)	Comments of American Consumer Institute Center for Citizen Research Regarding Docket No. ACR2017 Submitted to the Postal Regulatory Commission, January 30, 2018	ACI Comments
Association for Postal Commerce (PostCom)	Comments of the Association for Postal Commerce, February 1, 2018	PostCom Comments
Frontiers of Freedom	Reply Comments by Frontiers of Freedom, February 1, 2018	Frontiers of Freedom Comments
Greeting Card Association (GCA)	Reply Comments of the Greeting Card Association, February 12, 2018	GCA Reply Comments
National Postal Policy Council (NPPC); National Association of Presort Mailers (NAPM); Major Mailers Association (MMA) (collectively, First-Class Business Mailers)	Comments of the National Postal Policy Council, the National Association of Presort Mailers, and the Major Mailers Association, February 1, 2018	First-Class Business Mailers Comments
National Taxpayers Union (NTU)	Comments of: Pete Sepp, President, National Taxpayers Union, February 1, 2018	NTU Comments

Commenter	Comment Citation	Citation Short Form
Parcel Shippers Association (PSA) and American Catalog Mailers Association, Inc. (ACMA) (jointly, PSA & ACMA)	Reply Comments of Parcel Shippers Association and American Catalog Mailers Association, Inc., February 12, 2018	PSA & ACMA Reply Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc., February 1, 2018	Pitney Bowes Comments
Public Representative (PR)	Public Representative Comments, February 1, 2018	PR Comments
Small Business & Entrepreneurship Council (SBE Council)	Comments Related to Inbound Letter Post, February 20, 2018	SBE Council Comments
United Parcel Service, Inc. (UPS)	Initial Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2017, February 1, 2018	UPS Comments
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, February 12, 2018	Postal Service Reply Comments
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service on Inbound Letter Post, February 27, 2018	Postal Service Reply Comments on Inbound Letter Post
Valpak Franchise Association, Inc. (Valpak)	The Valpak Franchise Association, Inc. Reply Comments on the United States Postal Service FY 2017 Annual Compliance Report, February 12, 2018	Valpak Reply Comments

Appendix D: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AADC	Automated area distribution center
ACD	*Annual Compliance Determination*
ACMA	American Catalog Mailer Association
ACR	*Annual Compliance Report*
ADC	Area distribution center
AFSM	Automated Flats Sorting Machine
APWU	American Postal Workers Union
BPM	Bound Printed Matter
BSN	Business Service Network
CAGU	Citizens Against Government Waste
Carlson	Douglas F. Carlson
CEM	Customer Experience Measurement
C.F.R.	Code of Federal Regulations
CHIR	Chairman’s Information Request
CI	Customer Insights
CPI	Consumer price index
CPI-U	Consumer price index for all urban consumers
CPO	Community Post Office
CPU	Contract postal unit
CRA	Cost and Revenue Analysis
DDU	Destination delivery unit
DFSS	Destination Flats Sequencing System
Discover	Discover Financial Services
DNDC	Destination network distribution center
DSCF	Destination sectional center facility
ECSI	Educational, cultural, scientific or informational (value)
EMS	Express Mail Service
EPG	E-Parcel Group
EXFC	External First-Class Measurement
FedEx	Federal Express Corporation
FSS	Flats Sequencing System
FY	Fiscal Year
GCA	Greeting Card Association
GEPS	Global Expedited Package Service
GREPS	Global Reseller Expedited Package Service

Acronym/Abbreviation	Meaning
ICRA	International Cost and Revenue Analysis
iMAPS	Intelligent Mail Accuracy and Performance System
IMb	Intelligent Mail barcode
IMMS	International Mail Measurement System
IMTS-Inbound	International Money Transfer Service-Inbound
IMTS-Outbound	International Money Transfer Service-Outbound
Mixed ADC	Mixed area distribution center
MPA & ANM	Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers
IOCS	In-Office Cost System
NAPM	National Association of Presort Mailers
NDC	Network distribution center
NPPC	National Postal Policy Council
NSA	Negotiated service agreement
NTU	National Taxpayers Union
PAEA	Postal Accountability and Enhancement Act
PHI	PHI Acquisitions, Inc.
Pitney Bowes	Pitney Bowes Inc.
POS	Point of Sale
PostCom	Association for Postal Commerce
PTS	Product Tracking System
PR	Public Representative
Progressive	Progressive Direct Mail Advertising
QBRM	Qualified Business Reply Mail
SASP	Seamless Acceptance and Service Performance
SFS	Stamp Fulfillment Services
TPA	Taxpayers Protection Alliance
UFSM	Upgraded Flats Sorting Machine
UHCC	Utah Hispanic Chamber of Commerce
U.S.C.	United States Code
UPS	United States Parcel Service
UPU	Universal Postal Union
Valassis	Valassis Direct Mail, Inc.
Valpak	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
VPO	Village Post Office

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