



POSTAL REGULATORY COMMISSION

Annual Compliance Determination Report

Fiscal Year 2020

March 29, 2021

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EXECUTIVE SUMMARY

This Report reviews the Postal Service's performance in Fiscal Year (FY) 2020, 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.

The Postal Service faced significant events, both internal and external, in FY 2020. The most significant event affecting the Postal Service, and the public at large, was the COVID-19 pandemic. The pandemic remains a public health and economic emergency. Because Postal Service employees perform an essential function as part of the nation's critical infrastructure, they continue to process and deliver the nation's mail. The Commission expresses its appreciation for the continuous efforts of the frontline Postal Service workers, who are performing essential work that allows millions of Americans to minimize their exposure to COVID-19 by remaining at home. The pandemic negatively affected the Postal Service's operational capacity in numerous ways—reducing employee availability, disrupting transportation, and inducing large shifts in the mail mix towards packages. At the same time, the pandemic occurred alongside both a decennial census year and a national election which, as a result of the pandemic, featured substantial increases in the number of voters voting by mail. In addition, late in FY 2020 the Postal Service undertook voluntary large-scale operational and structural changes. Combining all these factors, there was a notable decline in service performance, as further discussed in Chapter V.

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 a rates and fees in effect during FY 2020 were not in compliance with chapter 36 of Title 39 of the United States Code and whether any service standards in effect during FY 2020 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2020-1 and all the rates in effect during FY 2020 for Competitive products.

The financial analysis that had been incorporated in ACDs prior to 2013 is expanded in the report titled *Financial Analysis of United States Postal Service Financial Results and 10-K Statement 2020* that will be issued later this spring. The Commission will also issue a separate report on the Postal Service's *FY 2020 Annual Performance Report and FY 2021 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 II., the Commission identifies compliance issues related to seven discounts that 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 the seven workshare discounts remaining out of compliance with section 3622(e), the Postal Service must either align the workshare discount with its avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

B. Principal Findings: Market Dominant Non-Compensatory Products

In Chapter III., the Commission identifies 10 non-compensatory Market Dominant products: Periodicals In-County, Periodicals Outside County, USPS Marketing Mail Flats, USPS Marketing Mail Parcels, USPS Marketing Mail Carrier Route, Media Mail/Library Mail, Bound Printed Matter (BPM) Parcels, Money Orders, Inbound Letter Post, and International Ancillary Services. The Commission notes that the Inbound Registered Mail component of the International Ancillary Services product was the only non-compensatory component of that product.

In the FY 2019 ACD, the Commission directed the Postal Service to include an updated version of the FY 2019 ACD Periodicals Pricing Report in its FY 2020 *Annual Compliance Report* (ACR).¹ The Commission concludes that on the whole, the Postal Service's FY 2020 Periodicals Pricing Report meaningfully responds to the Commission's directive by providing a robust narrative and workpapers containing quantitative analyses. The Commission directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2021 ACR and include an analysis of how the pricing in Docket No. R2021-1 impacted the cost, contribution, and revenue of Periodicals in FY 2021 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2021.

For USPS Marketing Mail Flats, the Commission finds that the cost coverage issues raised in the FY 2010 ACD have continued to worsen. Postal Service projections show that the remedy ordered by the Commission in the FY 2019 ACD is likely to have a positive impact, and the Commission directs the Postal Service to continue the above-average price

¹ Docket No. ACR2019, *Annual Compliance Determination*, March 25, 2020, at 32 (FY 2019 ACD). The Postal Service filed its Periodicals Pricing Report and supporting workpapers in Library Reference USPS-FY20-44. See Library Reference USPS-FY20-44, December 29, 2020; see also United States Postal Service FY 2020 *Annual Compliance Report*, December 29, 2020, FY 2020 ACR Attachment 1 at 3 (FY 2020 ACR).

increases as detailed by the FY 2019 directive for another year. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class.² Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and continuing to comply with the FY 2015 directive.³ For USPS Marketing Mail Parcels, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2020 and requires the Postal Service to propose a price increase for USPS Marketing Mail Parcels at least 2 percentage points above the class average for the USPS Marketing Mail class in the next Market Dominant price adjustment. For USPS Marketing Mail Carrier Route, the Commission also requires that the Postal Service increase USPS Marketing Mail Carrier Route prices by at least 2 percentage points above the class average for the USPS Marketing Mail class in the next Market Dominant price adjustment.

In FY 2020, the Package Services class as a whole was non-compensatory, with two non-compensatory products, Media Mail/Library Mail and BPM Parcels. For Media Mail/Library Mail, the Commission finds that the Postal Service's approach to improve cost coverage through above-average price increases is appropriate and recommends the approach continue. For BPM Parcels, the Commission recommends that the Postal Service propose an above-average price increase in the next Market Dominant price change. The Commission also recommends that the Postal Service explore and implement opportunities to reduce the unit cost of this product, and report on these results in its FY 2021 ACR.

For the Special Services product Money Orders, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2020 and urges the Postal Service to improve cost coverage. The Commission recommends that the Postal Service propose an above-average price increase in the next Market Dominant price change (consistent with 39 C.F.R. § 3030.221).

For Inbound Letter Post, the Commission notes that the transfer of Inbound Letter Post small packets and bulky letters from the Market Dominant Inbound Letter Post product to the Inbound Letter Post Small Packets and Bulky Letters product on the Competitive product list occurred in Quarter 2 of FY 2020. However, the product was still non-compensatory in FY 2020, with a slight improvement in cost coverage from FY 2019. The Commission provides a detailed analysis of public Inbound Letter Post data in Library Reference PRC-LR-ACR2020-11. The Commission recommends that the Postal Service negotiate bilateral and multilateral agreements that contain rates for Inbound Letter Post that are more compensatory than default terminal dues. The Commission also urges the Postal Service to undertake focused initiatives to reduce Inbound Letter Post costs without

² In November 2020, the Commission finalized rules to provide additional rate authority to the Postal Service to curb contribution losses stemming from this and other non-compensatory products. Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Domination Products, November 30, 2020 (Order No. 5763).

³ The Commission required the Postal Service to develop a plan to measure, track, and report on cost and service issues related to flat-shaped products.

compromising quality of service, and to improve quality of service in order to benefit from terminal dues bonuses. Lastly, the Commission further recommends that the Postal Service work with the United States Department of State within the relevant Universal Postal Union (UPU) bodies to ensure that terminal dues proposals adopted at the 2021 UPU Congress will cover costs for Inbound Letter Post.

For the International Ancillary Services product, the Commission notes that the increase in cost was related to the 100 percent increase in IOCS tallies, from 1 to 2. The Commission will continue to evaluate the cost coverage of this product in future years.

C. Principal Findings: Competitive Products Rate and Fee Compliance

In Chapter IV., the Commission finds that revenues for five Competitive products did not cover attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2). The Commission also determines that every domestic product with rates of general applicability covered its attributable cost. The Competitive products that did not cover attributable costs are: one domestic negotiated service agreement (NSA), GEPS 11, International Money Transfer Service—Inbound (IMTS—Inbound), International Money Transfer Service—Outbound (IMTS—Outbound), and International Ancillary Services. The Commission directs the Postal Service to take corrective action, including requiring new quarterly reporting on outbound international NSAs to ensure ongoing compliance and appropriate oversight for these contracts.

D. Principal Findings: Service Performance and Customer Access

In Chapter V., the Commission finds that most products failed to meet their service performance targets for FY 2020.

- The Postal Service met its service performance targets for five Market Dominant products including: USPS Marketing Mail High Density and Saturation Letters, USPS Marketing Mail Parcels, BPM Parcels, and two Special Services products.
- Service performance results for 17 Market Dominant products did not meet their targets including: all First-Class Mail products, both Periodicals products, USPS Marketing Mail High Density and Saturation Flats/Parcels, USPS Marketing Mail Carrier Route, USPS Marketing Mail Letters, USPS Marketing Mail Flats, USPS Marketing Mail Every Door Direct Mail—Retail (EDDM-R), BPM Flats, Media Mail/Library Mail, and several Special Services products, including Stamp Fulfillment Services and Post Office Box Service.

In the FY 2019 ACD, the Commission directed the Postal Service to provide specific information developed from its First-Class Mail Single-Piece Letters/Postcards metrics as part of its FY 2020 ACR. FY 2019 ACD at 32. The Postal Service provided analysis linking its root cause assessments with the impact on service performance results for this product and other First-Class Mail and USPS Marketing Mail products.

The Commission determines that the Postal Service is out of compliance with regard to service performance for First-Class Mail Single-Piece Letters/Postcards, Outbound Single-Piece International, Outside County Periodicals, and In-County Periodicals in FY 2020.⁴

The Commission directs the Postal Service to continue reporting specific information developed from its internal metrics within 90 days of the issuance of this Report and as part of its FY 2021 ACR. This year's service directives also include a requirement that the Postal Service file with the Commission a service performance impact analysis for initiatives that are planned for implementation on or before the issuance of the next ACD and are reasonably foreseeable to impact service performance results.⁵ The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service performance for its products in FY 2021.

E. Principal Findings: Flats Cost and Service Issues

In Chapter VI., the Commission finds that unit costs for flats have continued to rise, contribution losses have continued to grow, and flats products still have not met their service performance targets. In FY 2019, the Commission finalized rules to provide additional information to improve transparency into cost and service performance issues with respect to flats, as well as to increase accountability with respect to flats operational initiatives.⁶ The Commission is appreciative of the responsive data provided by the Postal Service and has focused its analysis in this docket on three primary areas: (1) flats financial performance, (2) flats service performance, and (3) pinch points that impact flats operational performance. The Commission provides recommendations for data collection and analysis regarding ongoing and future Postal Service initiatives designed to reduce flats costs, improve flats service performance, and/or improve flats operations. The fact that in FY 2020 flat-shaped mail products collectively had a cumulative negative contribution of more than \$1 billion highlights the urgency and importance of improvement on this issue.

⁴ This is the sixth consecutive year that the Commission has determined that the Postal Service is out of compliance with regard to service performance for First-Class Mail Single-Piece Letters/Postcards. This is the first year that the Commission has made this determination for Outbound Single-Piece International, Outside County Periodicals, and In-County Periodicals.

⁵ This directive does not apply retroactively to the proposal pending before the Commission in Docket No. N2021-1; the Commission will pursue information related to this proposal through the discovery processes of 39 C.F.R. part 3020.

⁶ Docket No. RM2018-1, Order Adopting Final Rules on Reporting Requirements Related to Flats, May 8, 2019 (Order No. 5086).

CHAPTER I. 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),⁷ 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 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 again decided to report separately on the Postal Service's financial condition and its performance plans and program performance.⁸ 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 2021. This ACD focuses on the requirements of 39 U.S.C. § 3653(b)(1) and (b)(2).⁹

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

⁷ Pub. L. 109-435, 120 Stat. 3198 (2006).

⁸ *See* Notice Regarding the Postal Service FY 2020 Annual Performance Report and FY 2021 Annual Performance Plan, January 5, 2021 (Order No. 5803).

⁹ The Commission addresses only rates and fees that have been challenged by Commenters, or otherwise present compliance issues.

In Chapter VI., the Commission evaluates cost and service issues for flat-shaped mailpieces (flats).¹⁰

There are three appendices to the FY 2020 ACD. Appendix A contains Commission-directed undertakings in this ACD. Appendix B contains a list of Commenters. Appendix C 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 2020 ACR on December 29, 2020; thus, the Commission must issue this ACD no later than March 29, 2021.

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 2021 Performance Plan*, and its *FY 2020 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).

¹⁰ In Docket No. RM2018-1, the Commission established new rules to require the annual submission of comprehensive information regarding the cost and service performance of flat-shaped mail. See Order No. 5086. Pursuant to 39 C.F.R. § 3050.50, the Postal Service submitted the required information in its FY 2020 ACR. See Library Reference USPS-FY20-45, December 29, 2020.

F. Procedural History

On December 29, 2020, the Postal Service filed its FY 2020 ACR, covering the period from October 1, 2019, through September 30, 2020. *See* FY 2020 ACR. 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 2020 ACR, which contains a brief description of each set of folder materials, a summary of material changes in methodology, and a discussion of obsolescence in accordance with 39 C.F.R. § 3050.12.¹¹

The Postal Service concurrently filed its *2020 Annual Report and Comprehensive Statement of Postal Operations* as part of Library Reference USPS-FY20-17 to the FY 2020 ACR.¹²

On December 30, 2020, the Commission issued an order establishing Docket No. ACR2020 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing February 1, 2021, and February 12, 2021, as the deadlines for comments and reply comments, respectively.¹³

On January 11, 2021, United Parcel Service, Inc. (UPS) filed a motion for access to certain non-public library references filed as part of the Postal Service's Annual Compliance Report.¹⁴ On January 19, 2021, the Postal Service filed a response, urging UPS to withdraw its request for access to some of the library references, specifically materials with information related to third-party postal operators.¹⁵ The Postal Service attached to its response correspondence expressing concern from several of those operators.¹⁶ The Commission granted UPS's motion for access on January 28, 2021.¹⁷

¹¹ Library Reference USPS-FY20-9, December 29, 2020 (Roadmap Document).

¹² Library Reference USPS-FY20-17, December 29, 2020 (*FY 2020 Annual Report*).

¹³ Notice of Postal Service's Filing of *Annual Compliance Report* and Request for Public Comments, December 30, 2020 (Order No. 5796); *see also* 86 FR 582 (January 6, 2021). On January 5, 2021, the Commission established separate comment dates for the Postal Service's FY 2020 *Performance Report* and FY 2020 *Performance Plan*. *See* Order No. 5803.

¹⁴ United Parcel Service, Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 11, 2021, at 1 (UPS Motion for Access).

¹⁵ United States Postal Service Response to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 19, 2021 (Response to UPS Motion for Access).

¹⁶ Response to UPS Motion for Access, Attachments 1-6. The Postal Service also filed a motion for leave to file a supplemental response including two additional letters from foreign postal operators objecting to the UPS Motion for Access. Motion of the United States Postal Service for Leave to File Supplemental Response to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 25, 2021; *see also* United States Postal Service Supplemental Response to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 25, 2021.

¹⁷ Order Granting Motion for Access, January 28, 2021 (Order No. 5829).

G. Methodology Changes

The FY 2020 ACR generally employs the methodologies used most recently by the Commission unless the Commission has approved a change in methodology. *See* FY 2020 ACR at 4-5. In this proceeding, the Postal Service relies upon eight approved methodology changes.¹⁸ The Postal Service discusses the effect of methodology changes to FY 2020 ACR library references in the Roadmap Document. *See* Roadmap Document at 84-96.

H. Product Analysis

The Postal Service provides an analysis of each Market Dominant product, including special services and international NSAs active during FY 2020. 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. § 3035.107. Last, the Postal Service discusses three Market Dominant market tests conducted in FY 2020. FY 2020 ACR at 72.

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

I. 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. FY 2020 ACR, section III.

J. 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. § 3011.200. 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. *Id.* § 3011.201. The FY 2020 ACR included such an application with respect to certain Competitive and international Market Dominant products. FY 2020 ACR, Attachment 2.

¹⁸ Docket No. RM2019-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), January 6, 2020 (Order No. 5395); Docket No. RM2019-6, Order on Analytical Principles Used in Periodic Reporting (Proposal One), January 14, 2020 (Order No. 5405); Docket No. RM2020-6, Order on Analytical Principles Used in Periodic Reporting (Proposal One), May 19, 2020 (Order No. 5515); Docket No. RM2020-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), July 9, 2020 (Order No. 5583); Docket No. RM2020-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), August 17, 2020 (Order No. 5637); Docket No. RM2020-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), September 23, 2020 (Order No. 5693); Docket No. RM2020-10, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), September 25, 2020 (Order No. 5697); Docket No. RM2020-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), September 28, 2020 (Order No. 5700).

UPS submitted a motion for access to library references concerning these products. The motion included a list of non-public library references to which UPS requested access, specified that access was necessary for the purpose of filing comments in this ACR, and provided the requisite statements of protective conditions and signed certifications from each individual for whom UPS sought access. *See* UPS Motion for Access at 1-2.

In response, the Postal Service urged UPS to withdraw its request for materials that include information related to third-party foreign postal operators. Response to UPS Motion for Access at 1. The Postal Service stated that the disclosure of the non-public information would place the data of these third-party postal operators at an unfair competitive risk. *Id.* at 2.

The Commission first found that UPS's motion satisfied the Commission's rules for seeking access to non-public information. Order No. 5829 at 7-10; 39 C.F.R. § 3011.301. The Commission also found that the Postal Service and third-party concerns are mitigated by the numerous protective conditions and prohibitions on improper disclosure of non-public information. Order No. 5829 at 12-13. The Commission stated that "denying access to non-public materials would significantly restrict the ability of interested persons to comment on the Postal Service's compliance under the PAEA." *Id.* at 13. "Having balanced the public interest in the financial transparency of the Postal Service against the Postal Service's claims of commercial harm," the Commission granted UPS's motion for access. *Id.* at 14.

K. Requests for Additional Information

Twenty-six Chairman's Information Requests (CHIRs) and one Commission Information Request (CIR) were issued with respect to the ACR from January 8, 2021, to March 25, 2021. The Postal Service responded to the CHIRs, often filing supplemental information in support of the responses.¹⁹

Steve Hutkins (Hutkins) filed a motion for issuance of information requests.²⁰ The Postal Service opposed the motion.²¹ Subsequent CHIRs were issued based on Hutkins' motion.²²

UPS filed a motion for issuance of information requests on January 21, 2021.²³ Subsequently, a CHIR was issued based on this motion. CHIR No. 9.

¹⁹ 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 Responses to Questions 1, 4, 5, 7, and 8 of Chairman's Information Request No. 4, January 29, 2021. Each of the Postal Service's motions for late acceptance is granted.

²⁰ Motion for Issuance of Information Request, January 19, 2021.

²¹ Answer of the United States Postal Service in Opposition to Steve Hutkins' Motion for Issuance of Information Request, January 26, 2021.

²² *See, e.g.*, Chairman's Information Request No. 6, January 28, 2021 (CHIR No. 6); Chairman's Information Request No. 9 and Notice of Filing Under Seal, February 1, 2021 (CHIR No. 9).

²³ Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, January 21, 2021.

CHAPTER II. 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) to (7). Chapter II. discusses these requirements.

B. The Class-Level Price Cap

The Commission approved price adjustments that went into effect during FY 2020, which complied with the price cap provision, in accordance with 39 C.F.R. § 3030.128.²⁴

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) to (D).

As it has in past years, the Association for Postal Commerce (PostCom) expresses the view that “the Commission and the Postal Service are so focused on limiting passthroughs to 100 [percent] of avoided costs that they are ignoring the practical realities of both the calculation of avoided costs and the processing and entry of mail and driving discounts to less efficient levels.”²⁵ In PostCom’s view,

Despite estimated passthroughs that exhibit considerable volatility due to methodological changes, postal inefficiency, and normal variation the Postal Service and the Commission continue to use only one technique – higher prices – to attempt compliance with one specific component of [the] PAEA while perennial failure

²⁴ See Docket No. R2020-1, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 22, 2019 (Order No. 5321).

²⁵ Comments of the Association for Postal Commerce, February 1, 2021, at 2 (PostCom Comments); Comments of the Association for Postal Commerce, January 30, 2020, at 2.

on efficiency and service performance is met with indifference and inaction.

PostCom Comments at 2. PostCom maintains that section 3622(e) does not establish an absolute requirement that workshare discounts may never exceed 100 percent of avoided costs, and that by enforcing this policy, the Commission is discouraging efficient mail preparation, entry, and processing. *Id.* at 3. PostCom states that passthroughs less than 100 percent must be considered and balanced with those that exceed 100 percent of avoided costs. *Id.* at 3-5. PostCom also argues that there is no legal justification for requiring the Postal Service to reduce excessive workshare discounts which are justified pursuant to 39 U.S.C. § 3622(e)(2)(D) based on operational efficiency. *Id.* at 5.

The Commission analyzes workshare discounts to determine whether they comply with applicable statutory provisions. Section 3653(b)(1) of Title 39, requires the Commission to base its determinations on the rates and fees “in effect” during FY 2020. The end of year prices in effect in FY 2020 were the prices approved in Docket No. R2020-1. Therefore, the discounts evaluated for compliance in FY 2020 are the Docket No. R2020-1 prices. The Commission finds that workshare discounts that were not greater than the associated avoided costs were in compliance for FY 2020.

The Commission reiterates that section 3622(e) of Title 39 specifically prohibits only workshare discounts that exceed avoided costs (unless a statutory exception applies); the statute does not prohibit workshare discounts that are set below avoided costs. Nevertheless, as the Commission has previously acknowledged, although passthroughs set below 100 percent may be lawful, they send inefficient pricing signals to mailers.²⁶ Passthroughs set as close as possible to 100 percent of avoided costs 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)(2)(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 Commission recently adopted new worksharing rules that require the Postal Service to improve the pricing efficiency of workshare discounts. *See* Order No. 5763 at 198-225; *see also* 39 C.F.R. §§ 3030.280 *et seq.* The rationale for the changes to the worksharing rules, along with relevant exceptions, have been extensively discussed in Order No. 5763. The Postal Service and several commenters discuss the application of the new rules as they

²⁶ *See, e.g.*, Docket No. ACR2017, *Annual Compliance Determination*, March 29, 2018, at 15 (FY 2017 ACD); Docket No. ACR2018, *Annual Compliance Determination*, April 12, 2019, at 13 (FY 2018 ACD); FY 2019 ACD at 13.

relate to certain products.²⁷ However, in this Report, the Commission reviews the workshare discounts according to the statutory provisions and Commission regulations in effect during FY 2020, and where appropriate, encourages the Postal Service to set discounts as close as possible to avoided costs.

Accordingly, 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

One First-Class Mail workshare discount exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2020: Automation Mixed Automated Area Distribution Center (AADC) Letters. Table II-1 identifies that passthrough.

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

Type of Worksharing (Benchmark)	FY 2020			
	End-of-Year Discount (\$)	Avoided Cost (\$)	Passthrough	Postal Service Justification Under 39 U.S.C. § 3622(e)(2) ²⁸
First-Class Mail Automation Letters: Barcoding & Presorting				
Automation Mixed AADC Letters	0.061	0.052	117.3%	None

Source: Library Reference PRC-LR-ACR2020-3.

a. Automation Mixed AADC Letters

In FY 2020, the passthrough for Automation Mixed AADC Letters was 117.3 percent. FY 2020 ACR at 9. This passthrough was 107.5 percent in FY 2019. FY 2019 ACD at 14. The Postal Service states that “[t]his increase was due to a significant decrease in the cost avoidance, which fell from 6.7 cents to 5.2 cents, a decline of 22.4 percent.” FY 2020 ACR at 9. The Postal Service does not provide a justification for this passthrough, pursuant to 39 U.S.C. § 3622(e)(2). However, the Postal Service states that it intends to recommend to the Governors that this discount be realigned towards its cost avoidance in the next Market Dominant price case. *Id.*

Both PostCom and the Public Representative comment on the Automation Mixed AADC Letter workshare discount passthrough. PostCom Comments at 4; PR Comments at 93.

²⁷ See, e.g., FY 2020 ACR at 9, 17, 18; PostCom Comments at 4; Comments of the National Association of Presort Mailers, February 1, 2021, at 2-4 (NAPM Comments); Comments of Pitney Bowes Inc., February 1, 2021, at 2-3 (Pitney Bowes Comments); Public Representative Comments, February 2, 2021, at 90-91 (PR Comments). The Public Representative filed a Motion of the Public Representative for Late Acceptance of Comments, February 2, 2021 (PR Motion). The PR Motion is granted.

²⁸ Section 3622(e) of Title 39 provides exceptions to the general requirement that workshare discounts must not exceed avoided costs.

PostCom suggests that the Postal Service's intention to bring the passthrough down towards 100 percent "vitiates the predictability of pricing intended by PAEA and suggests that USPS maintains an asymmetrical view of worksharing that is at odds with Order 5763." PostCom Comments at 4. The Public Representative notes that the Postal Service does not provide a statutory justification but instead "proposes to utilize the new regulations, effective this month, to either reduce this passthrough by 20 percent in the next Market Dominant rate case, or file a waiver from this requirement." PR Comments at 93. For this reason, he states that the Postal Service does not need to take any further action to reduce this excessive passthrough at this time. *Id.*

The Commission finds that the Automation Mixed AADC Letters discount exceeded avoided costs in FY 2020. The Commission finds that no further action is required for the Automation Mixed AADC Letters discount as the Postal Service intends to realign it with cost avoidance in the next Market Dominant price case.

- b. Workshare Discounts that Passthrough less than 100 Percent of Avoided Costs

National Association of Presort Mailers (NAPM), National Postal Policy Council (NPPC), and Pitney Bowes comment on First-Class Mail workshare discounts with passthroughs below 100 percent of avoided costs.²⁹ NAPM comments that, when passthroughs are significantly below 100 percent, Mail Service Providers (MSPs) "are not being fairly compensated for the work they are performing for the [Postal Service], and the [Postal Service] is not fully incenting preparation of the most efficient mail" NAPM Comments at 3-4. NPPC agrees, maintaining that a discount with lower passthroughs, such as 5-Digit Automation, "encourages the inefficient entry of mail; it encourages inefficient postal operations, and it penalizes more efficient private mail preparation firms." NPPC Reply Comments at 3. Pitney Bowes states that "[i]mplementation of the new workshare rules will help the Postal Service encourage more efficient mail preparation, reduce its own costs, and improve its financial stability by requiring that the 5-Digit Automation Letters workshare discount is moved closer to the full cost avoided." Pitney Bowes Comments at 2.

In this proceeding, the Commission evaluates workshare discounts for compliance with applicable statutory provisions. The Commission finds the discounts for First-Class Mail, except for Automation Mixed AADC Letters discount discussed above, were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2020.

2. Periodicals

In FY 2020, only two Outside County Periodicals workshare discounts exceeded the avoided cost of the corresponding mailer worksharing activity. Table II-2 identifies those two passthroughs.

²⁹ NAPM Comments at 2-4; Reply Comments of the National Postal Policy Council, February 12, 2021, at 3 (NPPC Reply Comments); Pitney Bowes Comments at 2.

**Table II-2
Periodicals Workshare Discounts Exceeding Avoided Costs³⁰**

Type of Worksharing	FY 2020			
	End-of-Year Discount (\$)	Avoided Cost (\$)	Passthrough	Postal Service Justification Under 39 U.S.C. § 3622(e)(2) ³¹
Periodicals Outside County: Presorting (dollars / piece)				
Machinable Nonautomation 3-Digit/Sectional Center Facility (SCF) Flats	0.056	0.055	101.8%	ESCI
Machinable Automation 3-Digit/SCF Flats	0.048	0.046	104.3%	ECSI

The Postal Service justifies these discounts 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 2020 ACR at 29.

No comments were received about these excessive discounts.³²

The Commission finds that the Machinable Nonautomation 3-Digit/SCF Flats and Machinable Automation 3-Digit/SCF Flats discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(C) in FY 2020.

3. USPS Marketing Mail

Six USPS Marketing Mail workshare discounts exceeded the avoided costs of the corresponding mailer workshare activity in FY 2020. These six workshare discounts are in the Parcels and Carrier Route products, which are identified in Table II-3 and discussed individually in this section.

³⁰ 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-ACR2020-5 for a comprehensive display of all Periodicals prices and worksharing relationships for FY 2020.

³¹ Section 3622(e) of Title 39 provides exceptions to the general requirement that workshare discounts must not exceed avoided costs.

³² The Public Representative noted that excessive passthroughs for Periodicals are consistent with 39 U.S.C. § 3622(e)(2)(C) and therefore, he did not address them in his comments. PR Comments at 91 n.159.

Table II-3
USPS Marketing Mail Workshare Discounts Exceeding Avoided Costs³³

Product	End-of-Year Discount (\$)	Avoided Cost (\$)	Current Passthrough	Postal Service Justification Under 39 U.S.C. § 3622(e)(2) ³⁴
USPS Marketing Mail Parcels				
Network Distribution Center (NDC) Machinable Barcoded Parcels	0.412	0.362	114%	None
Mixed NDC Machinable Barcoded Parcels	0.049	0.043	114%	None
Mixed NDC Irregular Barcoded Parcels	0.049	0.043	114%	None
NDC Marketing Parcels	0.362	0.301	120%	None
Mixed NDC Barcoded Marketing Parcels	0.049	0.043	114%	None
USPS Marketing Mail Carrier Route				
Destination Sectional Center Facility (DSCF) Carrier Route Letters	0.029	0.027	107%	None

Source: Library Reference PRC-LR-ACR2020-4.

Pitney Bowes suggests that workshare discounts for AADC Letters and 5-Digit Automation Letters should be set closer to their avoided costs, noting that these discounts are currently set below their avoided costs. Pitney Bowes Comments at 2-3. Pitney Bowes notes the new workshare rules will require the Postal Service to set workshare discounts consistent with efficient component pricing (ECP).³⁵ Pitney Bowes additionally suggests the waiver process under the new rules should only be used under exceptional circumstances. Pitney Bowes Comments at 3.

NAPM also supports the Postal Service's use of its pricing flexibility to achieve ECP. NAPM at 2-3. NAPM notes that workshare discounts set below 100 percent of their avoided costs discourage mailers from making investments in mail preparation technologies. *Id.* NAPM hopes that the new rules on passthroughs will reduce Postal Service costs and add value through activities performed by mail service providers. *Id.* at 4.

³³ In FY 2020, all USPS Marketing Mail commercial and nonprofit discounts were equal. *See, e.g.*, Docket No. R2013-1, Order on Standard Mail Rate Adjustments and Related Mail Classification Changes, December 11, 2012, at 8 (Order No. 1573) (“[D]isparities between commercial and nonprofit discounts are impermissible unless supported by a rational justification that the differential treatment is ‘specifically authorized’ by another section of the statute.” (citation omitted)).

³⁴ Section 3622(e) of Title 39 provides exceptions to the general requirement that workshare discounts must not exceed avoided costs. Of specific relevance in this section are 39 U.S.C. § 3622(e)(2)(B), which provides an exception if “the amount of the discount above costs avoided . . . is necessary to mitigate rate shock [] and . . . will be phased out over time[.]” and 39 U.S.C. § 3622(e)(2)(D), which provides an exception if the “reduction or elimination of the discount would impede the efficient operation of the Postal Service.”

³⁵ *See id.*; *see also* 39 C.F.R. §§ 3030.280 through 286 (showing new rules for workshare discounts).

PostCom also suggests that “customers choosing destination entry may be buying something different – greater service reliability – than those choosing origin entry.” PostCom Comments at 3.

*The Commission encourages the Postal Service to set all workshare discounts as close as possible to avoided costs in order to send efficient pricing signals. The Commission’s new rules contain both a floor and a ceiling on future passthroughs, which will require the Postal Service to set workshare discounts closer to their avoided costs.*³⁶

a. Parcels

As shown in Table II-3, five workshare discounts for Marketing Mail Parcels exceeded avoided costs in FY 2020. These are NDC Machinable Barcoded Parcels, Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, NDC Marketing Parcels, and Mixed NDC Barcoded Marketing Parcels. These discounts are discussed below. All remaining discounts offered for Parcels were less than avoided costs, and thus were consistent with 39 U.S.C. § 3622(e).

- (1) Mixed NDC Machinable Barcoded 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 114.0 percent in FY 2020, an improvement from 131.7 percent in FY 2019. FY 2020 ACR at 17. In Docket No. R2021-1, the Postal Service reduced each of these discounts such that their corresponding passthroughs are 95.3 percent after implementation of these rates, using the most recently available FY 2020 costs. *Id.* The Postal Service asserts that, accordingly, no further action is necessary to bring these passthroughs into compliance with the statute. *Id.* The Postal Service did not identify any statutory exception to justify these excessive passthroughs.

The Public Representative notes that the Postal Service’s plan to reduce the passthroughs for Mixed NDC Machinable Barcoded Parcels in the next Market Dominant rate case or seek appropriate waiver would comply with 39 C.F.R. §§ 3030.283 through 3030.284, and 39 C.F.R. § 3030.286. PR Comments at 94.

The Commission finds the Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels passthroughs were not adequately justified pursuant to 39 U.S.C. § 3622(e)(2) in FY 2020. Due to the discount approved in Docket No. R2021-1, which is set below avoided costs, the Commission finds that no further action is necessary to bring these passthroughs into compliance in FY 2021.

³⁶ See 39 C.F.R. § 3030.283 (restricting workshare discounts above 100 percent) and 39 C.F.R. § 3030.284 (restricting workshare discounts below 85 percent).

(2) NDC Machinable Barcoded Parcels and NDC Marketing Parcels

NDC Machinable Barcoded Parcels and NDC Marketing Parcels had passthroughs of 113.8 percent and 120.3 percent, respectively. FY 2020 ACR at 17-18. The Postal Service notes both discounts saw increases in their avoided costs in FY 2020. *Id.* In Docket No. R2021-1, the Postal Service set each of these discounts such that their corresponding passthroughs are projected to be 117.4 percent and 157.5 percent, respectively. *Id.* The Postal Service intends to realign these discounts with their avoided costs in the next Market Dominant rate case or seek appropriate waiver under 39 C.F.R. § 3030.286. *Id.* The Postal Service did not identify any statutory exception to justify these excessive passthroughs.

The Public Representative notes that the Postal Service's commitment to reducing the passthrough to below 100 percent in the next market dominant rate case or seek a waiver under the new rules additionally satisfies the Commission's prior approach of requiring a commitment to reducing excessive passthroughs by 10 percent. *Id.* at 95. He concludes that no further action is necessary at this time. *Id.*

The Commission finds that NDC Machinable Barcoded Parcels and NDC Marketing Parcels were not adequately justified pursuant to 39 U.S.C. § 3622(e)(2) in FY 2020. The Commission expects the Postal Service to reduce this passthrough in the next Market Dominant price adjustment in compliance with 39 C.F.R. §§ 3030.280 through 3030.284, or to seek a waiver under 39 C.F.R. § 3030.286.

b. Carrier Route

One workshare discount for Carrier Route exceeded its avoided costs in FY 2020:

- DSCF Dropship Letters

In FY 2020, the passthrough for Carrier Route DSCF Dropship Letters was 107.4 percent, down from 133.3 percent in FY 2019. FY 2020 ACR at 18. In Docket No. R2021-1, the Postal Service reduced this discount such that its corresponding passthrough will drop to 88.9 percent. *Id.* The Postal Service asserts that, accordingly, no further action is necessary to bring this passthrough into compliance with the statute. *Id.* The Postal Service did not identify any statutory exception to justify this excessive passthrough.

Noting the reduction in the passthrough caused by the rate change, the Public Representative concludes that no further action is necessary at this time. PR Comments at 95.

The Commission finds that the Carrier Route DSCF Dropship Letters passthrough was not adequately justified pursuant to 39 U.S.C. § 3622(e)(2) in FY 2020. Due to the discount approved in Docket No. R2021-1, which is set below avoided costs, the Commission finds that no further action is necessary for Carrier Route DSCF Dropship Letters to bring this passthrough into compliance in FY 2021.

4. Package Services

No Package Services workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2020 and, therefore, all discounts were consistent with 39 U.S.C. § 3622(e) in FY 2020.

The Commission finds the discounts for Package Services were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2020. The Commission commends the Postal Service for using its pricing flexibility to ensure full compliance of this class in FY 2020.

CHAPTER III. MARKET DOMINANT PRODUCTS: OTHER RATE AND FEE COMPLIANCE ISSUES

A. Introduction

Commenters raise other rate and fee compliance issues, including non-compensatory products and pricing issues related to cost coverage.

This chapter begins with an analysis of non-compensatory products organized by class. It also includes a discussion of other issues raised by commenters.

B. Non-Compensatory Products

1. Periodicals

a. Introduction

The Periodicals class is comprised of two products, In-County³⁷ and Outside County. Revenue for both of these products was insufficient to cover attributable costs in FY 2020. In FY 2020, the cost coverage of the Periodicals class continued its steady and persistent decline. The overall class cost coverage fell to an all-time low of 56.9 percent. Below, the Commission discusses the FY 2020 financial results for Periodicals in more detail and then reviews the Postal Service's Periodicals Pricing Report filed in response to a FY 2019 ACD directive. In addition, the Commission discusses Periodicals cost and service issues in Chapter VI.

The Commission encourages the Postal Service to improve the cost coverage of Periodicals by reducing costs and implementing price changes to send efficient price signals. Therefore, in FY 2021, the Commission will continue to require the Postal Service to report on its efforts to reduce costs, as discussed in Chapter VI. The Commission also directs the Postal Service to file, in the FY 2021 ACR, a FY 2021 Periodicals Pricing Report that analyzes the impact of the Docket No. R2021-1 price adjustment.

³⁷ The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

b. Previous ACD Directives

The Periodicals class has consistently failed to cover costs, and the Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.³⁸ Beginning with the FY 2015 ACD, the Commission has directed the Postal Service to file a Periodicals Pricing Report that analyzes how pricing decisions impact cost, contribution, and revenue. FY 2015 ACD at 23-24.

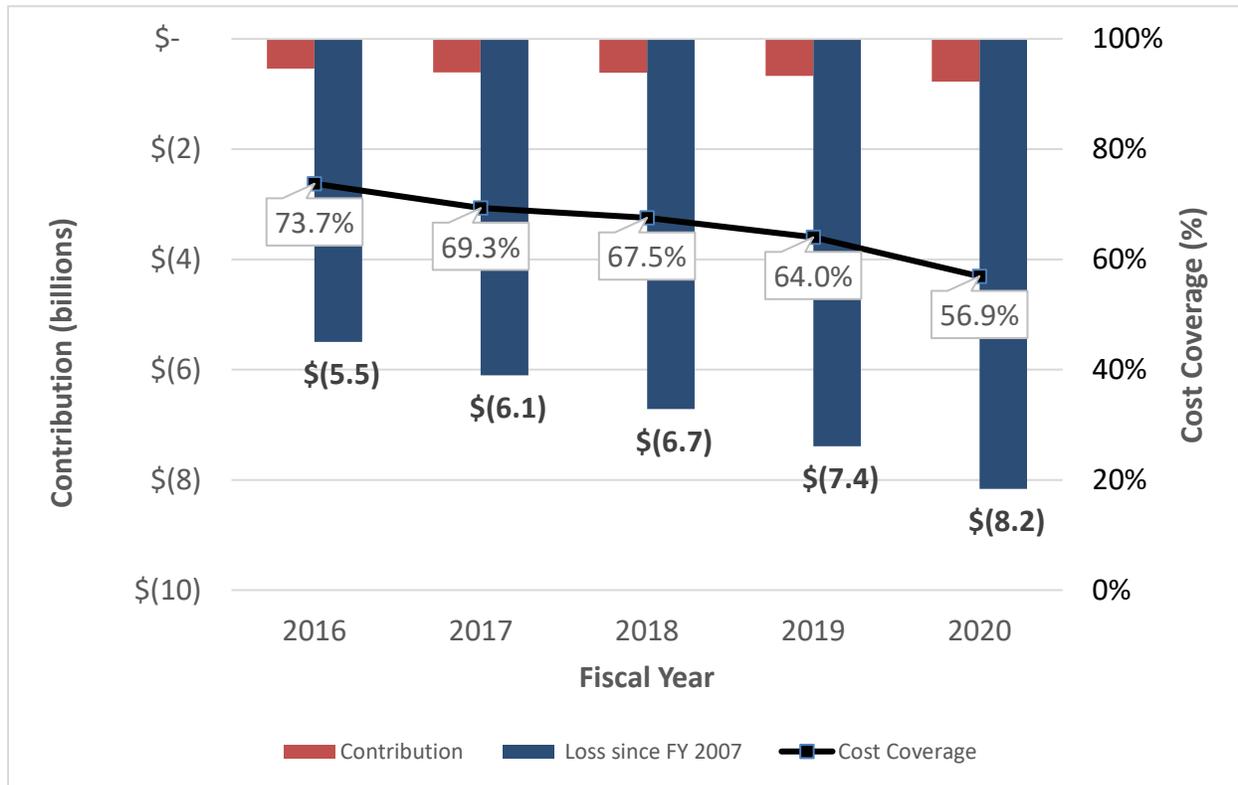
In FY 2015, the Commission also directed the Postal Service to develop a plan to measure, track, and report on cost and service issues related to flat-shaped products. *Id.* at 181. The Postal Service's response to the FY 2015 directive, and the Commission's subsequent rulemaking, is discussed in more detail in Chapter VI. of this Report.

c. FY 2020 Financial Results

The cost coverage for Periodicals decreased from 64.0 percent in FY 2019 to 56.9 percent in FY 2020. As Figure III-1 illustrates, Periodicals cost coverage continues to decline, resulting in a cumulative negative contribution of almost \$8.2 billion from FY 2007 to FY 2020. Note that the contribution in FY 2016 (blue bar) is the cumulative negative contribution from FY 2007 to FY 2016 and the cumulative negative contribution continued to accumulate from FY 2016 to FY 2020.

³⁸ See, e.g., Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 75 (FY 2009 ACD); Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011, at 94 (FY 2010 ACD); Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 105-106 (FY 2011 ACD); Docket No. ACR2012, *Annual Compliance Determination*, March 28, 2013, at 95-97 (FY 2012 ACD); Docket No. ACR2013, *Annual Compliance Determination*, March 27, 2014, at 44-45 (FY 2013 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015, at 40-41 (FY 2014 ACD); Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 50-51 (FY 2015 ACD); Docket No. ACR2016, *Annual Compliance Determination*, March 28, 2017, at 47-48 (FY 2016 ACD); FY 2017 ACD at 50; FY 2018 ACD at 46; FY 2019 ACD at 25.

Figure III-1
Periodicals Annual and Cumulative Contribution and Cost Coverage, FY 2016–FY 2020³⁹



Source: Library Reference PRC-LR-ACR2020-5.

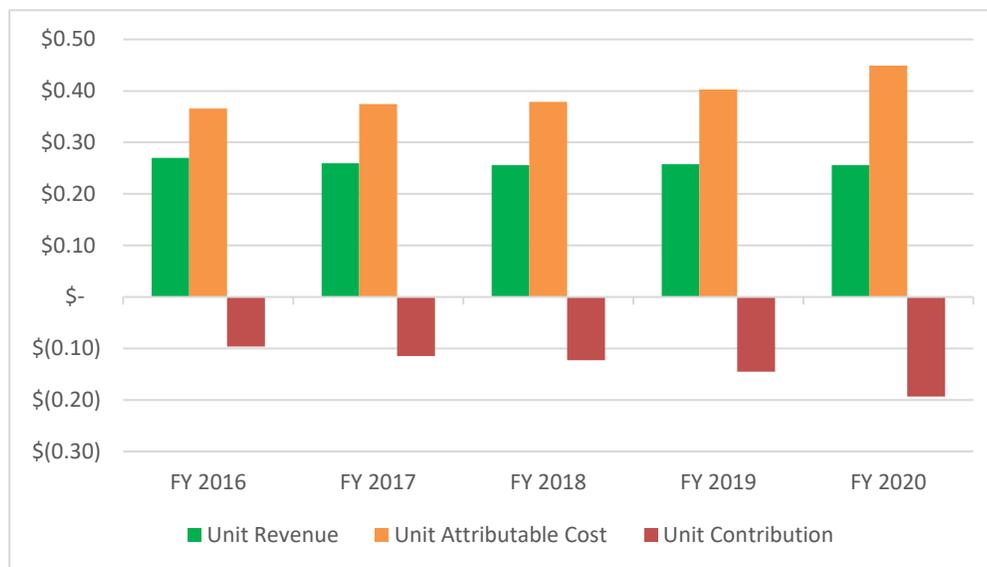
Unit revenue for the Periodicals class as a whole decreased from 25.8 cents in FY 2019 to 25.6 cents in FY 2020. FY 2020 ACR at 28. However, unit attributable cost⁴⁰ increased from 40.3 cents to 44.9 cents during the same period.⁴¹ See Library Reference PRC-LR-ACR2020-5. The 0.8 percent decrease in unit revenue coupled with the 11.5 percent increase in unit cost caused unit contribution to decline in FY 2020. *Id.* Figure III-2 details the unit cost, revenue, and contribution for Periodicals as a whole from FY 2016 to FY 2020.

³⁹ Complete FY 2007 to FY 2020 Periodicals data can be found in Library Reference PRC-LR-ACR2020-5.

⁴⁰ 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.

⁴¹ The changes in unit attributable cost for Outside County Periodicals are discussed in detail below.

Figure III-2
Periodicals Unit Cost, Revenue, and Contribution, FY 2016–FY 2020⁴²



Source: Library Reference PRC-LR-ACR2020-5.

d. Comments on Periodicals

The Public Representative comments that he “remains very concerned about the decline in Periodicals volumes and the resulting downward impact of cost coverages.” PR Comments at 108. He states that “[p]articular emphasis should be placed on reducing costs of Outside County Periodicals since that product lost \$730 million in FY 2020 compared to the \$49 million lost in the same period by In-County Periodicals.” *Id.*

e. Commission Analysis

Since FY 2007, Periodicals volume declined 54.5 percent, total revenue declined 53.2 percent, total attributable cost declined 31.8 percent, and the Periodicals class accumulated negative contribution of almost \$8.2 billion. *See* Library Reference PRC-LR-ACR2020-5. In its review of the PAEA, the Commission noted that non-compensatory classes “continue to hinder the achievement of Objective 1 (maximize incentives to increase pricing efficiency), Objective 5 (assure adequate revenues, including retained earnings, to maintain financial stability), and Objective 8 (establish and maintain reasonable rates).”⁴³

As detailed in Figure III-2, from FY 2019 to FY 2020, unit revenue decreased by 0.8 percent and unit attributable cost increased by 11.5 percent. The widening gap between unit revenue and unit attributable cost resulted in a lower unit contribution and an increasing

⁴² Complete FY 2007 to FY 2020 Periodicals data can be found in Library Reference PRC-LR-ACR2020-5.

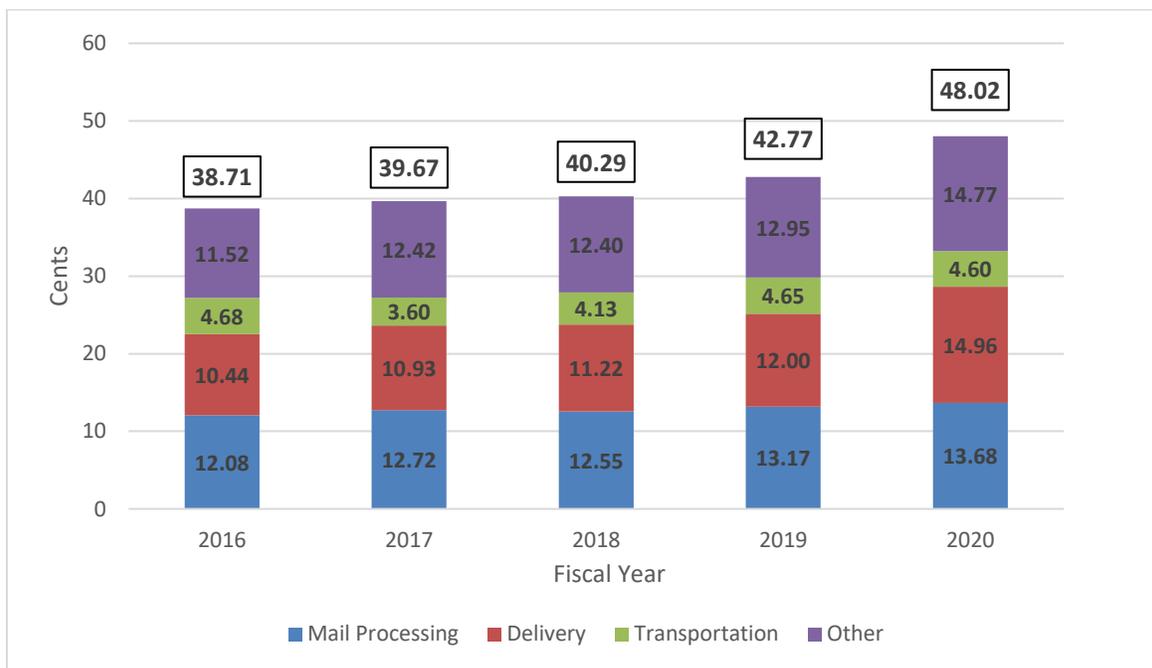
⁴³ Docket No. RM2017-3, Notice of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products, December 1, 2017, at 85 (Order No. 4258).

total negative contribution for Periodicals. To understand the contribution shortfall of Periodicals, the Commission analyzes Periodicals costs and Periodicals prices.

(1) Unit Costs and FY 2020 Operational Initiatives to Reduce Costs

In FY 2020, the Outside County product constituted 88.3 percent of all Periodicals volume and 94.4 percent of total Periodicals attributable cost.⁴⁴ Figure III-3 shows that Outside County Periodicals unit attributable cost increased by 5.25 cents from FY 2019 to FY 2020.

Figure III-3
Change in Outside County Periodicals Unit Attributable Costs,⁴⁵ FY 2016–FY 2020⁴⁶



Source: Library Reference PRC-LR-ACR2020-5.

In FY 2020, the unit attributable costs increased for mail processing, delivery, and other costs.⁴⁷ Because Periodicals is comprised of flat-shaped mail, the operational changes and initiatives designed to reduce flat-shaped mail costs described by the Postal Service as required by 39 C.F.R. § 3050.50 relate to Periodicals.⁴⁸ As discussed further in Chapter VI, the Postal Service has been unable to quantify the expected impact of those operational

⁴⁴ See PRC-LR-ACR2020-5, Excel file “FY 2020 CH3 Periodicals.xlsx.”

⁴⁵ The figures in this tab do not include piggybacks. A majority of the other costs are piggybacked onto mail processing, delivery, and transportation.

⁴⁶ Complete FY 2007 to FY 2020 Periodicals data can be found in Library Reference PRC-LR-ACR2020-5.

⁴⁷ Other costs included in Figure III-3 include cost segments 1, 2, 8, 11, 12, 13, 15, 16, 17, 18, 19 and 20.

⁴⁸ See Library Reference USPS-FY20-45, December 29, 2020.

initiatives and changes.⁴⁹ See Chapter VI. Therefore, the Commission is unable to determine the impact of these initiatives on the costs of Periodicals. However, the Commission notes that despite these initiatives the costs of handling Periodicals continue to increase.

All of the Commission recommendations pertaining to reducing flats costs in Chapter VI. of this Report apply to Periodicals. In Chapter VI., the Commission reiterates its longstanding finding that despite numerous cost reduction initiatives designed to reduce flat-shaped mail costs, these costs continue to rise. The Commission is very concerned by the Postal Service's continued inability to reduce costs for Periodicals. The Commission also continues to be concerned with the lack of progress the Postal Service has made in its ability to quantify the cost savings of its initiatives. Without knowing the impact of its initiatives on the costs of Periodicals, it will be difficult for the Postal Service to reduce those costs.

(2) Periodicals Pricing Efficiency

In the FY 2019 ACD, the Commission directed the Postal Service to include an updated version of the Periodicals Pricing Report in its FY 2020 ACR. FY 2019 ACD at 32. The updated report was to include an analysis of how the pricing in Docket No. R2020-1 impacted the cost, contribution, and revenue of Periodicals in FY 2020 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2020.⁵⁰

The Postal Service states that the most significant changes to Periodicals pricing in Docket No. R2020-1 were the pricing signals for preparation of mail in sacks and trays. Periodicals Pricing Report at 3. The Postal Service originally sought to insulate small mailers from significant rate increases by pricing sacks below modeled cost, but over time, the Postal Service gradually increased the price of sacks so that the relative prices gave customers incentives that are better aligned with the costs incurred. *Id.* The Postal Service also observes that pricing incentives aimed at increasing carrier route pallets increased the proportion of mail with carrier route preparation. *Id.* The Commission notes that although mail processing costs for these pieces decreased by a small amount, other cost increases and a shift in the mail mix to less presorted categories resulted in no noticeable improvement in cost coverage for Periodicals mail as a whole.

The Postal Service reports that the container “preparation profile of Outside County Periodicals shows a shift to higher cost preparation characteristics.” *Id.* The Postal Service states that less mail qualified for SCF/Flats Sequencing System (FSS) Facility pallets and more mail was prepared on mixed area distribution center (MADC) pallets and in sacks. *Id.* The Postal Service asserts that when mailed volume declines, density declines, and in turn the volume qualifying for more finely presorted containers declines as well. *Id.*

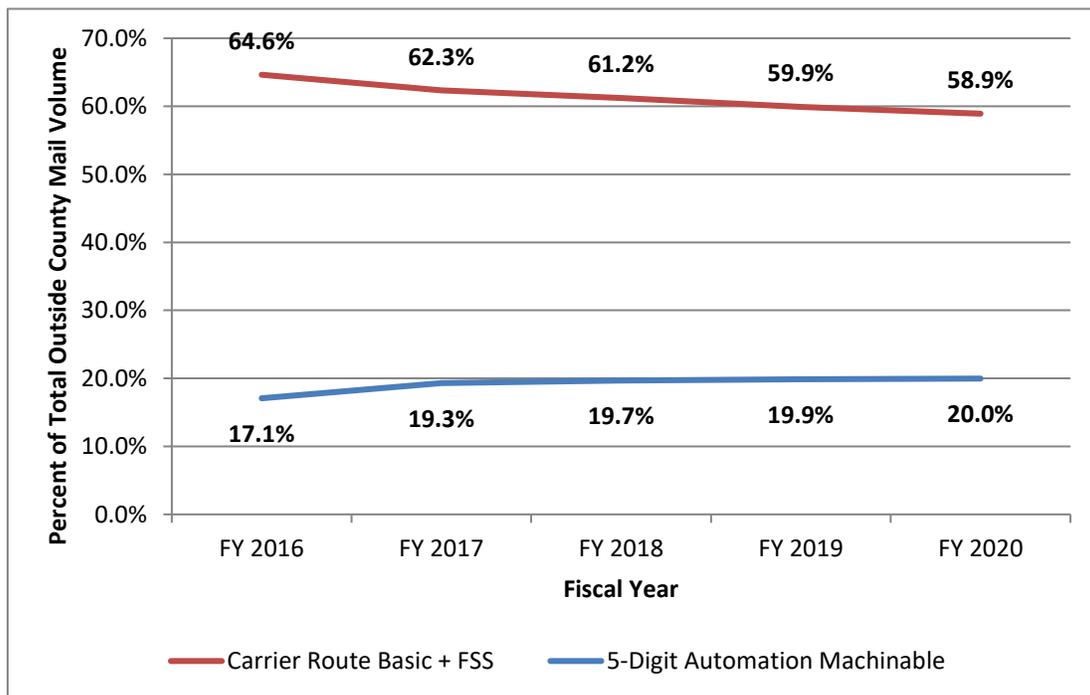
⁴⁹ The Docket No. RM2017-3 regulations require the Postal Service to provide new information and report on cost savings initiatives. The Postal Service is required to provide this information with its FY 2021 ACR.

⁵⁰ *Id.* The Postal Service filed this updated report as Library Reference USPS-FY20-44, December 29, 2020, Update to Periodicals Pricing Report (Periodicals Pricing Report).

The Periodicals Pricing Report states that “[s]ince FY2018, the Outside County Periodicals has seen a relative decline in mail presorted to carrier route, while the proportion of 5D, 3D, ADC and MADC presorted mail has grown.” *Id.* at 5. The Postal Service concludes that the shift in the aggregate preparation profile of Outside County Periodicals from high density preparation towards lower density preparation resulted in a slight increase in the unit mail processing costs because lower density preparation incurs more piece handlings. *Id.* at 6.

In FY 2016, mailer presortation of Carrier Route Outside County Periodicals peaked at 64.6 percent. As Figure III-4 illustrates, mailer presortation of Carrier Route Outside County Periodicals decreased each year from FY 2016 to FY 2020.

Figure III-4
Change in Outside County Periodicals Mail Mix, FY 2016–FY 2020⁵¹



Source: Library Reference PRC-LR-ACR2020-5.

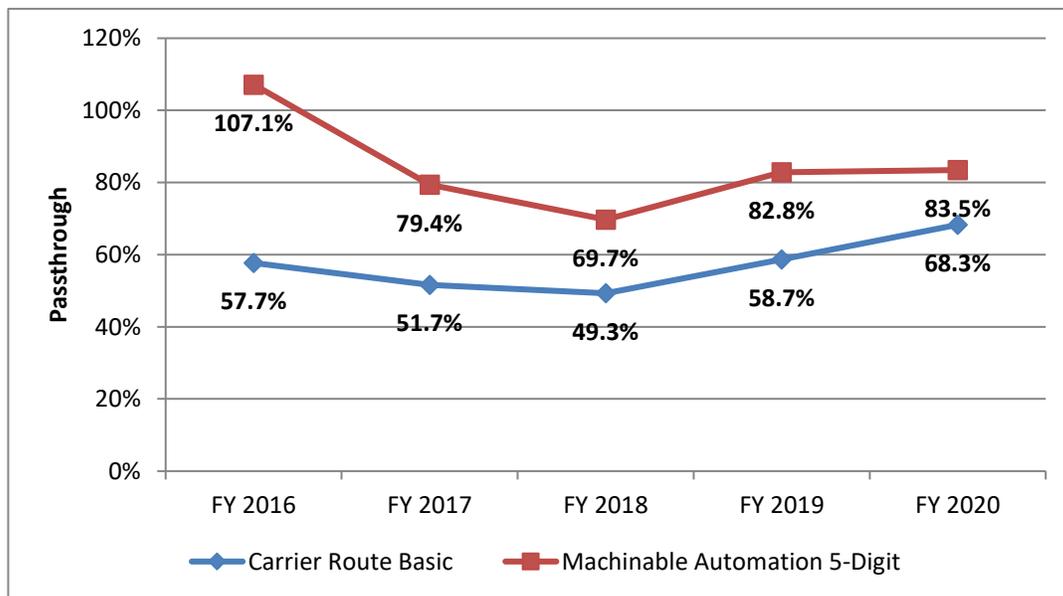
The Periodicals Pricing Report discusses the recent shift away from higher levels of presortation due to declining subscriber bases and lower density of publications. The Postal Service states that the volume of Periodicals mail has continued to decline for decades, but the magnitude of the decline for FY 2020 stands out. *Id.* at 1. In addition to the production and supply issues related to the COVID-19 pandemic, the Postal Service asserts

⁵¹ 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. See FY 2018 ACD section III.B.2.

that the demand for delivery of Periodicals has declined due to consumer preferences for editorial content, alternative delivery channels, and the cost of production inputs. *Id.* at 2.

The Commission notes the continued disparity between the Postal Service’s pricing signals that appear to encourage 5-Digit presortation and discourage Carrier Route presortation.⁵² Most Outside County Periodicals volume is presorted to Machinable Automation 5-Digit or Carrier Route Basic. Figure III-5 details changes in passthroughs for Carrier Route Basic and Machinable Automation 5-Digit piece presorting from FY 2016 to FY 2020.

**Figure III-5
Carrier Route Basic and Machinable Automation 5-Digit Passthroughs
are Less than 100 Percent**



Source: Library Reference PRC-LR-ACR2020-5.

The Commission encourages the Postal Service to set prices that yield passthroughs closer to 100 percent which would promote Periodicals pricing efficiency. Discounts are most efficient when they are set at 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.

Inefficient pricing signals may contribute to Periodicals revenues not covering costs if the price does not incentivize mailers to prepare Periodicals mailings efficiently. Continued improvement of the relationship between discounts and avoided costs should signal to the

⁵² See FY 2013 ACD at 21; FY 2014 ACD at 15; FY 2015 ACD at 18; FY 2016 ACD at 19; FY 2017 ACD at 22; FY 2018 ACD at 19; FY 2019 ACD at 30.

mailer the mail preparation method that is most efficient for both the Postal Service and the mailer.⁵³

On the whole, the Commission concludes that the Postal Service's Periodicals Pricing Report meaningfully responds to the Commission's directive by providing 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 adjustments, the Postal Service should rely on this analysis to aid in increasing Periodicals pricing efficiency.

The Commission directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2021 ACR. The report must include an analysis of how the pricing in Docket No. R2021-1 impacted the cost, contribution, and revenue of Periodicals in FY 2021 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2021.

2. USPS Marketing Mail Flats

a. Introduction

In FY 2020, USPS Marketing Mail Flats experienced its worst cost coverage since the product was established in FY 2007. In the FY 2019 ACD, the Commission required a price increase for USPS Marketing Mail Flats at least 2 percentage points above the class average. FY 2019 ACD at 43. Despite this and other past directives, the Postal Service has failed to improve this product's cost coverage or to identify a timeline to phase out the subsidy received by USPS Marketing Mail Flats. Therefore, the Commission once again directs the Postal Service to increase USPS Marketing Mail Flats' prices in the next Market Dominant price adjustment by at least 2 percentage points above the class average. In addition, the Commission also encourages the Postal Service to improve the cost coverage of USPS Marketing Mail Flats by achieving cost reductions for this product. To that end, the Commission will continue to require the Postal Service to report on its cost reduction efforts with regard to flat-shaped mail products, as discussed in Chapter VI. of this Report.

b. Background—FY 2010, FY 2015, FY 2018, and FY 2019 Directives

The Commission has issued four specific directives related to the cost coverage of USPS Marketing Mail Flats, which are discussed in further detail below. The FY 2010 directive focused both on improving revenues and reducing costs. The FY 2015 directive was issued after continued cost increases, and focused on improving reporting with regard to cost reduction efforts. The FY 2018 and FY 2019 directives built on the previous directives, and added focus on improving revenues as a result of continued cost coverage declines. These

⁵³ See FY 2009 ACD at 76; FY 2010 ACD at 96-97; FY 2011 ACD at 108-110; FY 2012 ACD at 100-101; FY 2013 ACD at 21-23; FY 2014 ACD at 14-16; FY 2015 ACD at 17-19; FY 2016 ACD at 18-20; FY 2017 ACD at 20-23; FY 2018 ACD at 18-20; FY 2019 ACD at 31.

directives also continued reporting on cost reduction efforts as part of the FY 2015 directive.

(1) FY 2010 Directive

In the FY 2010 ACD, the Commission determined that the prices in effect for USPS Marketing Mail Flats in FY 2010 did not comply with 39 U.S.C. § 101(d), which requires the costs of postal operations to be apportioned to postal users on a fair and equitable basis. FY 2010 ACD at 106. The Commission directed the Postal Service to increase the product's cost coverage through a combination of above-average price adjustments (consistent with price cap requirements) and cost reductions. *Id.* In addition, the Commission directed the Postal Service to provide the following information in each subsequent ACR:

- 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 for the Flats product, and the estimated timeline for phasing out this subsidy.

Id. at 107.

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.⁵⁴

(2) FY 2015 ACD Directive

In FY 2015, the Commission found that sufficient progress was no longer being made, and required the Postal Service to develop a plan to measure, track, and report on cost and service issues related to flat-shaped products. FY 2015 ACD at 181. The Postal Service's response to the FY 2015 directive is discussed in more detail in Chapter VI. of this Report. In FY 2016 and FY 2017, the Commission found that no progress was made toward addressing the FY 2010 ACD directive. FY 2016 ACD at 57; FY 2017 ACD at 59.

(3) FY 2018 ACD Directive

In FY 2018, the Commission found that the Postal Service's continuing failure to comply with the FY 2010 directive required further corrective action. FY 2018 ACD at 70-71. The Commission implemented the FY 2018 directive based on cost coverage declines, substantial unit cost increases, inadequate unit revenue increases, and other alarming metrics. *Id.* at 70. The Commission found that the Postal Service was "unable to predict, using reasonable assumptions, when the USPS Marketing Mail Flats product will cover costs, or what the impact is of any of the Postal Service's cost saving initiatives." *Id.* at 71. Additionally, the Commission noted that the Postal Service had chosen to increase USPS

⁵⁴ See FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 47.

Marketing Mail Flats' prices "only minimally above average." *Id.* The Commission once again found the situation with regard to Flats to be a violation of 39 U.S.C. § 101(d). *Id.* at 72.

In its FY 2018 directive, the Commission required the Postal Service to propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for Marketing Mail in the next Market Dominant rate adjustment. *Id.* The Commission also required the Postal Service to continue responding to the Commission's FY 2010 and FY 2015 directives. *Id.*

(4) FY 2019 ACD Directive

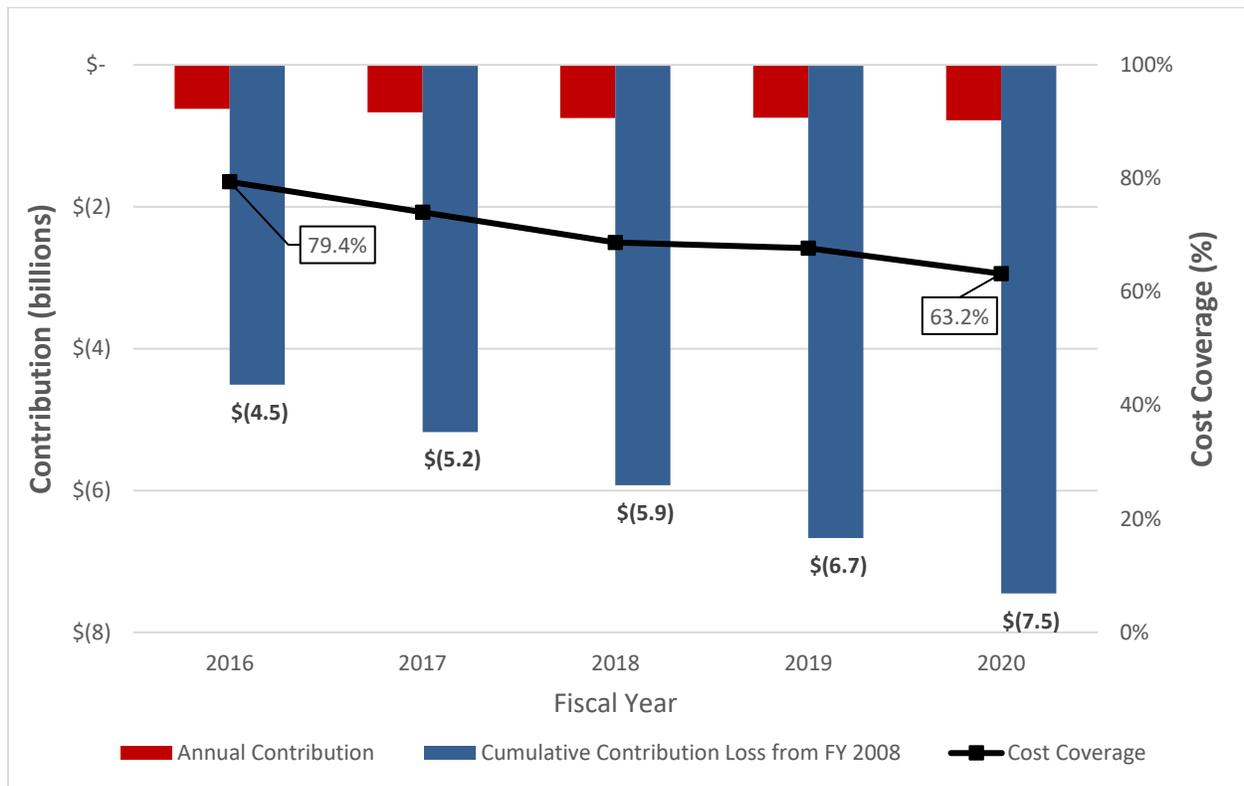
In FY 2019, the Commission found that USPS Marketing Mail Flats continued to violate 39 U.S.C. § 101(d), and directed the Postal Service to continue to take corrective action. FY 2019 ACD at 42. The Commission once again required the Postal Service to propose a price increase for USPS Marketing Mail Flats that was at least 2 percentage points above the class average for Marketing Mail in the next Market Dominant rate adjustment. *Id.* at 43. The Commission also required the Postal Service to continue responding to the Commission's FY 2010 and FY 2015 directives. *Id.*

c. FY 2020 Results

In FY 2020, USPS Marketing Mail Flats had a cost coverage of 63.3 percent.⁵⁵ As shown in Figure III-6, cost coverage for USPS Marketing Mail Flats has steadily declined since FY 2015, when the cost coverage was 80.3 percent. Library Reference PRC-LR-ACR2020-4. In FY 2020, USPS Marketing Mail Flats' cost coverage dropped by another 4.4 percentage points to its lowest value ever. *Id.* Negative contribution increased by \$35.7 million in FY 2020, in stark contrast to FY 2019, when negative contribution decreased slightly. *Id.* This increase in negative contribution is troubling, given that volume plunged 16.2 percent between FY 2019 and FY 2020. *Id.* The cumulative contribution loss from USPS Marketing Mail Flats from FY 2008 through FY 2020 has climbed to a negative \$7.5 billion. *Id.*

⁵⁵ The Commission's cost coverage calculation differs from the Postal Service's calculation because, unlike the Postal Service, the Commission includes fees in the revenue for each product. See Library Reference PRC-LR-ACR2020-1.

**Figure III-6
USPS Marketing Mail Flats Cost Coverage and Contribution, FY 2016–FY 2020⁵⁶**



Source: Library Reference PRC-LR-ACR2020-4

The Postal Service ascribes the decrease in cost coverage to “sharp volume decline in Flats, and in flat-shaped mail pieces” which caused “mail processing costs [to continue] to rise at a faster rate than wages.” FY 2020 ACR at 15. Specifically, the Postal Service asserts that:

From FY 2009 to FY 2020, Flats volume decreased from 7.8 billion pieces to 3.2 billion pieces; AFSM 100 annual Total Pieces Fed (TPF) decreased from 24.4 billion to 10.1 billion; and aggregate AFSM 100 productivity has fallen from 3,114 pieces per work hour (excluding flat preparation operations) to 2,096 pieces per hour. Because setup and breakdown activities are largely invariant to processed volume, the continued volume declines necessarily lead to higher unit mail processing costs.

Id. at 15-16. The Postal Service also asserts that “[c]o-mailing, which shifts pieces toward High Density, is a secondary influence contributing to the volume decline in Flats . . . [because] [t]he continued increase in co-mailing and shifting of volumes to finer presort

⁵⁶ Complete USPS Marketing Mail Flats data for FY 2008 to FY 2019 can be found in Library Reference PRC-LR-ACR2019-4.

levels . . . leaves fewer pieces in Flats and Carrier Route, thereby putting upward pressure on Flats and Carrier Route per-piece mail processing costs.” *Id.* at 16.

d. Postal Service Responses to FY 2010 and FY 2018 ACD Directives

In response to the FY 2010 ACD directive, the Postal Service notes that four methodology changes affected USPS Marketing Mail Flats in FY 2020. FY 2020 ACR at 23. These methodological changes are summarized in Table III-1. If these methodological changes were in place during FY 2019, unit attributable cost in FY 2019 would have been 2.7 cents lower, as shown in Table III-1. Accounting for this methodology change, the year-over-year increase in unit attributable cost for USPS Marketing Mail Flats in FY 2020 was 8.7 cents, rather than the 6.0 cents shown by a direct comparison of the reported unit attributable cost for each year. *See id.* at 24.

Table III-1
USPS Marketing Mail Flats Cost Methodology Changes FY 2020

Docket No.	Explanation	Cost Impact (cents)
RM2019-6	Revised the cost attribution procedures for Special Purpose Routes	-0.2
RM2020-1	Updated inputs into the analysis used for the allocation of facility-related costs	0.1
RM2020-7	Updated the city carrier regular delivery time variabilities	-0.5
RM2020-10	Changed the In-Office Cost System (IOCS) methodology for sampling city carriers based on the IOCS cluster concept	-2.1
	Net Impact	-2.7

Source: FY 2020 ACR at 23-24.

The Postal Service reports that it is unable to provide an estimated timeline for phasing out the subsidy. *Id.* at 25-26. The Postal Service explains that it provided a description of operational changes designed to reduce Flats’ costs in response to the separate reporting that it was required to comply with pursuant to 39 C.F.R. § 3050.50(f).⁵⁷

In Response to the FY 2019 ACD Directive, the Postal Service proposed, and the Commission approved, a 3.553 percent price increase for USPS Marketing Mail Flats in Docket No. R2021-1.⁵⁸

⁵⁷ See Library Reference USPS-FY20-45; Chapter VI. This is the information required by the Commission’s FY 2015 directive.

⁵⁸ See Docket No. R2021-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 18, 2020, at 20, Table V-1 (Order No. 5757).

e. Comments on USPS Marketing Mail Flats

The Public Representative notes that cost coverage has been declining since FY 2013. PR Comments at 68. He also notes that volume has declined precipitously since FY 2008, particularly in the last fiscal year. *See id.* at 70.

The American Catalog Mailers Association (ACMA) highlights that rates have increased faster than consumer price index (CPI) factor prices in recent years.⁵⁹ They argue cost coverages will continue to decline as rates for flats increase. ACMA Comments at 2. ACMA points out that nonprofit mail continues to occupy a growing portion of USPS Marketing Mail Flats, putting downward pressure on unit revenues. *Id.* at 4. ACMA also notes the compound annual growth rate for USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route unit costs have grown faster than letters over the last 22 years. *See id.* at 7.

ACMA compares the difference in cost between 5-Digit Automation Flats and Carrier Route. They note that this cost difference has grown from 9.7 cents in 2007 to 23.4 cents in FY 2020. *Id.* at 8. ACMA conjectures that the difference in cost is not reflective of the fact that 5-Digit Automation Flats receives one sort whereas Carrier Route does not. *Id.* ACMA also points out that unit costs for 5-Digit-Automation Flats have increased in cost pools that are assumed to be 100 percent volume variable, and that increases in such cost pools should have no effect on unit costs. *Id.*

PostCom asserts that the Postal Service “. . . is either unable or unwilling to respond to flats volume changes by removing costs.” PostCom Comments at 6. PostCom also argues that rates for USPS Marketing Mail Flats should be held constant to avoid further increases in unit costs. *Id.* at 7. They argue the Postal Service “. . . would arguably be better off holding prices constant to limit volume losses rather than driving additional volume from an inflexible and inefficient network.” *Id.*

f. Commission Analysis

The Commission first analyzes the cost coverage and unit contribution of USPS Marketing Mail Flats and the Postal Service’s progress at increasing the product’s cost coverage. Second, the Commission computes the intra-class subsidy provided to USPS Marketing Mail Flats by other products within the USPS Marketing Mail class. Third, the Commission evaluates changes in the product-level volume distribution of flat-shaped USPS Marketing Mail. Fourth, the Commission examines USPS Marketing Mail Flats’ costs in more detail by reviewing actual unit cost results, and changes in major cost segments. Fifth, the Commission evaluates changes in unit revenues and the Postal Service’s price adjustments for USPS Marketing Mail Flats following the FY 2010 ACD. Finally, the Commission once again directs the Postal Service to improve this product’s cost coverage by proposing a price increase that is at least 2 percentage points above the class average in the next Market Dominant price adjustment.

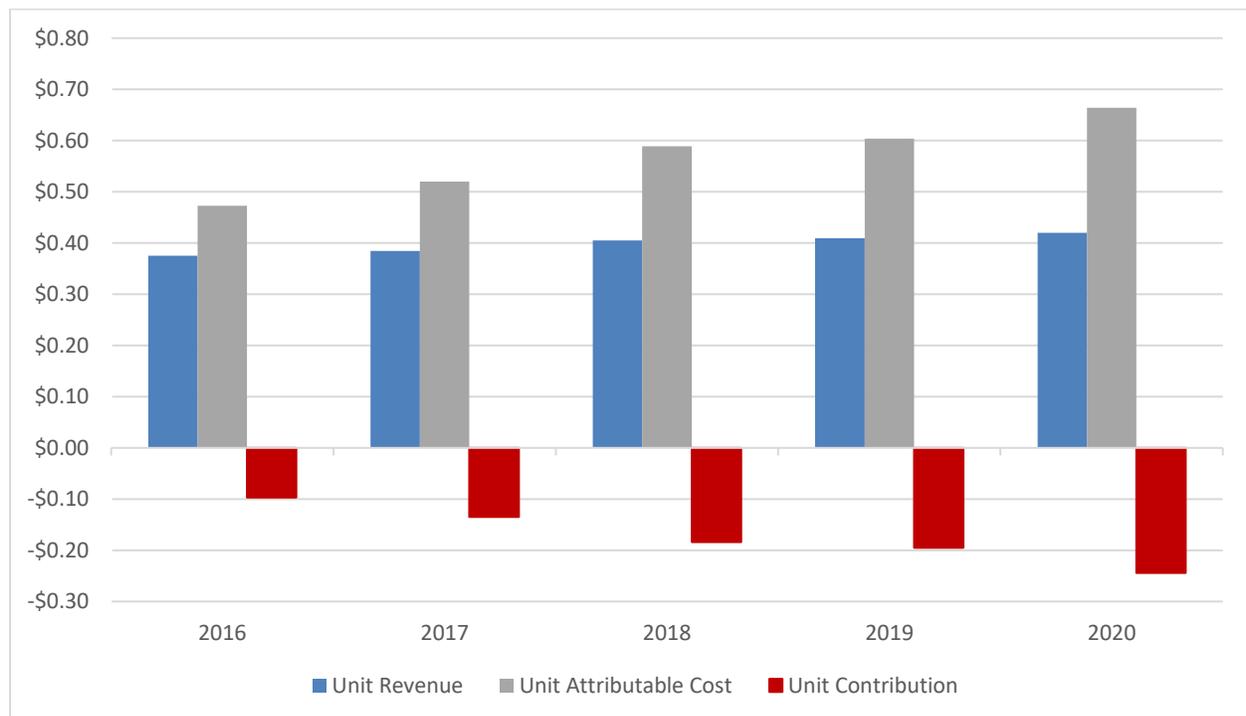
⁵⁹ Initial Comments of the American Catalog Mailers Association (ACMA), February 2, 2021, at 2 (ACMA Comments). ACMA filed a Motion of the American Catalog Mailers Association for Late Acceptance of its Initial Comments in Docket No. ACR2020, February 2, 2021 (ACMA Motion). The ACMA Motion is granted.

(1) FY 2020 Cost Coverage and Unit Contribution

In this section, the Commission analyzes the overall progress the Postal Service has made at improving the cost coverage and unit contribution for USPS Marketing Mail Flats. Cost coverage and unit contribution are both functions of cost and revenue; therefore, the Commission discusses trends in cost and revenue in this section. In Sections 3 and 4 below, the Commission analyzes costs and the Postal Service’s efforts to reduce costs, as well as revenues and the Postal Service’s efforts to increase prices.

Despite the FY 2010 ACD directive to improve cost coverage, the cost coverage for USPS Marketing Mail Flats fell to 63.3 percent in FY 2020. Library Reference PRC-LR-ACR2020-4. The FY 2020 cost coverage is now the lowest recorded cost coverage for USPS Marketing Mail Flats since it was designated a product. This is the sixth consecutive year that cost coverage declined. As shown in Figure III-7, the unit contribution of Marketing Mail Flats was -24.4 cents in FY 2020, a 4.9 cent decline from FY 2019. As Figure III-7 also shows, the Postal Service was successful at increasing unit revenues by 2.7 percent, or 1.1 cents, in FY 2020. However, this slight increase was eclipsed by an increase in unit attributable cost of 6.0 cents. This most recent unit contribution is the lowest ever for USPS Marketing Mail Flats.

**Figure III-7
USPS Marketing Mail Flats Unit Revenue, Attributable Cost, and Contribution,
FY 2016–FY 2020**



Source: Library Reference PRC-LR-ACR2020-4.

The Commission finds that the Postal Service has been unsuccessful at improving the cost coverage of USPS Marketing Mail Flats as required by the Commission's FY 2010, FY 2018, and FY 2019 ACD Directives.

(2) Intra-Class Cross-Subsidy

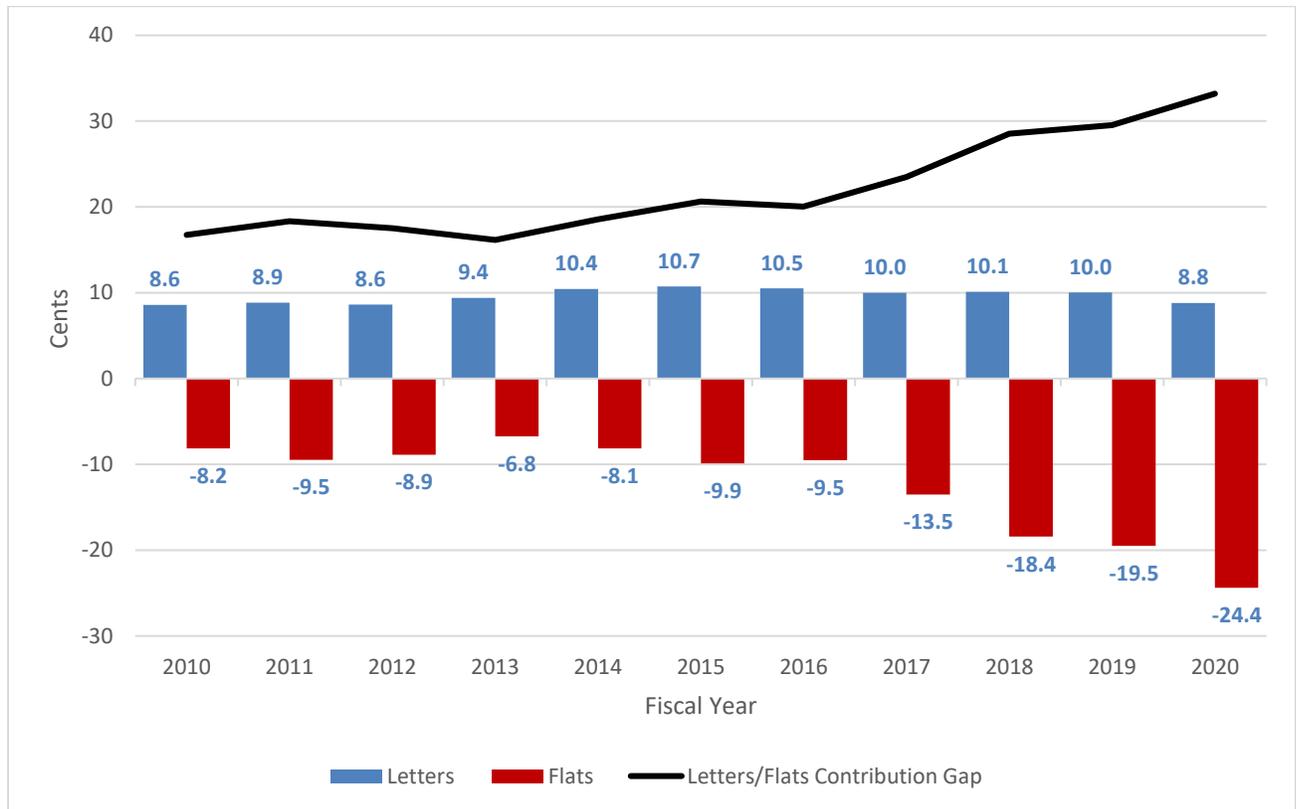
The Commission next analyzes the increasingly negative impact that USPS Marketing Mail Flats has on other products within the USPS Marketing Mail class. In the FY 2010 ACD, as part of its finding of noncompliance, the Commission analyzed the intra-class subsidy received by USPS Marketing Mail Flats, specifically from USPS Marketing Mail Letters, and found that the rates for USPS Marketing Mail Flats “produced a substantial and growing cost coverage shortfall that burdened mailers of other [USPS Marketing Mail] products.”⁶⁰ The Commission issued the FY 2010 ACD directive with the intent of allowing the Postal Service to reduce the contribution gap between these products.⁶¹

However, as Figure III-8 shows, despite the FY 2010 ACD Directive, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats has continued to increase at an accelerated rate. In FY 2010, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats was 16.8 cents. In FY 2020, the contribution gap between these two products increased to 33.2 cents. From FY 2010 to FY 2020, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats has nearly doubled.

⁶⁰ See FY 2010 ACD at 105-07; Docket No. ACR2010-R, Order on Remand, August 9, 2012, at 8-10 (Order No. 1427); see also *United States Postal Serv. v. Postal Regul. Comm'n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012).

⁶¹ Order No. 1427 at 8. The contribution gap is calculated as the difference between the unit contribution made by USPS Marketing Mail Letters and the unit contribution made by USPS Marketing Mail Flats.

**Figure III-8
USPS Marketing Mail Flats and Letters Unit Contribution
and Contribution Gap FY 2010–FY 2020**



Source: Library Reference PRC-LR-ACR2020-4.

Since the Commission issued the FY 2010 directive 10 years ago, cost coverage has plummeted 18.5 percentage points to 63.3 percent; the cumulative negative contribution over the years FY 2008 through FY 2020 totals \$7.5 billion; and the unit contribution of USPS Marketing Mail Flats has decreased by 22.2 cents. During the same period, the overall cost coverage for USPS Marketing Mail Letters only fell by 10 percentage points while the unit contribution for USPS Marketing Mail Letters increased by 2.4 percent.

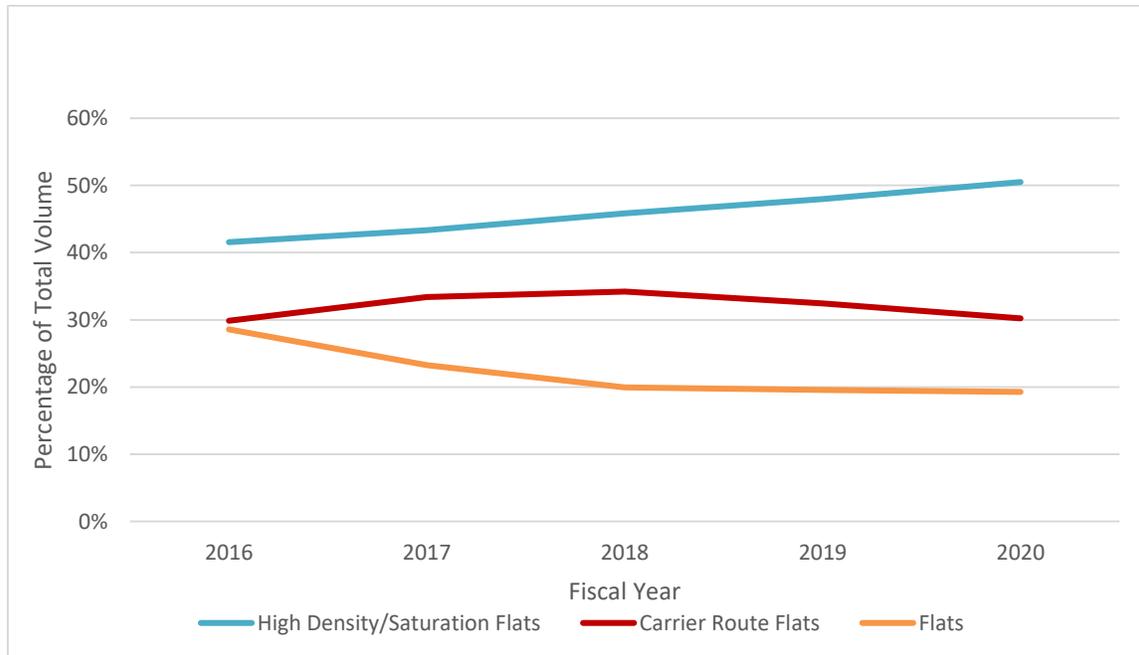
The Commission finds that USPS Marketing Mail Flats continue to violate 39 U.S.C. § 101(d). The Commission finds that USPS Marketing Mail Flats possesses an unacceptable deficient cost coverage that continues to constitute an intra-class subsidy, unfairly burdening other mailers within the USPS Marketing Mail class.

(3) Changes in the Product-Level Mail Mix

The Commission notes, as part of its analysis for USPS Marketing Mail Flats, that changes in the mail mix have occurred in recent years. Figure III-9 shows the distribution of USPS Marketing Mail Flats, Carrier Route Flats, and High Density/Saturation Flats volumes. High Density/Saturation Flats have continued to occupy an increasing share of flat-shaped

Marketing Mail. The Postal Service opines this trend is due to the increase in co-mailing, which shifts mail toward finer presort levels. FY 2020 ACR at 16. While all three products experienced volume decreases in absolute terms in FY 2020, USPS Marketing Mail Flats volumes declined 16.2 percent whereas Saturation Flats only declined by 9.3 percent. *Id.*

Figure III-9
Volume Distribution of USPS Marketing Mail Flats, Carrier Route Flats, and High Density/Saturation Flats FY 2016–FY 2020



Source: Library Reference PRC-LR-ACR2020-4.

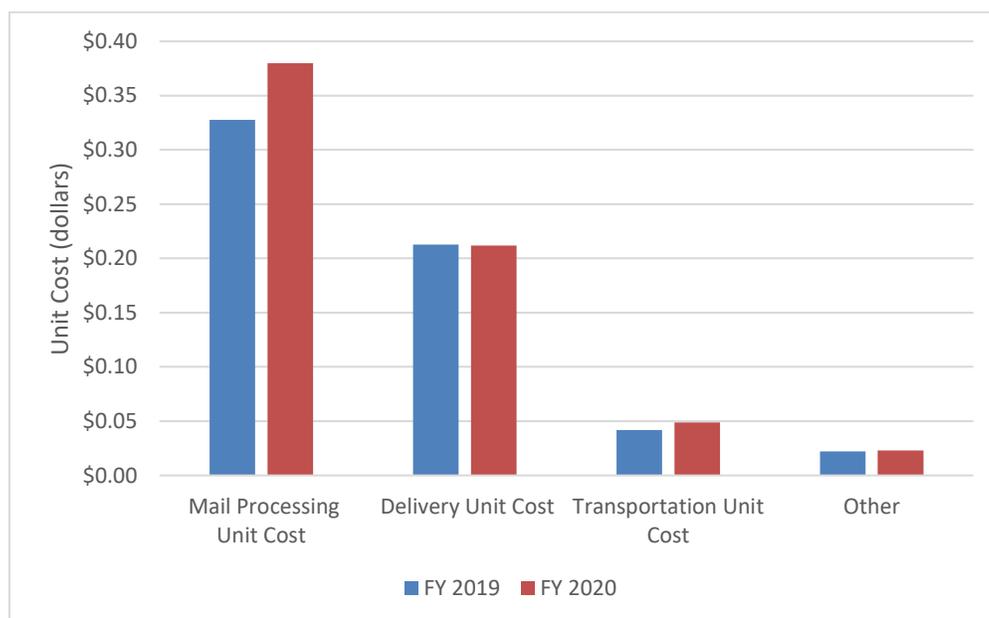
The increasing volume share of High Density/Saturation Flats leaves fewer mailpieces in both USPS Marketing Mail Flats and Carrier Route Flats. The Postal Service argues that this trend makes it difficult for it to contain costs for these two already non-compensatory products because costs for operations set up and tear down (which the Postal Service refers to as fixed costs) are now being spread over fewer mailpieces. The Commission notes that the Postal Service should utilize trends in the mail mix that have occurred in recent years as a factor in its operational decisions.

(4) Unit Costs and FY 2019 Operational Initiatives to Reduce Costs

From FY 2019 to FY 2020, USPS Marketing Mail Flats' unit attributable costs increased 6.0 cents, or 9.9 percent. From FY 2010 to FY 2019, unit costs have increased 21.6 cents, or 48.2 percent. As co-mailing increases, the pieces remaining in USPS Marketing Mail Flats face upward-pressure on their mail processing costs. Figure III-10 shows that mail

processing increased more, in absolute terms, than any other major cost segment for USPS Marketing Mail Flats in FY 2020.⁶²

Figure III-10
Unit Cost of Major Cost Segments FY 2019 and FY 2020



Source: Library Reference PRC-LR-ACR2020-4.

The Postal Service has been unable to estimate the impact of its cost reduction efforts in general, let alone isolate those impacts to specific products. In Chapter VI., the Commission reviews the operational changes and initiatives the Postal Service has identified for flat-shaped mailpieces in general, including USPS Marketing Mail Flats. Flats mail processing costs are also examined in greater detail in Chapter VI.

The Commission finds that the Postal Service's cost-reduction efforts with regard to USPS Marketing Mail Flats have been unsuccessful. In Chapter VI., the Commission explains its continued concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flat-shaped mail products, including USPS Marketing Mail Flats.

(5) Unit Revenue and Above-Average Price Adjustments

Despite the Commission's ongoing directives, the cumulative shortfall in contribution for USPS Marketing Mail Flats from FY 2008 through FY 2020 has grown to \$7.5 billion. As discussed above, the Postal Service has been woefully unsuccessful at reducing the costs of USPS Marketing Mail Flats. In this section, the Commission reviews the Postal Service's

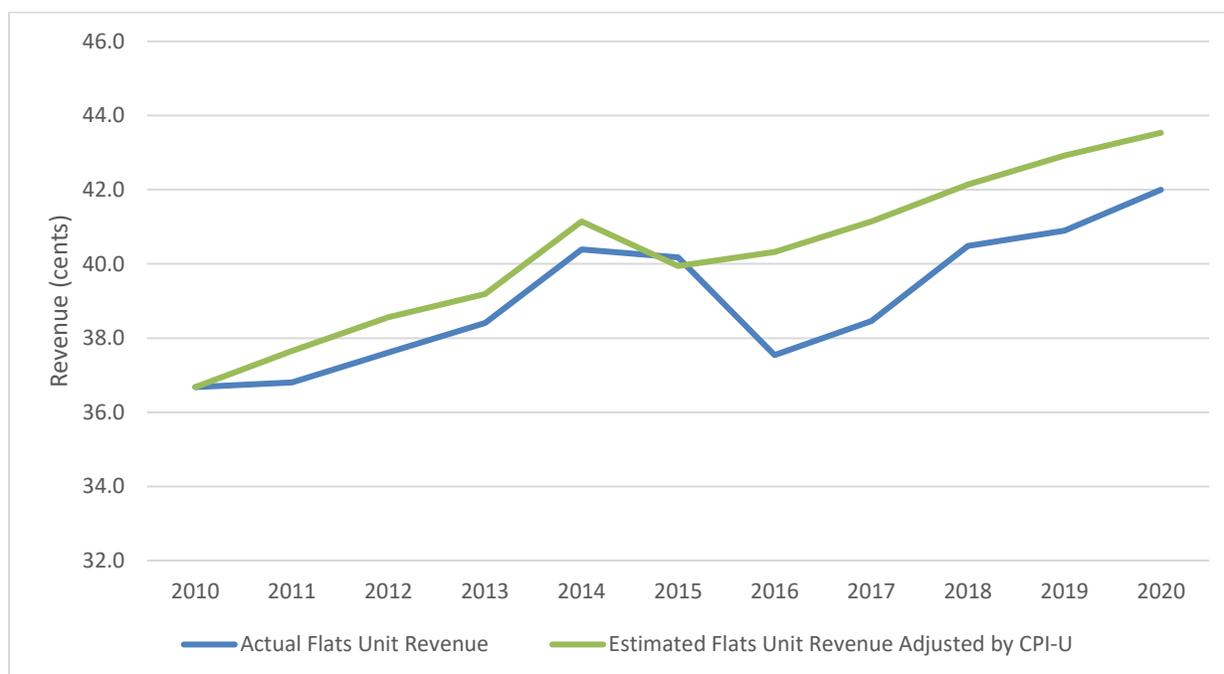
⁶² Mail processing unit cost increased 5.2 cents per piece from \$0.328 to \$0.380, or 15.9 percent. Transportation unit cost increased 0.7 cents per piece from \$0.042 to \$0.049, or 16.6 percent. Mail processing costs increased nearly seven times as much in absolute terms, but the percentage increase in transportation unit costs was slightly larger.

efforts to improve cost coverage through price increases. First, the Commission looks at the changes in unit revenues since the FY 2010 ACD directive. Second, the Commission reviews the Postal Service's price adjustments for USPS Marketing Mail Flats since the FY 2010 ACD directive. Third, the Commission reviews the estimated impact of the Docket No. R2021-1 price adjustment on USPS Marketing Mail Flats' contribution, holding unit costs constant.

(a) Changes in Unit Revenues

The Postal Service has proposed above-average price increases for USPS Marketing Mail Flats in each Market Dominant price adjustment since the Commission issued the FY 2010 ACD directive. However, because of changes in the mail mix, above-average price increases for this product have not translated into above-average unit revenue increases. Figure III-11 shows the actual unit revenues of USPS Marketing Mail Flats, as well as the estimated unit revenues if unit revenues had increased consistent with the change in the customer price index for all urban consumers (CPI-U) each year following the FY 2010 ACD directive.

Figure III-11
USPS Marketing Mail Flats Actual Versus Estimated Unit Revenue
FY 2010–FY 2020



Source: Library Reference PRC-LR-ACR2020-4.

As this graph shows, a price increase for a specific product does not always translate into an equal increase in unit revenues because of mail shifting within rate categories and among other products within the class. Therefore, the Postal Service must remain cognizant of mail mix changes when proposing prices, and do its best to meet the requirements of the price cap while maximizing unit revenue increases within the product.

(b) Estimated Impact of Docket No. R2021-1 Price Adjustment and Other Scenarios

In FY 2020, the Postal Service proposed, and the Commission approved, a price increase of 3.553 percent for USPS Marketing Mail Flats. *See* Order No. 5757 at 20. This increase was 2.044 percentage points above the class average. *Id.* Price adjustments from Docket No. R2021-1 took effect in January 2021; hence, the actual impact from these price adjustments will not be seen until FY 2021 data become available. *Id.* at 115-16. Nevertheless, in this year's ACD proceeding, a CHIR was issued asking the Postal Service to provide estimates of the impact of this price increase for USPS Marketing Mail Flats.⁶³ Table III-2 shows the contribution estimates provided by the Postal Service for FY 2021. These estimates show the negative contribution for USPS Marketing Mail Flats decreasing by \$55.1 million as a result of this price increase, assuming costs remain constant.

Table III-2
USPS Marketing Mail Flats FY 2021
Estimated Contribution

	Estimated USPS Marketing Mail Flats FY 2020 Contribution (Millions)	Improvement Over Base Year (Millions)
No FY 2021 Price Adjustment (Base Year)	(\$733.4)	
Docket No. R2021-1 Price Adjustment	(\$678.3)	\$55.1

Source: Library Reference PRC-LR-ACR2020-4.

Based on these projections, the Commission reaffirms its finding from the FY 2019 ACD that the Postal Service has the capability to propose an above-average price increase for USPS Marketing Mail Flats that will improve unit revenues and contribution in a meaningful way.

(6) FY 2020 Directive

As a result of the Postal Service's failure to comply with the Commission's FY 2010 ACD directive to increase the cost coverage of USPS Marketing Mail Flats, and because the product continues to violate 39 U.S.C. § 101(d), the Commission directs further corrective action. The Commission makes this determination based on its past ACD findings, as well as the analysis above that shows continued cost coverage declines, substantial unit cost increases, insufficient cost reductions, inadequate unit revenue increases, and persistent unit contribution declines. The Commission's analysis further shows that the intra-class cross-subsidy has grown within the USPS Marketing Mail class; the Postal Service has been unable to measure the impact of operational initiatives on USPS Marketing Mail Flats' costs; and minimal above-average price adjustments historically have been insufficient to outweigh unit cost increases. The Postal Service has been unable to provide the

⁶³ Chairman's Information Request No. 11 and Notice of Filing Under Seal, February 4, 2021, question 9 (CHIR No. 11).

Commission with insight into the impact of cost reduction initiatives undertaken in FY 2020.

The Commission determines that once again requiring a price adjustment for USPS Marketing Mail Flats of at least 2 percentage points above the class average is an appropriate remedy given this product's cost coverage shortfall and this is the regulatory tool the Commission has used to some positive effect. Postal Service forecasts show that it anticipates further positive impact on contribution as a result of the Docket No. R2021-1 price adjustment.⁶⁴ The Commission, therefore, deems it appropriate to require a 2 percentage point above-average price increase for USPS Marketing Mail Flats in the next Market Dominant price adjustment. At the same time, the Commission recognizes that price increases alone will not result in the product's compliance with section 101(d). The full solution must come from a combination of revenue increases and cost reductions, and the Postal Service must continue to pursue such cost reductions.

The Commission acknowledges the concerns of PostCom and ACMA that further price increases will likely drive away additional volume, but no other practical solution to improve cost coverage has been offered.

USPS Marketing Mail Flats is particularly emblematic of the problems that can occur when a non-compensatory product continues to exist for a prolonged period. Since FY 2008, this product has contributed negative \$7.5 billion to the institutional costs of the Postal Service. The Commission has directed the Postal Service to address these issues repeatedly to no avail. This is the same remedy that the Commission ordered for USPS Marketing Mail Flats in FY 2018 and FY 2019, and the Commission continues that approach this year. Compliance with this directive will also satisfy the requirements of 39 C.F.R. § 3030.221.

The Commission finds that the issues raised in the FY 2010 ACD regarding USPS Marketing Mail Flats have continued to worsen. From FY 2010 to FY 2020, the cost coverage for USPS Marketing Mail Flats has decreased 19 percentage points. In addition, the Postal Service remains unable to predict, using reasonable assumptions, when the USPS Marketing Mail Flats product will cover cost, or what the impact is of any of the Postal Service's cost saving initiatives. In the meantime, the actual impact from the Commission's FY 2018 ACD Directive on revenues will not be seen until FY 2021 data is available. However, based on projections which show the likely impact on revenues to be positive, the Commission finds it appropriate to continue the FY 2018 and FY 2019 directives for another year. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class. As stated above, the Postal Service must remain cognizant of mail mix changes when adjusting prices and do its best to meet the requirements of this directive and the price cap while maximizing unit revenue increases within the product. Additionally, the Postal Service must continue responding to the requirements of the

⁶⁴ Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 11, February 11, 2021, question 9 (Response to CHIR No. 11).

FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and providing required documentation of those efforts in future Annual Compliance Reports. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter VI. of this Report.

3. USPS Marketing Mail Parcels

a. Introduction

As with USPS Marketing Mail Flats, USPS Marketing Mail Parcels have a long history of deficient cost coverage. As part of its FY 2019 ACD directive, the Commission required that the Postal Service increase Parcels' prices by at least 2 percentage points above the class average in the next Market Dominant price adjustment, which the Postal Service did.⁶⁵ The actual results of the Docket No. R2021-1 price adjustment will not be seen until FY 2021 data becomes available. Fortunately, the cost coverage and contribution for USPS Marketing Mail Parcels improved dramatically in FY 2020. However, the Commission remains concerned about the cost coverage for this product.

b. FY 2020 Results

In FY 2020, USPS Marketing Mail Parcels had a cost coverage of 76.5 percent, up 20 percentage points from FY 2019.⁶⁶ The Postal Service explains that revenue per piece increased 3.3 percent while unit cost declined a remarkable 23.1 percent.⁶⁷ FY 2020 ACR at 14. The Postal Service notes that it followed the Commission's directive to increase prices for USPS Marketing Mail Parcels by at least 2 percentage points above the class average. *Id.* at 14-15. In Docket No. R2021-1, the Postal Service proposed, and the Commission approved, a price increase of 16.791 percent for this product. Order No. 5757 at 20, Table V-1. In Docket No. R2020-1, the Postal Service proposed, and the Commission approved, a price increase of 3.913 percent for this product, 2.053 percentage points more than the average for USPS Marketing Mail. Order No. 5321 at 9, Table III-1.

c. Comments on USPS Marketing Mail Parcels

The Public Representative confirms the price increase for USPS Marketing Mail Parcels was far above the class average. PR Comments at 68. He notes that the planned price increase for USPS Marketing Mail Parcels in Docket No. R2021-1 is 16.8 percent. *Id.* He hopes these price increases will help USPS Marketing Mail Parcels cover its costs in FY 2021. *Id.*

⁶⁵ FY 2019 ACD at 44; Order No. 5757 at 20, Table V-1.

⁶⁶ See United States Postal Service FY 2019 *Annual Compliance Report*, December 27, 2019, at 16 (FY 2019 ACR). The Commission's cost coverage calculation differs from the Postal Service's calculation (1 percent) because the Commission includes fees in the revenue for each product and the Postal Service does not.

⁶⁷ The unit cost for both mail processing and delivery functions declined significant for USPS Marketing Mail Parcels in FY 2020. See Library Reference PRC-LR-ACR2020-4.

d. Commission Analysis

In FY 2020, USPS Marketing Mail Parcels did not produce sufficient revenues to cover its attributable costs. The Commission has previously directed the Postal Service to utilize its intra-class pricing flexibility to eliminate the intra-class cross-subsidy received by this product. FY 2010 ACD at 108. In the FY 2019 ACD directive, the Commission required that the Postal Service increase Parcels' prices by at least 2 percentage points above the class average, and the Postal Service implemented a price increase far greater than the Commission's requirement.⁶⁸ The actual results of the Docket No. R2021-1 price adjustment will not be seen until FY 2021 data become available. However, both the cost coverage and the contribution of USPS Marketing Mail Parcels have improved. The Commission analyzes the Postal Service's progress in FY 2020 toward improving cost coverage for USPS Marketing Mail Parcels below. First, the Commission reviews the Postal Service's FY 2020 performance with regard to cost coverage for USPS Marketing Mail Parcels. Second, the Commission reviews the Postal Service's efforts to reduce USPS Marketing Mail Parcels' unit costs. Finally, the Commission directs the Postal Service to improve this product's cost coverage by increasing its price at least 2 percentage points above the class average in the next Market Dominant price adjustment.

The Commission reviews trends in unit revenue, unit cost, weight, and volume. Table III-3 displays the unit revenue, unit attributable cost, unit contribution, volume, and average weight-per-piece for USPS Marketing Mail Parcels from FY 2016 through FY 2020.

⁶⁸ FY 2019 ACD at 44; Order No. 5757 at 20, Table V-1.

Table III-3
USPS Marketing Mail Parcels Financial Comparison, FY 2016–FY 2020⁶⁹

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Percent Change FY 2016 to FY 2020	Percent Change FY 2019 to FY 2020
Unit Revenue	\$1.20	\$1.16	\$1.24	\$1.31	\$1.35	12.8%	3.3%
Unit Attributable Cost	\$1.86	\$1.79	\$2.12	\$2.30	\$1.77	-4.8%	-23.1%
Unit Contribution	\$(0.66)	\$(0.64)	\$(0.88)	\$(0.99)	\$(0.42)	-36.8%	-58.0%
Volume	44,767	40,582	34,650	36,861	36,715	-18.0%	-0.4%
Average Weight Per Piece (ounces)	6.134	5.634	5.971	6.447	6.401	4.4%	-0.7%

Source: Library Reference PRC-LR-ACR2020-4.

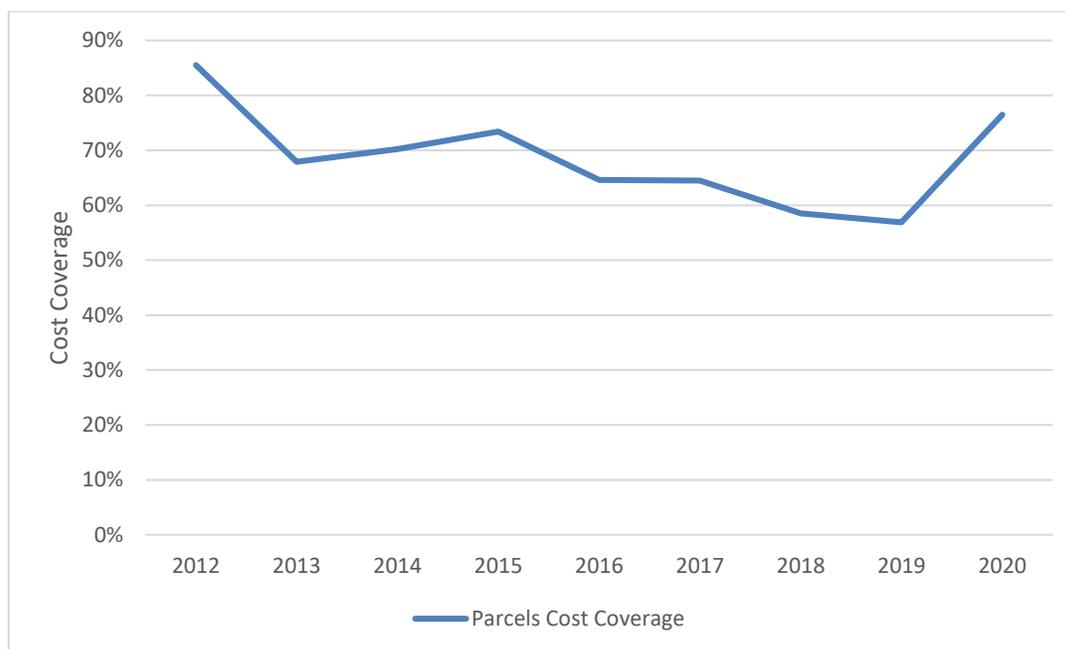
As demonstrated in Table III-3, unit attributable cost decreased 53.3 cents while unit revenue increased 4.4 cents, resulting in a total unit contribution of -41.7 cents. The unit revenue and average weight per piece were strongly correlated from FY 2016 to FY 2020. This relationship occurs because changes in average weight-per-piece are drivers of changes in unit revenue.

Figure III-12 shows the annual cost coverage for USPS Marketing Mail Parcels. In FY 2020 cost coverage for USPS Marketing Mail Parcels climbed to 77 percent, the highest cost coverage for this product since FY 2012. Contributing to this dramatically increased cost coverage was a decline in unit attributable cost of 23 percent. The largest contributor to these cost savings was a reduction in unit mail processing costs of 28 percent.⁷⁰

⁶⁹ Complete FY 2008 to FY 2020 USPS Marketing Mail Parcels data can be found in Library Reference PRC-LR-ACR2020-4.

⁷⁰ See Library Reference USPS-FY20-2, December 29, 2020; Docket No. ACR 2019, Library Reference USPS-FY19-2, December 27, 2019.

Figure III-12
USPS Marketing Mail Parcels Cost Coverage, FY 2012–FY 2020⁷¹



Source: Library Reference PRC-LR-ACR2020-4.

In this year's ACD proceeding, a CHIR was issued asking the Postal Service to provide estimates of the impact of the Docket No. R2021-1 price increase for USPS Marketing Mail Parcels. CHIR No. 11, question 10. Table III-4 shows the improved contribution estimates provided by the Postal Service for FY 2020.⁷² This analysis shows that the cost coverage for USPS Marketing Mail Parcels is estimated to improve by \$9.0 million as a result of this price increase, assuming costs remain constant.

Table III-4
USPS Marketing Mail Parcels FY 2021
Estimated Contribution

	Estimated USPS Marketing Mail Parcels FY 2021 Contribution (Millions)	Improvement Over Base Year (Millions)
No FY 2021 Price Adjustment (Base Year)	(\$13.6)	
Docket No. R2021-1 Price Adjustment	(\$4.7)	\$9.0

Source: Library Reference PRC-LR-ACR2020-4.

⁷¹ Complete FY 2008 to FY 2020 USPS Marketing Mail Parcels data can be found in Library Reference PRC-LR-ACR2020-4.

⁷² See Response to CHIR No. 11, question 10. The Commission's cost coverage calculation differs from the Postal Service's calculation (1 percent) because the Commission includes fees in the revenue for each product and the Postal Service does not.

The Commission continues to be concerned about the repeated failure of USPS Marketing Mail Parcels to cover its costs. The Commission commends the steps the Postal Service has taken to improve this product's cost coverage in FY 2020. Nevertheless, the fact remains that there is an ongoing cost coverage shortfall that has existed for a significant period of time. At this time, the Commission concludes that USPS Marketing Mail Parcels' prices, like those of USPS Marketing Mail Flats, do not comply with 39 U.S.C. § 101(d) because they do not apportion the costs of postal operations to postal users on a fair and equitable basis. As such, the Commission deems it necessary to continue its FY 2020 directive to increase USPS Marketing Mail Parcels' prices at least 2 percentage points above the class average. Compliance with this directive will also satisfy the requirements of 39 C.F.R. § 3030.221.

The Commission finds that FY 2020 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable costs. As with USPS Marketing Mail Flats, the actual impact from the most recent price increases, which were responsive to the Commission's FY 2019 directive, will not be seen until FY 2021 data is available. Nevertheless, based on projections which show the likely impact on revenue to be positive, the Commission finds it appropriate to continue the FY 2019 directive. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Parcels that is at least 2 percentage points above the class average for the USPS Marketing Mail class. In addition to above-average price increases, the Postal Service should continue to 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 2021 ACR.

4. USPS Marketing Mail Carrier Route

a. Introduction

In FY 2020, USPS Marketing Mail Carrier Route had a cost coverage below 100 percent for the second time since the product was established. Unit attributable cost has been increasing steadily over the past 4 years, while unit revenue has decreased. The Commission is extremely concerned that USPS Marketing Mail Carrier Route appears to be moving in the same direction as USPS Marketing Mail Flats and USPS Marketing Mail Parcels. The Commission accordingly requires that the Postal Service increase USPS Marketing Mail Carrier Route's prices in the next Market Dominant price adjustment by at least 2 percentage points above the class average. The Commission expects that further price increases will help prevent this product's unit contribution from dropping even further into negative territory.

b. FY 2020 Results

In FY 2020, USPS Marketing Mail Carrier Route had a cost coverage of 96.0 percent, down from 99.7 percent in FY 2019. FY 2020 ACR at 12. The Postal Service states that revenue per piece increased by 1.0 percent and cost per piece rose by 5.0 percent, while volume dropped by 20.6 percent between FY 2019 and FY 2020. *Id.* at 13-14. The Postal Service points to three reasons for a reduction in cost coverage in FY 2020: the COVID-19 pandemic caused significant declines in Marketing Mail volumes; advertisers' preferences

have continued to favor online advertising over print; and co-mailing has moved volume from USPS Marketing Mail Carrier Route into High Density Flats. *Id.* at 13.

The Postal Service cites an increase in delivery costs as the cause for the increase in unit attributable costs for USPS Marketing Mail Carrier Route, further detailing “... increases in city carrier in-office unit costs and rural carrier unit costs rising 1.1 cents and 0.8 cents, respectively.” *Id.* at 14. The Postal Service notes that “[c]ity in-office unit costs were higher this year due in part to a costing methodology change regarding sampling of city carriers in the office” and that declining volume caused a loss of economies of density. *Id.*

c. Postal Service’s Plan to Improve Cost Coverage

A CHIR was issued asking the Postal Service to provide a plan to improve cost coverage for USPS Marketing Mail Carrier Route. CHIR No. 11, question 7. In response, the Postal Service stated that costing methodology changes accounted for 64 percent of the observed increase in Carrier Route unit costs, and that “. . . the observed increase in the unit cost for USPS Marketing Mail Carrier Route should not be viewed as an occasion to search for new plans or initiatives in response.” Response to CHIR No. 11, question 7. The Postal Service also pointed out that postal operations and broader operational initiatives are generally structured around mail shape, rather than individual products. *Id.* The Postal Service states that it plans to further increase Carrier Route prices above the USPS Marketing Mail class average if revenue is not sufficient to cover attributable cost in FY 2021. *Id.*

d. Comments on USPS Marketing Mail Carrier Route

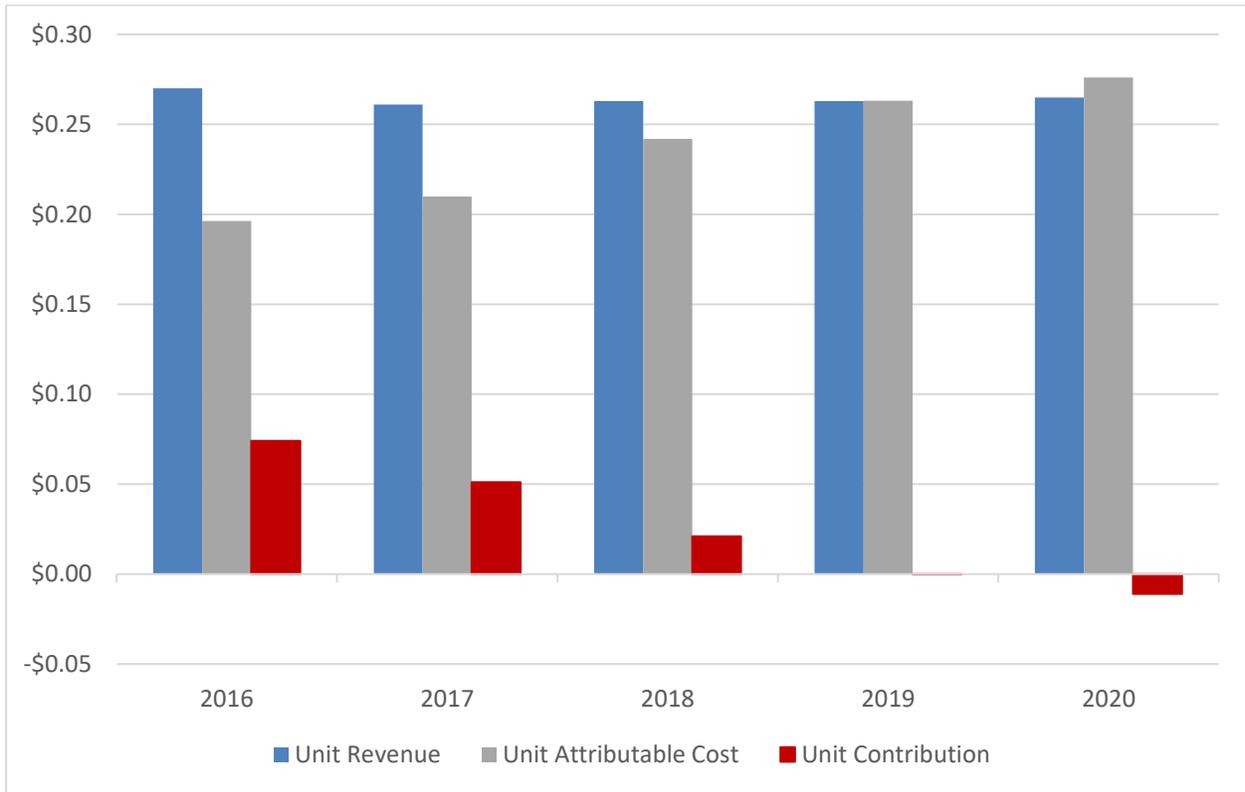
The Public Representative notes that this is the second consecutive year when USPS Marketing Mail Carrier Route did not cover its attributable cost. PR Comments at 70. He points out that “[i]n a period of only four years, the cost coverage of Carrier Route declined from 124 percent to 96 percent.” *Id.* at 70-71. He hopes that the substantial price increase approved in Docket No. R2021-1 will help ensure this product covers its cost in FY 2021. *Id.* at 73.

e. Commission Analysis

As Figure III-13 shows, unit contribution for Carrier Route has been falling since FY 2016. Since FY 2016, unit revenue decreased 0.8 cents,⁷³ while unit cost increased 6.7 cents.

⁷³ The Postal Service decreased Carrier Route prices by over 3.0 percent in Docket No. R2017-1. 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, at 29 (Order No. 3610).

Figure III-13
USPS Marketing Mail Carrier Route
Unit Revenue, Attributable Cost, and Contribution,
FY 2016–FY 2020⁷⁴

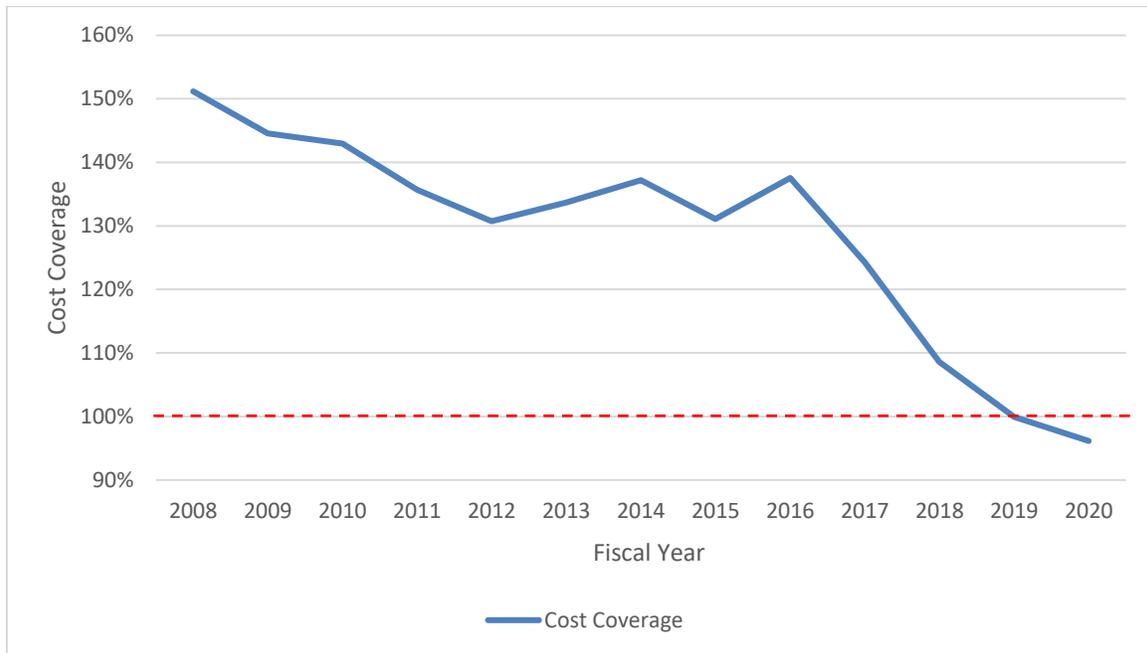


Source: Library Reference PRC-LR-ACR2020-4.

Figure III-14 displays the steady decline in cost coverage for USPS Marketing Mail Carrier Route. Since its peak of 151.2 percent in FY 2008, cost coverage has dropped 55.0 percentage points. The cost coverage for USPS Marketing Mail Carrier Route has steadily decreased since FY 2016 by an average of 10.3 percentage points each year.

⁷⁴ Complete FY 2008 to FY 2020 USPS Marketing Mail Carrier Route data can be found in Library Reference PRC-LR-ACR2020-4.

Figure III-14
USPS Marketing Mail Carrier Route Cost Coverage,
FY 2008–FY 2020



Source: Library Reference PRC-LR-ACR2020-4.

(1) Cost Reduction Efforts

In Chapter VI. of this Report, the Commission reviews the operational changes/initiatives the Postal Service has identified to reduce costs for flat-shaped mailpieces in general, including USPS Marketing Mail Carrier Route. However, as explained in Chapter VI., the Postal Service is still unable to quantify the impact of any of its operational initiatives or operational changes. *See* Chapter VI., *infra*.

(2) Estimated Impact of Docket No. R2021-1 Price Adjustment

The Postal Service estimates a contribution improvement of \$47.0 million as a result of the price adjustment in Docket No. R2021-1. Response to CHIR No. 11, question 8. This estimate assumes no increase in costs over FY 2020 levels.

Table III-5
USPS Marketing Mail Carrier Route FY 2021
Estimated Contribution

	Estimated USPS Marketing Mail Carrier Route FY 2021 Contribution (Millions)	Improvement Over Base Year (Millions)
No FY 2021 Price Adjustment (Base Year)	\$(60.4)	
Docket No. R2021-1 Price Adjustment	\$(13.3)	\$47.0

Source: Library Reference PRC-LR-ACR2020-4.

(3) FY 2019 Directive

The Commission is extremely concerned about the steady decline of cost coverage for USPS Marketing Mail Carrier Route. The Commission recognizes that the COVID-19 pandemic, shifts in advertiser preferences, and increases in co-mailing have contributed to significant volume losses. However, this is the second consecutive year that USPS Marketing Mail Carrier Route has not generated enough revenue to cover its attributable cost. The Postal Service's plan to only address this issue if cost coverage remains below 100 percent at the end of FY 2021 is inadequate. The Postal Service could improve Carrier Route's cost coverage through cost reductions, but the Postal Service has not quantified any efforts to reduce Carrier Route's costs in FY 2020. *See* Chapter VI., *infra*. The Commission, therefore, deems it necessary to make its FY 2020 directive to increase USPS Marketing Mail Carrier Route's prices at least 2 percentage points above the class average a requirement, rather than a recommendation. Compliance with this directive will also satisfy the requirements of 39 C.F.R. § 3030.221.

The Commission finds that FY 2020 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost. The Postal Service has not provided a specific plan to reduce Carrier Route costs in FY 2021. Cost coverage for USPS Marketing Mail Carrier Route has declined further below 100 percent for the second consecutive year. The Commission finds it appropriate to require an above average price change for FY 2021. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Carrier Route that is at least 2 percentage points above the class average for the USPS Marketing Mail class. In addition to above-average price increases, the Postal Service must continue to explore and implement opportunities to further reduce the unit costs of flat-shaped mail products, including USPS Marketing Mail Carrier Route, as further discussed in Chapter VI. of this Report.

5. Media Mail/Library Mail

In FY 2020, Media Mail/Library Mail had a cost coverage of 79.3 percent, a 7.8 percentage point increase compared with FY 2019. *See* FY 2020 ACR at 31; FY 2019 ACR at 32. FY 2020 was the fourteenth consecutive year that Media Mail/Library Mail did not generate sufficient revenue to cover attributable costs. In FY 2020, the cost coverage for Package Services generally fell to 92.5 percent. The Media Mail/Library Mail product is one of two products in the Package Services class with a cost coverage below 100 percent. Table III-6 contains the cost coverage of each Package Services product between FY 2016 and FY 2020.

Table III-6
Package Services Cost Coverage,
FY 2016–FY 2020

	Package Services Overall	Alaska Bypass	Bound Printed Matter Flats	Bound Printed Matter Parcels	Media Mail / Library Mail
FY 2016	102.3%	170.0%	160.6%	104.6%	75.2%
FY 2017	103.5%	193.4%	151.1%	110.5%	75.7%
FY 2018	102.6%	175.8%	148.9%	109.0%	76.7%
FY 2019	96.9%	155.9%	143.7%	106.1%	71.5%
FY 2020	92.5%	147.6%	125.5%	93.8%	79.3%

Source: Library Reference PRC-LR-ACR2020-6.

Table III-7 contains the revenue, attributable cost, and the cost coverage of Media Mail/Library Mail since 2016.

Table III-7
Media Mail/Library Financial Results Information,
FY 2016–FY 2020

	Volume (Millions)	Revenues (Millions)	Attributable Cost (Millions)	Cost Coverage
FY 2016	75.0	\$266.6	\$354.3	75.2%
FY 2017	76.5	\$267.1	\$352.7	75.7%
FY 2018	79.0	\$276.4	\$360.4	76.7%
FY 2019	80.1	\$284.0	\$397.0	71.5%
FY 2020	97.8	\$349.4	\$440.6	79.3%

Source: Library Reference PRC-LR-ACR2020-6.

The Postal Service has consistently increased the prices for Media Mail/Library Mail faster than the prices for Package Services as a class. Docket No. R2021-1 included a price increase for Media Mail/Library Mail that was over two times as large as the Package Services class as a whole. FY 2020 ACR at 31. 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.* Table III-8 shows the history of price increases for Media Mail/Library Mail under the PAEA. This table demonstrates that the Postal Service has consistently increased the price of Media Mail/Library Mail above the level of the average price increase for the Package Services class, but also highlights the many examples where the price increase was very close to the class average increase.

Table III-8
Media Mail/Library Mail
Price Adjustment vs. Package Services Price Adjustment Authority

Docket No.	Media Mail/Library Mail Price Adjustment	Package Services Price Adjustment
R2008-1	4.538%	2.875%
R2009-2	7.468%	3.800%
R2011-2	1.964%	1.740%
R2012-3	2.581%	2.115%
R2013-1	3.469%	2.567%
R2013-10	2.061%	1.453%
R2015-4	2.197%	1.787%
R2017-1	1.135%	0.973%
R2018-1	1.993%	1.960%
R2019-1	2.954%	2.522%
R2020-1	1.993%	1.892%
R2021-1	3.579%	1.460%

Source: Library Reference PRC-LR-ACR2020-6.

The Public Representative observes that the cost coverage of Media Mail/Library Mail in FY 2020 “is higher than it was in the previous five years.” PR Comments at 80. He notes an increase in volume for Media Mail/Library Mail, which he attributes to a “rise of online learning during the COVID-19 pandemic” as well as a simultaneous decrease in unit mail processing costs and unit purchased transportation costs. *Id.* He also notes that the Postal Service’s Docket No. R2021-1 price increase of 3.579 percent for Media Mail/Library Mail was above the class average price increase of 1.460 percent. *Id.* at 82. However, he points out that “because almost all price adjustment authority available for Package Services under the cap was given to [Media Mail/Library Mail], another product that also failed to cover costs in FY 2020 (namely, BPM Parcels), did not receive any price adjustments at all.” *Id.* at 82-83. For this reason, he “encourage[s] the Postal Service to continue the above-average price adjustments for [Media Mail/Library Mail] in the future, [while] striv[ing] to

propose price increases for [Media Mail/Library Mail] and BPM Parcels so that both products can make improvements in cost coverage.” *Id.* at 83.

Media Mail/Library Mail did not cover its attributable costs or make a contribution to institutional costs in FY 2020. 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 2019 ACD at 66. The Postal Service has indicated that it intends to continue to apply above-average price increases to Media Mail/Library Mail. FY 2020 ACR at 31.

The Commission finds that the FY 2020 revenue for Media Mail/Library Mail was not sufficient to cover attributable costs. The Commission recommends that the Postal Service apply an above-average price increase to Media Mail/Library Mail in the next rate case while balancing the need for BPM Parcels to also receive an above-average price increase.

6. Bound Printed Matter Parcels

The second product in the Package Services class to not cover its attributable costs, Bound Printed Matter Parcels (BPM Parcels), had a cost coverage of 94.0 percent in FY 2020,⁷⁵ a notable decline from its cost coverage of 106.1 percent in FY 2019. Table III-9 shows the cost coverage of BPM Parcels since FY 2016.

Table III-9
Bound Printed Matter Parcels Cost Coverage
FY 2016–FY 2020

Fiscal Year	Volume (Millions)	Revenue (Millions)	Attributable Cost (Millions)	Cost Coverage
FY 2016	250.0	\$289.7	\$277.1	104.5%
FY 2017	277.6	\$298.6	\$270.3	110.5%
FY 2018	294.8	\$318.7	\$292.4	109.0%
FY 2019	285.9	\$314.7	\$296.7	106.1%
FY 2020	260.6	\$289.3	\$307.9	94.0%

Source: Library Reference PRC-LR-ACR2020-6.

The Postal Service explains that this decline was “due to a significant increase in unit costs that was not matched by an increase in unit revenues.” FY 2020 ACD at 30. The Postal Service notes that “a significant portion of this change can be attributed to three rulemaking dockets where costing methodology changes were approved by the Commission.”⁷⁶ The three rulemaking dockets were Docket No. RM2019-6 (Proposal One), Docket No. RM2020-1 (Proposal Nine), and Docket No. RM2020-10 (Proposal Three). The Postal Service then asserts that “[a]s a result of these three costing methodology changes,

⁷⁵ FY 2020 ACR at 30.

⁷⁶ Responses of the United States Postal Service to Questions 1-38 of Chairman’s Information Request No. 1, January 19, 2021, question 14 (Response to CHIR No. 1).

[BPM Parcels] unit costs were estimated to increase by \$0.142 in FY 2020. Thus, the bulk of the observed CRA increase in unit costs can be attributed to methodology changes rather than operational conditions.” *Id.*

The Public Representative notes that after cost coverage of BPM Parcels hovered between 104.5 percent and 119.1 percent for years FY 2014 through FY 2019, it sunk to 93.8 percent in FY 2020. PR Comments at 76. He asserts “that the below-average price increase of 1.741 percent that BPM Parcels received in FY 2020 was reasonable considering that the product was covering costs in prior years,” but notes that the Postal Service did not propose any increase in price for FY 2021. *Id.* at 79. Accordingly, he agrees with the Postal Service’s intention to “recommend to the Governors to apply an above-CPI price increase to BPM Parcels to improve its cost coverage and revenue” while adding that any price increase may be too late “to result in a positive contribution from BMP Parcels in FY 2021.” *Id.* at 79-80.

The Commission finds that FY 2020 revenue for BPM Parcels was not sufficient to cover attributable costs. The Commission recommends that the Postal Service propose a price increase for BPM Parcels that is above the class average for the Package Services class. In addition to an above-average price increase, the Postal Service should continue to expend a reasonable amount of resources proportionate to the size of the product to explore and implement opportunities to reduce the unit cost of BPM Parcels and report on those opportunities and results in the FY 2021 ACR.

7. 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. Historically a product that reliably covered costs until FY 2016, this product has exhibited inconsistent financial results in recent years. Table III-10 shows the cost coverage for the Money Orders product from FY 2016 to FY 2020.

Table III-10
Money Orders Cost Coverage
FY 2016–FY 2020

Fiscal Year	Revenue (Millions)	Attributable Cost (Millions)	Cost Coverage
FY 2016	\$156.7	\$171.7	91.3%
FY 2017	\$152.4	\$156.4	97.4%
FY 2018	\$158.5	\$146.7	108.1%
FY 2019	\$162.9	\$154.5	105.5%
FY 2020	\$153.3	\$156.9	97.7%

Source: Library Reference PRC-LR-ACR2020-7.

FY 2020 presented unprecedented challenges to the Money Orders product that resulted in its cost coverage dropping to 97.7 percent. FY 2020 ACR at 33. The Postal Service explains that this decline was caused by a decrease in revenue with a simultaneous increase in cost compared to the previous fiscal year. Response to CHIR No. 1, question 12. The decrease in revenue stemmed from “the decrease of \$7.9M in imputed interest earned on money order float.” *Id.* The Postal Service further explains that it saw the face value of its transactions increase, which led to an increase in debit card transaction costs. FY 2020 ACR at 33-34. With debit card expenses accounting for 18 percent of the attributable cost of Money Orders, the rise in those expenses led to a unit increase of roughly 5 cents per transaction. Response to CHIR No. 1, question 12.

The Public Representative notes that for the first time since FY 2016 to FY 2017, Money Orders was unable to cover its costs. PR Comments at 83. He notes that to “improve the cost coverage of Money Orders, the Postal Service initiated the price increase of 3.215 percent in Docket No. R2021-1,” more than twice the average class-level price increase for Special Services. *Id.* at 85. Though he “agrees with the Postal Service that, generally speaking, the price increase approved in Docket No. R2021-1 should improve the cost coverage of Money Orders,” he nevertheless maintains that it is “unclear what aspects of consumer behavior changed in the recent year and whether and how the Postal Service will address the implications resulting from the shifts in consumer behavior if it continues.” *Id.* Thus, he concludes that there are “doubts whether the impact of the price increases on cost coverage would offset the effect of the shifts in consumer behavior.” *Id.*

The Commission finds that FY 2020 revenue for Money Orders was not sufficient to cover attributable cost. The Commission recommends that the Postal Service propose an above-average price increase for Money Orders moving forward (consistent with 39 C.F.R. § 3030.221). In addition to above-average price increases, the Postal Service should expend a reasonable amount of resources proportionate to the size of the product to explore the reasons behind any shift in consumer behavior contributing to the decrease in revenue for Money Orders, and report on the results of this investigation in the FY 2021 ACR.

8. Market Dominant International Mail

Market Dominant international mail is currently comprised of six products: Inbound Letter Post, Outbound Single-Piece First-Class Mail International, International Ancillary Services, International Reply Coupon Service, International Business Reply Mail Service, and Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1. In FY 2020, the Commission approved the transfer of three products: Inbound Market Dominant Exprès Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, and Inbound Market Dominant PRIME Tracked Service Agreement to the Competitive product list.⁷⁷ The Commission simultaneously approved the transfer of the Australian Postal Corporation-United States Postal Service Bilateral Agreement and the Canada Post Corporation-United States Postal Service Bilateral Agreement from the

⁷⁷ See Docket No. MC2020-73, Order Approving Transfer of Market Dominant Negotiated Service Agreements to the Competitive Product List, February 19, 2020 (Order No. 5437).

Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product to the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product. *See* Order No. 5437. In FY 2020, the Commission also approved the transfer of international small packets and bulky letters from the Market Dominant Inbound Letter Post product to the Competitive Inbound Letter Post Small Packets and Bulky Letters product, as well as associated International Registered Mail, effective January 1, 2020.⁷⁸

In FY 2020, Inbound Letter Post and International Ancillary Services did not cover their attributable costs. Two components of International Ancillary Services, International Registered Mail (Quarter 1 only) and Outbound International Return Receipt, did not cover their costs.

a. Inbound Letter Post
(1) Background

Inbound Letter Post consists of inbound mail for which foreign postal operators reimburse the Postal Service at terminal dues for the delivery of foreign-origin mail.⁷⁹ Terminal dues are prices set by the Universal Postal Union (UPU).⁸⁰ In Quarter 1 of FY 2020, Inbound Letter Post was comprised of format P/G (letters and flats) and format E (small packets and bulky letters) items. In Quarter 2 through Quarter 4 of FY 2020, Inbound Letter Post was comprised solely of format P/G items, following the transfer of format E items to the Competitive Inbound Letter Post Small Packets and Bulky Letters product on the Competitive product list.⁸¹

The Commission reviews the compliance of the Inbound Letter Post product on an annual basis. The Inbound Letter Post product has never covered its attributable cost and the Commission has consistently recommended that the Postal Service take actions to improve the cost coverage of this product.⁸²

⁷⁸ *See* Docket Nos. MC2019-17 and CP2019-155, Order Granting Postal Service's Motion and Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, December 19, 2019, at 1 (Order No. 5372); *see also* Docket No. MC2019-17, Order Conditionally Approving Transfer, January 9, 2019 (Order No. 4980).

⁷⁹ Postal Regulatory Commission, (*draft*) Mail Classification Schedule, effective on January 25, 2021, available at <http://www.prc.gov/mail-classification-schedule> (MCS), Section 1130. The Inbound Letter Post product refers to international mail that is not classified as Parcel Post, Express Mail Service (EMS), or Global Express Guaranteed. It consists of inbound International pieces (originating outside of the United States and destined for delivery inside of the United States) that contain only documents, and encompass letters (to include aerogrammes and postcards) and large letters. Until January 1, 2020, Inbound Letter Post included small packets containing goods weighing up to 2.2 kilograms.

⁸⁰ 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 rates, because they apply in the absence of an agreement between or among postal operators establishing other rates. The UPU terminal dues system is based on the following classification of letter post items: format P (small letters containing documents), format G (large letters containing documents), and format E (bulky letters containing documents and small packets containing goods or documents and goods).

⁸¹ *See* Order Nos. 4980 and 5372. The Inbound Letter Post Small Packets and Bulky Letters product was compensatory in FY 2020. Notice of the United States Postal Service of Revisions to Certain Pages of the FY 2020 Annual Compliance Report - Errata, February 22, 2021, at 7 (Errata to Certain Pages of the FY 2020 ACR).

⁸² *See, e.g.*, FY 2019 ACD at 59, FY 2018 ACD at 85, FY 2017 ACD at 69, FY 2016 ACD at 67, FY 2018 ACD at 70, and FY 2014 ACD at 54.

(2) FY 2020 Financial Results

In FY 2020, revenue for Inbound Letter Post did not cover its attributable cost. Cost coverage increased from 78.5 percent in FY 2019 to 83.3 percent in FY 2020.⁸³ Total contribution improved from -\$164.0 million in FY 2019 to -\$44.7 million in FY 2020.⁸⁴

The Postal Service attributes the Inbound Letter Post product's financial performance to its "unique pricing regime," as it has in past years. FY 2020 ACR at 7. The Postal Service states that it "did not determine the prices [paid by foreign postal operators] for Inbound Letter Post." *Id.* The Postal Service explains that these prices are set according to a UPU terminal dues formula established in the Universal Postal Convention. *Id.* at 7-8.

The Postal Service also asserts that it has "collaborated with other Federal entities, including the Department of State, which has lead responsibility for representation of the United States in the UPU, to improve cost coverage on Inbound Letter Post mail." *Id.* at 8. The Postal Service notes that these efforts "culminated in the adoption of self-declared rates for E-format items (generally packets and bulky letters up to 4.4 pounds) beginning in July 2020" *Id.* The Postal Service further states that "[i]n combination with this groundbreaking change, the Postal Service transferred inbound E-format items to the competitive product list in January 2020, and thus E-format items are no longer part of the Market Dominant Inbound Letter Post product." *Id.* The Postal Service notes that, therefore, "the contribution for the Inbound Small Packets and Bulky Letters product is now part of the overall contribution calculation from competitive services." *Id.*

Lastly, the Postal Service states that it is "mindful of the fact that additional work still needs to be done to raise the cost coverage of Inbound Letter Post letters and flats." *Id.* at 9. The Postal Service "expects further progress in this regard later in 2021, when the next UPU Congress is scheduled to convene to consider increases in the rates for letter and flat formats beginning in 2022." *Id.* The Postal Service states that it "plans to actively pursue efforts to improve cost coverage on Inbound Letter Post letters and flats." *Id.*

CHIR No. 1 asked the Postal Service to explain in detail the steps it has and will take to actively pursue efforts to improve cost coverage on Inbound Letter Post at the UPU Congress.⁸⁵ The Postal Service was also asked to provide estimated Inbound Letter Post cost coverage for Calendar Year (CY) 2022 to CY 2025, by UPU country group and as a whole, under the UPU Congress terminal dues proposals. CHIR No. 1, question 36.b. The Postal Service provided non-public responses describing these steps and estimated cost coverage. Response to CHIR No. 1, questions 36.a., 36.b.

⁸³ FY 2019 ACD at 58; Library Reference PRC-LR-ACR2020-11, Excel file "PRC-LR-ACR2020-11.xlsx," tab "Data for Presentation," cell S14.

⁸⁴ FY 2019 ACD at 58; Library Reference PRC-LR-ACR2020-11, Excel file "PRC-LR-ACR2020-11.xlsx," tab "Data for Presentation," cells (H32 – S32)/1000.

⁸⁵ Chairman's Information Request No. 1, January 11, 2021, question 36.a. (CHIR No. 1).

(3) Comments on Inbound Letter Post

Only the Public Representative commented on Inbound Letter Post. The Public Representative acknowledges an improvement in cost coverage for Inbound Letter Post from FY 2019 to FY 2020. PR Comments at 61. He also notes that revenue per piece and cost per piece for Inbound Letter Post decreased between FY 2019 and FY 2020. *Id.* at 62. He avers that the approximately 61 percent decrease in Inbound Letter Post volume between FY 2019 and FY 2020 “was primarily due” to the transfer of the format E items to the Competitive product list in January 2020.⁸⁶

The Public Representative acknowledges that the loss of \$31.3 million on Inbound Letter Post in FY 2020 is “substantially less than the loss the product experienced in any year between FY 2012 and FY 2019, and is slightly less than the FY 2011 loss.”⁸⁷ However, he “doubts that this product will cover costs, let alone improve its cost coverage in FY 2021” because the Postal Service does not set its own rates for the Inbound Letter Post product. PR Comments at 64.

The Postal Service responded that it “is well aware of the challenges, but future action to improve the cost coverage for Inbound Letter Post is on the horizon, as discussed elsewhere in this docket.”⁸⁸

(4) Commission Analysis

The 60.9 percent decrease in Inbound Letter Post volume in FY 2020 was related to the transfer of format E pieces to the Competitive product list in Quarter 2 of FY 2020. Inbound Letter Post volume decreased from 560.5 million pieces in FY 2019⁸⁹ to 218.9 million pieces in FY 2020.⁹⁰ The 72.3 percent reduction in format E volume within the Market Dominant Inbound Letter Post product, from 431.7 million pieces in FY 2019 to 119.6 million pieces in FY 2020,⁹¹ is largely proportional to the quarters in FY 2020 for which format E pieces were not included within the Inbound Letter Post product. *See id.*

⁸⁶ *Id.* In its Errata to Certain Pages of the FY 2020 ACR filed after the comment deadline, the Postal Service revised Inbound Letter Post volume from 219.2 million pieces to 218.9 million pieces. This decline in volume still results in an approximate 61 percent decrease in Inbound Letter Post volume from FY 2019 to FY 2020. *See* FY 2019 ACR at 7, Table 1; *see also* Errata to Certain Pages of the FY 2020 ACR at 4.

⁸⁷ PR Comments at 62. In its Errata to Certain Pages of the FY 2020 ACR filed after the comment deadline, the Postal Service revised the FY 2020 loss on Inbound Letter Post to \$44.7 million, which is less than every year since FY 2012. Errata to Certain Pages of the FY 2020 ACR at 4; PR Comments at 63, Chart IV-1. The Postal Service also revised the FY 2020 revenue, attributable cost, cost per piece, unit contribution, and cost coverage for Inbound Letter Post.

⁸⁸ Reply Comments of the United States Postal Service, February 12, 2021, at 2 (Postal Service Reply Comments).

⁸⁹ FY 2019 ACR at 7, Table 1.

⁹⁰ *See* Library Reference PRC-LR-ACR2020-11, Excel file “PRC-LR-ACR2020-11.xlsx,” tab “Data for Presentation,” cell H14/1000.

⁹¹ *See* Library Reference PRC-LR-ACR2020-11, Excel file “PRC-LR-ACR2020-11.xlsx,” tab “Data for Presentation,” cell G16/1000 for FY 2019 format E volume and cell H16/1000 for FY 2020 format E volume; *see also* Library Reference USPS-FY20-41, (revised) February 22, 2021, Excel file “FY20 IB LP Shape by UPU Group.Rev.2.22.21.xlsx,” tab “Inbound LP Product Data,” cells (E7+E10+E13+E16)/1000 for FY 2019 format E volume and cells (H7+H10+H13+H16)/1000 for FY 2020 format E volume.

More notably going forward, between FY 2019 and FY 2020 format P/G volume declined by 22.9 percent, from 128.8 million pieces in FY 2019 to 99.3 million pieces in FY 2020.⁹² The decline in format P/G volume could be partially due to the lack of air transportation capacity from other countries to the United States and the suspension of international mail service to the United States from some foreign postal operators during the COVID-19 pandemic. FY 2020 ACR at 67.

The Commission recognizes the improvement in Inbound Letter Post cost coverage from 78.5 percent in FY 2019 to 83.3 percent in FY 2020.⁹³ The Commission also acknowledges the improvement in the contribution of Inbound Letter Post from -\$164.0 million in FY 2019 to -\$44.7 million in FY 2020.⁹⁴ However, the Commission notes that format P/G cost coverage declined by 13.7 percentage points, from 99.9 percent in FY 2019 to 86.2 percent in FY 2020, while cost coverage for format E volume improved from 76.4 percent in FY 2019 to 82.5 percent in Quarter 1 of FY 2020.⁹⁵ The Commission's analysis of the financial data suggests that the improvement in Inbound Letter Post cost coverage from 78.5 percent in FY 2019 to 82.1 percent in Quarter 1 of FY 2020 was largely due to improved financial performance for format E volume, which will not be included in the product in future fiscal years. A more in-depth analysis of volume, revenue, and cost trends for the Inbound Letter Post product by UPU country group and shape is in Library Reference PRC-LR-ACR2020-11.⁹⁶

As discussed in Section III.8.b., the Postal Service's failure to meet UPU-established quality of service targets for Inbound Letter Post resulted in the Postal Service receiving less than the maximum compensation available under the terminal dues system, which would have improved the product's cost coverage and contribution.⁹⁷

⁹² See Library Reference PRC-LR-ACR2020-11, Excel file "PRC-LR-ACR2020-11.xlsx," tab "Data for Presentation," cell G15/1000 for FY 2019 format P/G volume, and cell H15/1000 for FY 2020 format P/G volume; see also Library Reference USPS-FY20-41, (revised), February 22, 2021, Excel file "FY20 IB LP Shape by UPU Group.Rev.2.22.21.xlsx," tab "Inbound LP Product Data" cells (E6+E9+E12+E15)/1000 for FY 2019 format P/G volume and cells (H6+H9+H12+H15)/1000 for FY 2020 format P/G volume.

⁹³ See FY 2019 ACD at 58; see also Library Reference PRC-LR-ACR2020-11, Excel file "PRC-LR-ACR2020-11.xlsx," tab "Data for Presentation," cell S14 for FY 2020 Inbound Letter Post cost coverage.

⁹⁴ See FY 2019 ACD at 58; see also Library Reference PRC-LR-ACR2020-11, Excel file "PRC-LR-ACR2020-11.xlsx," tab "Data for Presentation," cells (H32 – S32)/1000.

⁹⁵ See Library Reference PRC-LR-ACR2020-11, Excel file "PRC-LR-ACR2020-11.xlsx," tab "Data for Presentation," cells R15 and S15 for format P/G cost coverages in FY 2019 and FY 2020, respectively, and cells R16 and S16 for format E cost coverages in FY 2019 and FY 2020, respectively.

⁹⁶ In Docket No. RM2018-2, the Commission revised its periodic reporting requirements codified in 39 C.F.R. part 3050. See Docket No. RM2018-2, Order Amending Rules for Periodic Reporting, September 28, 2018 (Order No. 4836). These revised annual reporting rules require the Postal Service to provide Inbound Letter Post revenue, volume, attributable cost, and contribution data by UPU country group and by shape. Order No. 4836 at 13, 29; see 39 C.F.R. § 3050.21(l). The Postal Service filed the required Inbound Letter Post data by UPU country group for FY 2016 and by UPU country group and shape for FY 2017 through FY 2020 in Library Reference USPS-FY20-41. The Commission's analysis of Inbound Letter Post, included in Library Reference PRC-LR-ACR2020-11 is based on data reported in Library Reference USPS-FY20-41, (revised) February 22, 2021.

⁹⁷ The Postal Service's failure to meet the UPU established quality of service targets is a long running problem. In the FY 2007 ACD, the Commission noted that the failure to meet the service target led to a reduction in revenue for this product. FY 2007 ACD at 121.

The Commission reiterates its concern that the UPU pricing regime results in non-compensatory terminal dues, but notes the positive impact of the transfer of format E items to the Competitive product list on the product's contribution.⁹⁸ The Commission emphasizes that, absent the self-declared rates for format P/G items that now apply to format E items, domestic mailers are still 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. *Id.* Because UPU terminal dues were not equivalent to domestic postage rates in the destination country in FY 2020 for format P/G items and for format E items in Quarter 1, the Commission has found them discriminatory. *See id.*

Furthermore, the Commission notes that terminal dues are only available to designated operators, and that non-designated operators that provide international mailing services are not able to access these terminal dues for inbound mailpieces to the United States. The Commission recommends that the Postal Service work to ensure that terminal dues and self-declared rates are nondiscriminatory.

The Commission finds that revenue for Inbound Letter Post was not sufficient to cover attributable cost in FY 2020. The Commission recommends that the Postal Service negotiate bilateral and multilateral agreements that contain rates for Inbound Letter Post that are more compensatory than default terminal dues. The Commission also urges the Postal Service to undertake focused initiatives to reduce Inbound Letter Post costs without compromising quality of service, and to improve quality of service in order to benefit from terminal dues bonuses. Lastly, the Commission recommends that the Postal Service work with the Department of State within the relevant UPU bodies to ensure that terminal dues proposals adopted at the 2021 UPU Congress will cover costs for Inbound Letter Post.

b. Quality of Service Link to UPU Terminal Dues

(1) Background

As in FY 2019, the Postal Service again failed to maximize revenue for Inbound Letter Post for FY 2020. Under the UPU Quality Link Measurement System (QLMS), terminal dues can be adjusted 5 percent downward if the Postal Service does not achieve the UPU-established annual service performance target; they can also be adjusted 5 percent upward if the Postal Service achieves or exceeds the target.⁹⁹ In CY 2019 and January through October of CY 2020, the Postal Service did not achieve the annual target.¹⁰⁰ The Postal Service's service performance results also show deterioration from CY 2019 to CY 2020. *Id.* The

⁹⁸ FY 2019 ACD at 58; FY 2018 ACD at 85; FY 2017 ACD at 68; FY 2016 ACD at 66.

⁹⁹ United Postal Union, Regulations to the Convention, Final Protocol, Article 30-109, Berne 2017, available at <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/nonPermanentActs/actNonPermanentRegulationsConventionFinalProtocolEn.pdf>.

¹⁰⁰ See Library Reference USPS-FY30-NP30, December 29, 2020, PDF files "NONPUBLIC UPU QS Link Perf Final 2020.pdf" and "NONPUBLIC UPU QS Link Perf Oct2020.pdf."

Postal Service reports (under seal) the amount of its forfeited revenue due to not meeting the UPU service performance target in FY 2020.¹⁰¹

In its FY 2020 Service Performance Report, the Postal Service acknowledges that service performance for Inbound Letter Post lagged behind service performance for domestic mail in each International Service Center (ISC) area for mail dispatched from the same processing center, even though, in theory, the service performance of both categories should be comparable based on similar start the clock windows, arrival times in each plant, available processing times, operations involved in processing, and common logistics.¹⁰² The Postal Service attributes the overall service performance decline for Inbound Letter Post to the initiation of international peak volume season in October 2019 and the onset of the COVID-19 pandemic in March 2020, along with issues related to staffing and availability of transportation across the network.¹⁰³ The Postal Service states that Inbound Letter Post is integrated into domestic letter flows after having passed through international processing and customs, and that the performance reductions for domestic letters and flats also occurred with inbound international letters and flats. Response to CHIR No. 5, question 2.b.

In Docket No. ACR2019, the Postal Service stated that the “Terminal Dues Score Improvement” Lean Six Sigma Black Belt Project and other service improvement projects were on hold for much of FY 2019 as management resources were focused on preparing the Postal Service for the withdrawal of the United States as a member country of the UPU, in order to ensure operational continuity.¹⁰⁴ The Postal Service noted that satisfactory resolution within the UPU allowed the United States to remain a member and indicated that, going forward, “resources focused on these operational continuity matters could be reassigned to service improvement projects such as this one.” Docket No. ACR2019, Response to CHIR No. 2. In that docket, the Postal Service specifically stated that it planned “to continue the identified projects and initiatives in FY 2020.” *Id.* In July 2020, the Postal Service updated the Commission that the “Terminal Dues Score Improvement” Lean Six Sigma Black Belt Project “remains on hold, and it is not yet known when the Postal Service will resume that particular project.”¹⁰⁵

However, in the instant docket, the Postal Service reports that the “Terminal Dues Score Improvement” Lean Six Sigma Black Belt Project is in its beginning phases, as of FY 2021 Quarter 1. Response to CHIR No. 5, question 3. The Postal Service further informs the

¹⁰¹ See Library Reference USPS-FY20-NP30, PDF file “NONPUBLIC Preface FY20-NP30.pdf;” Library Reference USPS-FY20-NP32, January 19, 2021, Excel file “CHIR.1.Qs.36t38.NP.Response.Tables.xlsx,” tab “Q 37 QSL Penalties.”

¹⁰² See Library Reference USPS-FY20-29, December 29, 2020, PDF file “FY20-29 Service Performance Report.pdf,” at 7-8 (FY 2020 Service Performance Report).

¹⁰³ Responses of the United States Postal Service to Questions 1-30 of Chairman’s Information Request No. 5, February 2, 2021, questions 2.a., 2.b. (Response to CHIR No. 5).

¹⁰⁴ Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-13 of Chairman’s Information Request No. 2, January 17, 2020, question 6 (Docket No. ACR2019, Response to CHIR No. 2).

¹⁰⁵ Docket No. ACR2019, Third Response of the United States Postal Service to Commission Requests for Additional Information for the FY 2019 Annual Compliance Determination, July 23, 2020, at 2 (Docket No. ACR2019, Third Response.)

Commission that it has started working with the UPU and the International Post Corporation (IPC) to learn more about the reporting system used in the Global Monitoring System (GMS) to identify the root causes of low performance scores for letter post mail by investigating process flows through the Radio Frequency Identification Scan (RFID) tracking system with missed scans. *Id.* According to the Postal Service, beginning in Quarter 2 of FY 2021, weekly meetings on Inbound Letter Post service performance have been scheduled in conjunction with the “Terminal Dues Score Improvement” Lean Six Sigma Black Belt project. *Id.*

The Postal Service describes four initiatives it is currently pursuing to improve service performance for international services.¹⁰⁶ These include: (1) achieving measured targets for Tour Turnover between tours for all operational categories during shift changeovers; (2) enhancing Measured Machine utilization performance compared to machine/operational capabilities; (3) use of measured ISC Run Plan Generators (RPG) machine run performance against plan; and (4) visual service/operational failure analysis (Grid Analysis). *Id.* According to the Postal Service, these initiatives started in Quarter 1 of FY 2021, when direct training with the UPU and the GMS system occurred, in order to develop the capacity to identify the root causes for failure points in mail processing and transportation. Response to CHIR No. 5, question 6. The Postal Service states that, in FY 2021, it will: (1) continue tracking Inbound Letter Post in Informed Visibility (IV); (2) continue training with the UPU and IPC to learn more about their systems to conduct further research about failed and successful scanning; (3) continue ongoing communications between the Postal Service’s International Processing Operations, the UPU, IPC, and the Postal Service’s Engineering Group to trouble shoot any issues with existing RFID scanners and add scanners to address gaps in process flows; (4) use a Run Plan Generator analysis to correct operational process flow failures, especially in relation to the offloading of Inbound Letter Post and process and distribution centers (P&DCs); and (5) continue to develop filters specific to International Mail in IV in relation to its existing domestic mail flow reporting system in order to identify actual failure points related to international letters more effectively. *Id.* question 7.

(2) Comments

Only the Public Representative commented on Inbound Letter Post (and Outbound Single-Piece First-Class Mail International) service performance, as measured in the International Mail Measurement System (IMMS). PR Comments at 21-25. These comments are discussed in Chapter V. Overall, the Public Representative commented that “[t]he Postal Service must not only address pre-pandemic deficiencies of long-standing, it must also continue to respond to the added challenges presented by the pandemic.” PR Comments at 25.

In its reply comments, the Postal Service responds to the Public Representative’s recommendation that immediate attention be given to improving international First-Class Mail Service by stating that “this is already well underway.” Postal Service Reply Comments

¹⁰⁶ Library Reference USPS-FY20-29, PDF file “FY20-29 Service Performance Report.pdf,” at 9-12; Docket No. ACR2019, Third Response, question 1.

at 8. The Postal Service reiterates its recognition that the performance for international pieces not only failed to meet targets but also lagged behind domestic product performance. *Id.* The Postal Service also cites several of the measures it is taking to improve international service performance that it previously described in the ACR. *Id.* at 8-9.

(3) Commission Analysis

The Commission concludes that the service performance for Inbound Letter Post declined in FY 2020. While the Postal Service forfeited revenue for not meeting its UPU service performance target, the amount of forfeited revenue in FY 2020 was less than in FY 2019.¹⁰⁷ The Commission finds that this was due to lower Inbound Letter Post volume to which the quality-of-service penalties applied.

The Commission acknowledges the Postal Service's intention to focus on projects and initiatives to improve service performance for Inbound Letter Post in FY 2021. The Commission also agrees with the Public Representative that the Postal Service must address longstanding issues that have impacted not only service performance for Inbound Letter Post, but also the product's financial health.

The Commission directs the Postal Service to provide both Service Performance Measurement (SPM) and QLMS CY 2020 and CY 2021 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 2021 ACR. The Commission also directs the Postal Service to state in its FY 2021 ACR whether it forfeited revenue in CY 2020 and CY 2021 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2020 and CY 2021, the Commission directs the Postal Service to provide the forfeited amounts for CY 2020 and for CY 2021 based on all results available to date and explain how this amount is calculated based on service performance results.

Additionally, the Commission directs the Postal Service to file a report within 90 days of issuance of this ACD that includes the following: service performance reports for CY 2020 and all available reports for CY 2021; a status update on projects and initiatives to improve service performance identified in the FY 2020 Annual Compliance Report and Responses to CHIR No. 5, questions 3 to 7, including the "Terminal Dues Score Improvement" Lean Six Sigma Black Belt Project, and their effectiveness in improving service performance based on available metrics; root cause failures identified through coordination with the UPU and IPC and steps that have been taken to address them; and the amount of Inbound Letter Post forfeited revenue due to not meeting UPU service performance targets in CY 2020 and CY 2021. The Commission further directs the Postal Service to provide an update to this report no later than 180 days after the issuance of this ACD.

¹⁰⁷ Docket No. ACR2019, Library Reference USPS-FY19-NP30, PDF file "NONPUBLIC FY19-NP30 Prefaces.pdf," December 27, 2019. Docket No. ACR2020, Library Reference USPS-FY20-NP32, Excel file "CHIR.1.Qs.36t38.NP.Response Tables.xlsx," tab "Q 37 QSL Penalties."

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. MCS Section 1510. In Q2 of FY 2020, Inbound International Registered Mail was transferred to the Competitive product list. Order Nos. 4980 and 5372. The International Ancillary Services product as a whole did not cover its attributable cost in FY 2020 because two components—Inbound International Registered Mail¹⁰⁸ and Outbound International Return Receipt—did not cover their attributable costs. FY 2020 ACR at 34.

The Postal Service explains that there was an increase in costs associated with Inbound International Registered Mail in FY 2020. *Id.* Additionally, the Postal Service opines that the additional payment per item for Inbound Registered Mail increased to 1.3 Special Drawing Right (SDR)¹⁰⁹ in CY 2020, which would have helped improved cost coverage. *Id.*

For Outbound International Return Receipt, the Postal Service cites an increase in window costs due to an increase from one IOCS tally in FY 2019 to two tallies in FY 2020. *Id.* The Postal Service points out that prices for the Outbound International Return Receipt product increased from \$4.10 to \$4.15 on January 26, 2020, and increased to \$4.25 when the new prices under Docket No. R2021-1 took effect, which should improve cost coverage. *Id.* at 34-35.

(2) Comments

Only the Public Representative commented on International Ancillary Services. The Public Representative notes that International Registered Mail was also non-compensatory in FY 2019 and that, in the FY 2019 ACD, the Commission urged the Postal Service to continue efforts to limit cost increases for International Registered Mail and to take steps to improve its service performance “in order to receive the full amount of additional revenue under the UPU supplementary remuneration program [, and] work with the Department of State to negotiate higher rates’ for the product.” PR comments at 86 (quoting FY 2019 ACD at 64). He points out that in the FY 2020 ACR the Postal Service “does not clearly indicate whether it was able to respond to the Commission directives.” *Id.* He assumes that the increase in cost for Inbound International Registered Mail was due to the COVID-19 pandemic. *Id.* In addition, he regrets that the Postal Service was “most likely unable to follow the Commission recommendation ‘to negotiate higher rates for Inbound International Registered Mail at UPU Congress [scheduled for] August 2020 because the UPU Congress was postponed until August 2021 due to COVID-19.’” *Id.*

¹⁰⁸ Inbound International Registered Mail was only part of the Market Dominant International Ancillary Service product in Quarter 1 of FY 2020.

¹⁰⁹ A Special Drawing Right (SDR) is an international reserve asset created by the International Monetary Fund. Its value is based on a basket of five currencies – the U.S. dollar, the Euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. On March 9, 2021, the International Monetary Fund exchange rate for 1 SDR was \$1.43 U.S. dollars. See https://www.imf.org/external/np/fin/data/rms_five.aspx.

Regarding Outbound International Return Receipt, the Public Representative notes that the product covered costs in recent years even though it did not cover costs in FY 2020. *Id.* at 87. He agrees that the rate increase to \$4.25 in Docket No. R2021-1 should improve cost coverage, but states that “it is not clear whether the price increase will bring the cost coverage to 100 percent.” *Id.*

(3) Commission Analysis

The Commission finds that the International Ancillary Services product was non-compensatory in FY 2020 because two components of the product, Inbound International Registered Mail and Outbound International Return Receipt, were non-compensatory.

Inbound International Registered Mail was only part of the Market Dominant International Ancillary Services product in Quarter 1 of FY 2020, but cost coverage decreased from FY 2019 to Quarter 1 of FY 2020.¹¹⁰ While the UPU registered rate applicable in Quarter 1 of FY 2020 remained constant with the last three quarters of FY 2019,¹¹¹ the Postal Service reported cost increases, which resulted in a decrease in cost coverage. International Registered Mail was transferred to the Competitive product list as Inbound Competitive International Registered Mail, effective on January 1, 2020. For more discussion of the financial performance for this component of the International Ancillary Services product in CY 2020, please refer to Chapter IV.

With respect to the UPU Congress that was originally scheduled for August 2020, rates for Inbound International Registered Mail adopted by that UPU Congress would not have been in effect in FY 2020. If new rates are adopted at the rescheduled UPU Congress in August 2021, those would take effect on January 1, 2022, and might affect future compliance. Nonetheless, the deteriorating financial performance of Inbound International Registered Mail in FY 2020 makes the UPU Congress’ adoption of higher rates even more critical. The Commission reiterates its concern regarding the failure of International Registered Mail to cover cost. *See* FY 2019 ACD at 64.

The Commission agrees with the Public Representative that the rate increase for Outbound International Return Receipt that took effect in Docket No. R2021-1 on January 24, 2021, should help improve cost coverage in FY 2021 and recognizes the volatility of cost estimates for low transaction volume services.

As Inbound Registered Mail will be a Competitive product for all of FY 2021, the Commission’s recommendations regarding this product are in Section IV.C.3.c.

Regarding Outbound International Return Receipt, the increase in cost for this product was related to the 100 percent increase in IOCS tallies, from 1 to 2. The Commission will

¹¹⁰ See Docket No. ACR2019, Library Reference USPS-FY19-NP2, (revised) January 10, 2020, Excel file “Reports (Unified).xlsx, tab “A Pages (md),” cells D63 / F63 for FY 2019 cost coverage; *see also* Library Reference USPS-FY20-NP2, (revised) February 22, 2021, Excel file “Reports (Unified).xlsx,” tab “A Pages (md),” cells D53 / F53 for FY 2020 Quarter 1 cost coverage.

¹¹¹ Universal Postal Convention, Article 28, Terminal dues. General provisions, Berne 2017, available at <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/actsOfCurrentCycle/actsActsOfThe26ThCongressIstanbul2016En.pdf>.

continue to evaluate the cost coverage of this product in future years, and makes no recommendations on Outbound International Return Receipt at this time.

C. Other Issues

1. Status of ACR Docket

Although PostCom notes that the issuance of CHIRs in compliance dockets are “helpful in identifying missing and potentially helpful contextual information,” it expresses concern that CHIRs are “left open for years, well after the rates underlying the ACR in question have changed and compliance has been determined.” PostCom Comments at 9. It also reiterates its suggestion that the Commission encourage the Postal Service to share much more unedited information. *Id.*

As the Commission has noted previously, the Commission’s ACD is finished on the date of issuance and there is no unfinished proceeding that continues for years. *See* FY 2019 ACD at 68. Within each ACD, the Commission issues directives to remedy various issues and report on corrections. For increased transparency and accessibility to interested parties, the Postal Service files responses in the ACR docket corresponding to the ACD directive. To create an alternate system would require interested parties to search multiple dockets to view the Postal Service’s responses. The Commission has deemed it preferable to retain the connection to the original docket to ensure ease of access and the ability of interested parties to easily track Commission directives related to its findings issued in the ACD.

The Commission continues to promote transparency in all aspects of Postal Service operations and data, and will continue to encourage the Postal Service to share unedited information as it is able to do so.

2. Costing Attribution and Competitive Products

Several parties comment on issues related to the Postal Service’s costing attribution. American Consumer Institute (ACI) states that the Commission should establish appropriate transparency requirements for the Postal Service’s new vehicle fleet costing assignments.¹¹² United Parcel Service (UPS) asserts that the Postal Service’s package delivery costs are under-attributed to its Competitive products and the Commission must take action to rectify that issue.¹¹³ It urges the Commission to examine the Postal Service’s methodology for attributing vehicle costs as well as its cost allocation methodology for the Enhanced Package Processing System. UPS Reply Comments at 6-7. Amazon.com Services, Inc. (ASI) maintains that the concerns about the transparency of vehicle and package cost attribution are unfounded, noting that costing models are developed through a public and

¹¹² Comments of American Consumer Institute Center for Citizen Research Regarding Docket No. ACR2020 Submitted to the United States Postal Regulatory Commission, January 27, 2021, at 2 (ACI Comments).

¹¹³ Reply Comments of United Parcel Service, Inc. on United States Postal Service’s Annual Compliance Report for Fiscal Year 2020, February 12, 2021, at 4 (UPS Reply Comments).

participatory process, and UPS regularly seeks and receives costing data from the Commission.¹¹⁴

Small Business and Entrepreneurship Council (SBE Council) states that the Postal Service's fiscal sustainability must be addressed quickly and would like to see the Commission help the Postal Service "affect change, such as evaluating rate frameworks on a continuous basis and achiev[e] maximum efficiency with its equipment, transportation, personnel and other assets."¹¹⁵ Similarly, Frontiers of Freedom encourages the Commission to "increase transparency, identify realistic prices, best practices, and establish successful solutions to competitive and parcel services[.]"¹¹⁶

The Commission notes that costing attribution is not within the scope of the ACD docket. However, such concerns are addressable by other Commission regulations and they have been raised and litigated extensively in other Commission dockets, some of which are currently pending.

¹¹⁴ Reply Comments of Amazon.com Services, Inc., February 12, 2021, at 3.

¹¹⁵ Comments of Small Business and Entrepreneurship Council on Docket No. ACR2020, February 1, 2021, at 2 (SBE Council Comments).

¹¹⁶ Comments of Frontiers of Freedom Regarding Docket No. ACR2020 Submitted to the United States Postal Regulatory Commission, January 29, 2021, at 2 (Frontiers of Freedom Comments).

CHAPTER IV. COMPETITIVE PRODUCTS

A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2020 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 2020 findings for Competitive products are:

- Revenues for Competitive products as a whole exceeded incremental costs. Competitive products were not subsidized by Market Dominant products during FY 2020, thereby Competitive products satisfied 39 U.S.C. § 3633(a)(1).
- Revenues for five 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: one domestic negotiated service agreement (NSA),¹¹⁷ GEPS 11, International Money Transfer Service—Inbound (IMTS—Inbound), International Money Transfer Service—Outbound (IMTS—Outbound), and International Ancillary Services.
- Collectively, Competitive products satisfied the appropriate share requirement of 39 U.S.C. § 3633(a)(3) during FY 2020.

¹¹⁷ 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. § 3010.101(f).

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 collective costs incurred by Competitive products, and compares those costs to the collective revenue generated by Competitive products. As long as the revenue from Competitive products exceeds those products' incremental costs, the Commission can conclude that no cross-subsidization has occurred.¹¹⁸

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.¹¹⁹ Therefore, the incremental cost model applied at the Competitive products' group level 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), which is applied at the product level.

Pitney Bowes states that total aggregate revenues from Competitive products exceeded total group incremental costs, concluding that Competitive products were not cross-subsidized by Market Dominant products. Pitney Bowes Comments at 4.

The Taxpayers Protection Alliance responds to Pitney Bowes maintaining that the requirements of the statute are founded on outdated assumptions and, as such, "mere compliance with the cited statute lacks any concrete meaning . . ." ¹²⁰

The Public Representative also notes that Competitive product group revenues exceeded incremental costs and concludes that Market Dominant products did not subsidize Competitive products in FY 2020. PR Comments at 129.

ACI notes that Competitive products are accounting for an increasingly large share of the Postal Service's delivery functions and suggests the Postal Service provide increased transparency. ACI Comments at 2.

None of the commenters offer evidence to suggest that the incremental costs of Competitive products exceeded their revenues in FY 2020. As it did in the FY 2019 ACD, the Commission notes that the purpose of the ACD is to determine compliance with existing regulations using established methodology. Recommendations for improving specific cost

¹¹⁸ See Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 65 (Order No. 26).

¹¹⁹ 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).

¹²⁰ Reply Comments to 2020 Annual Compliance Report Docket No. ACR2020, February 12, 2021, at 1.

attribution methodologies are appropriately addressed in dockets considering changes to those methodologies.¹²¹ As FY 2020 revenues from Competitive products exceeded incremental costs, there is no evidence to suggest that Competitive products are being illegally cross-subsidized by Market Dominant products.

In FY 2020, the incremental costs of Competitive products were \$19.4 billion and the total revenues of Competitive products were \$30.5 billion.¹²² Accordingly, in FY 2020, revenues from Competitive products exceeded incremental costs.

The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2020.

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 2020 financial performance for five separate Competitive product groupings:

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

¹²¹ The Commission's regulations permit any interested person to submit a petition to initiate a proceeding to "improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service's annual periodic reports to the Commission[.]" 39 C.F.R. § 3050.11(a).

¹²² See Library Reference PRC-LR-ACR2020-1, Excel file "20 Summary_LR1.xlsx," tab "Appendix A (Incremental Costs)," cells C21:D21.

1. Competitive Domestic Products with Rates of General Applicability

In FY 2020, 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; USPS Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services;¹²³ Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

In FY 2020, every Competitive domestic product with rates of general applicability covered its attributable cost¹²⁴ 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 2020, there were 826 Competitive domestic products consisting of NSAs.¹²⁵

In FY 2019, the Commission directed the Postal Service to “compare the domestic competitive NSAs currently listed in the MCS with its own records”¹²⁶ and to “identify contracts where the initial customer profile will be used to calculate the cost coverage for [the] Annual Compliance Report.”¹²⁷ The Commission commends the Postal Service for improving the quality of the data provided on NSAs in FY 2020. The Commission encourages the Postal Service to continue to fully account for all of its active NSAs and remove inactive NSAs from the Competitive product list. The Postal Service also improved the number of NSAs using actual data instead of projected data.¹²⁸ However, the Postal Service can continue to increase the use of new and more accurate data to estimate the costs of NSAs. The use of the most accurate data, as opposed to projected data, is essential to ensuring agreements are, and remain, in compliance with 39 U.S.C. § 3633(a)(2).

¹²³ The Competitive Ancillary Services product consists of the following services: Adult Signature, Package Intercept Service, and Premium Data Retention and Retrieval Service. See MCS Section 2645.

¹²⁴ See Library Reference PRC-LR-ACR2020-1, Excel file “20 Summary_LR1.xlsx,” tab “Total All Mail Appendix A.”

¹²⁵ The 826 products include agreements that were extended via amendment.

¹²⁶ See FY 2019 ACD at 76.

¹²⁷ See *id.* at 77.

¹²⁸ The Commission notes that utilization of actual, rather than projected, data will lead to improved accuracy of the cost compliance calculations for these products.

Table IV-1
Competitive Domestic NSA Products in Effect During FY 2020

Competitive Domestic NSA Product Groupings	Number of Products ^a
First-Class Package Service Contracts	34
Parcel Return Service Contracts	7
Parcel Select & Parcel Return Service Contracts	6
Parcel Select Contracts	8
Priority Mail—Non-Published Rates ^b Contracts	266
Priority Mail & First-Class Package Service Contracts	108
Priority Mail Contracts	266
Priority Mail Express & Priority Mail Contracts	56
Priority Mail Express Contracts	20
Priority Mail Express, Priority Mail & First-Class Package Service Contracts	45
Priority Mail & Parcel Select Contracts	2
Priority Mail Express & First-Class Package Service Contracts	2
Priority Mail Express, Priority Mail, First-Class Package Service & Parcel Select Contracts	6
Total	826

^a With the exception of NSAs entered into under the Priority Mail—Non-Published Rates (Priority Mail—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 individual agreements with the Commission for pre-implementation review of each. Such contracts must comply with Commission classification and regulatory requirements, including preapproved pricing formulas, minimum cost coverage, and documentation.

Source: Library Reference USPS-FY20-NP27, December 29, 2020.

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 one Competitive domestic NSA covered their attributable costs and complied with this statutory requirement. The Competitive domestic NSA that did not cover its attributable costs was Priority Mail Contract 279. Library Reference USPS-FY20-NP27. The Postal Service states that the contract has been terminated.¹²⁹

Five other agreements had components that failed to cover their attributable costs but still covered those costs as a whole. FY 2020 ACR at 66. The Public Representative expresses

¹²⁹ FY 2020 ACR at 66; see Docket Nos. MC2017-59 and CP2017-87, USPS Notice of Termination of Priority Mail Contract 279, October 25, 2019 (showing termination date as October 13, 2019).

concern that these agreements could potentially fall out of compliance if the product mix changes in an unfavorable way. PR Comments at 135.

Multiple CHIRs were issued in this docket pertaining to domestic NSA Competitive products. *See, e.g.*, CHIR No. 1. The overall themes included: requesting confirmation of source data due to erroneous source notes; requesting additional information to clarify the various different types of source data; and inquiries exploring significant cost fluctuations. The Commission encourages the Postal Service to continue to improve the explanation of its NSA costing materials provided as part of its ACR.

The Commission finds that Priority Mail Contract 279 was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2020. Because this contract is no longer active, no further action is required.

3. Competitive International Products with Rates of General Applicability

Eleven Competitive international mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; International Priority Airmail (IPA); International Surface Air Lift (ISAL); Outbound Single-Piece First-Class Package International Service; Inbound Letter Post Small Packets and Bulky Letters; Inbound Parcel Post (at UPU rates); International Direct Sack—Airmail M-Bags; IMTS—Outbound; IMTS—Inbound;¹³⁰ and International Ancillary Services.¹³¹

On February 22, 2021, the Postal Service filed the revised Library Reference USPS-FY20-NP2, which contains the ICRA.¹³² Concurrently, the Postal Service filed an errata to the FY 2020 ACR. *See* Errata to Certain Pages of the FY 2020 ACR. Based on the revised ICRA data, the Commission finds that three products, IMTS—Inbound, IMTS—Outbound, and International Ancillary Services, did not satisfy 39 U.S.C. § 3633(a)(2).¹³³

a. International Money Transfer Service—Inbound

In FY 2020, the IMTS—Inbound product did not cover its attributable costs. FY 2020 ACR at 69. The Postal Service states that it intends to address the product's cost coverage by "terminating or modifying" IMTS—Inbound agreements. *Id.* The Postal Service notes that it obtained a delegation of authority from the Department of State under the Circular 175

¹³⁰ IMTS—Inbound consists of bilateral and multilateral agreements with foreign postal operators.

¹³¹ International Ancillary Services consists of International Certificate of Mailing; Competitive International Registered Mail; Outbound International Return Receipt; Restricted Delivery; Outbound International Insurance; and Customs Clearance and Delivery Fee.

¹³² *See* Notice of the United States Postal Service of Revisions to Multiple Annual Compliance Report Folders – Errata, February 22, 2021 (Notice of Revisions to ACR Folders).

¹³³ *See* FY 2020 ACR at 67-70; *see also* Library Reference USPS-FY20-NP2, December 29, 2020. The originally filed ICRA data suggested that four international products with rates and fees of general applicability did not cover their attributable costs in FY 2020. Revisions to the ICRA resulted in compensatory Inbound Letter Post Small Packets and Bulky Letters product, originally reported as not in compliance with the cost coverage provision of 39 U.S.C. § 3633(a)(2). *See* Errata to Certain Pages of the FY 2020 ACR at 7; *see also* Library Reference USPS-FY20-NP2 (revised), February 22, 2021 (Revised Library Reference USPS-FY20-NP2).

process to terminate agreements that comprise the IMTS—Inbound product and reports on the progress it has made towards that goal during FY 2020. *See* Docket No. ACR2019 Third Response; *see also* FY 2020 ACR at 69-70.

Only the Public Representative provided comments on this product. The Public Representative opines that the Postal Service has taken appropriate steps to remedy the cost coverage for the product. PR Comments at 131. However, he concludes that if the agreements are not terminated “in a timely manner, the product’s cost coverage shortfall will most likely continue.” *Id.* at 132.

The Commission notes that some international postal money order agreements were terminated. Among these is the international postal money order agreement with Canada Post, which was terminated effective August 30, 2019. FY 2020 ACR at 69. A similar agreement with Japan Post was terminated effective December 31, 2019. *Id.* at 69-70. For other agreements, the Postal Service reports that it sent notices of termination to 11 foreign postal operators (FPOs). *Id.* at 70. The Commission finds the Postal Service’s progress towards the termination of international agreements comprising the IMTS—Inbound product to be a positive step and encourages the Postal Service to ensure termination of the remaining agreements in FY 2021.

The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2020. The Commission encourages the Postal Service to continue its efforts towards termination of the remaining agreements comprising the IMTS—Inbound product during FY 2021.

b. International Money Transfer Service—Outbound

In FY 2020, the IMTS—Outbound product did not cover its attributable costs. *Id.* at 69. The Postal Service points out that it distributed the IMTS costs to IMTS—Outbound and IMTS—Inbound based on transaction volume. *Id.* The methodology for distributing IMTS costs is based on the Commission’s approval of Proposal Five in Order No. 2825.¹³⁴ This methodology was adopted because of the Postal Service’s inability to distribute the costs to IMTS—Inbound due to the lack of IMTS—Inbound IOCS tallies in some fiscal years. FY 2020 ACR at 69. For FY 2020, the Postal Service reports only two IOCS tallies and an increase in window service costs. *Id.* The Postal Service concludes that IMTS costing remains subject to variation. *Id.*

Only the Public Representative commented on the IMTS—Outbound product. He states that the Postal Service did not provide a discussion on how it plans to address the cost coverage of IMTS—Outbound product and recommends that the Postal Service provide additional information on the matter. PR Comments at 132.

¹³⁴ *Id.*; *see* Docket No. RM2015-13, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 19, 2015 (Order No. 2825).

The Commission observes that as the agreements comprising the IMTS—Inbound product terminate during FY 2021, eventually leading to no transactions reported for the IMTS—Inbound product, the reliability of cost estimates reported for IMTS—Outbound should improve.

The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2020. Considering the progress the Postal Service has made towards terminating the agreements comprising the IMTS—Inbound product, the Commission expects less variability for the IMTS—Outbound unit cost estimates in the future.

c. International Ancillary Services

In FY 2020, the International Ancillary Services product did not cover its attributable cost.¹³⁵ More specifically, one sub-component of the product, Inbound Competitive International Registered Mail,¹³⁶ did not cover its attributable cost. FY 2020 ACR at 68.

Per the Universal Postal Convention, letter post items that receive registered service are treated as format E items.¹³⁷ Format E letter post items, and registered service associated with these items, were previously included on the Market Dominant product list under Inbound Letter Post (MCS Section 1130) and Inbound International Registered Mail (MCS Section 1510.2), respectively. On January 1, 2020, a portion of Inbound Letter Post consisting of format E items was transferred from the Market Dominant product list to the Competitive product list as the Inbound Letter Post Small Packets and Bulky Letters product (MCS Section 2340). *See* Order No. 4980; *see also* Order No. 5372. Accordingly, Inbound International Registered Mail was also transferred to the Competitive product list as Inbound Competitive International Registered Mail (MCS Section 2615.2). *See* Order No. 5372 at 18. As a result, the Commission’s review of financial performance for Inbound Competitive International Registered Mail pertains to Quarters 2 to 4.

The remuneration the Postal Service receives for the provision of registered mail service under Inbound Competitive International Registered Mail is included in the Universal Postal Convention. *See* Universal Postal Convention, Article 28, ¶ 8. In CY 2020, such

¹³⁵ FY 2020 ACR at 68. International Ancillary Services consists of International Certificate of Mailing, Competitive International Registered Mail, Outbound International Return Receipt, Restricted Delivery, Outbound International Insurance, and Custom Clearance and Delivery Fee. *See* MCS Section 2615.

¹³⁶ The Competitive International Registered Mail component (MCS Section 2615.2) of the International Ancillary Services product includes Inbound Competitive International Registered Mail and Outbound Competitive International Registered Mail. For the remainder of the discussion on International Ancillary Services, the Commission will refer to Competitive International Registered Mail as a component of International Ancillary Services, and it will refer to Inbound Competitive International Registered Mail as a sub-component of the International Ancillary Services product.

¹³⁷ The UPU terminal dues system is based on the following classification of letter post items: format P (small letters containing documents), format G (large letters containing documents), and format E (bulky letters containing documents and small packets containing goods or documents and goods). Letter post items that receive registered, insured, or tracking service are treated as format E items for operational, statistical, and accounting purposes, regardless of their shape. *See* Universal Postal Union, Regulations to the Convention, Berne 2017, Article 17-116, ¶ 13, available at <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/nonPermanentActs/actNonPermanentRegulationsConventionFinalProtocolEn.pdf> (Universal Postal Convention).

remuneration was 1.3 SDR per item.¹³⁸ The Postal Service reports that there was an increase in costs associated with Competitive International Registered Mail in FY 2020.¹³⁹ The Postal Service describes the remuneration available to it under the “voluntary supplementary remuneration” program (SRP) and the “Inbound Market Dominant Registered Service Agreement 1,” as separate sources of additional contribution associated with inbound registered mail. *Id.* For FY 2021, the Postal Service states that the increase in UPU registered remuneration from 1.3 SDR to 1.4 SDR in CY 2021 should help improve cost coverage for this sub-component of International Ancillary Services. *Id.*

The Commission notes that registered service provided by the Postal Service during Quarter 2 to Quarter 4 of FY 2020 for inbound registered items is covered under Inbound Competitive International Registered Mail or Inbound Competitive PRIME Registered Service Agreement 1 (PRIME Registered Agreement).¹⁴⁰ The remuneration the Postal Service receives under the PRIME Registered Agreement pertains to a separate product on the MCS and does not represent a source of contribution for Inbound Competitive International Registered Mail.

Only the Public Representative commented on Inbound Competitive International Registered Mail. The Public Representative expresses concern about the failure of Inbound Competitive International Registered Mail and the International Ancillary Services product to cover costs. PR Comments at 133-34. He notes that international Special Services did not cover their attributable costs either and doubts that their costs “will go down in the near future.” *Id.* at 134. The Public Representative recommends that the Postal Service provide an explanation for how it will address and monitor the future cost coverage of Inbound Competitive International Registered Mail. *Id.*

The Postal Service has expressed its expectation for improved cost coverage for International Registered Mail based on calendar year increases in per piece UPU remuneration since at least FY 2017.¹⁴¹ The Commission cautions that any improvement in cost coverage can only be realized if cost increases are kept below increases in revenues. The Commission emphasizes that greater participation by UPU members in the UPU’s voluntary supplementary remuneration program, which is conditional on meeting data transmission and quality targets,¹⁴² would furnish additional revenue to the Postal Service

¹³⁸ SDR is an international reserve asset created by the International Monetary Fund. Its value is based on a basket of five currencies: the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

¹³⁹ FY 2020 ACR at 68. Competitive International Registered Mail includes Outbound Competitive International Registered Mail and Inbound Competitive International Registered Mail sub-components.

¹⁴⁰ See MCS Section 2515.10, Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1, which includes Inbound Competitive PRIME Registered Service Agreement 1.

¹⁴¹ In FY 2017 to FY 2019, International Registered Mail was included on the Market Dominant product list (MCS Section 1510.2). See Docket No. ACR2017, United States Postal Service Fiscal Year 2017 *Annual Compliance Report*, December 29, 2017, at 44; see also Docket No. ACR2018, United States Postal Service Fiscal Year 2018 *Annual Compliance Report*, December 28, 2018, at 43; FY 2019 ACR at 35.

¹⁴² See Universal Postal Convention, Article 30-104 for general principles, data transmission targets, and the amount of supplementary remuneration that can be earned by designated operators of destinations opting to participate in the SRP.

for Inbound Competitive International Registered Mail. Maximizing supplementary revenue and controlling annual cost increases for Inbound Competitive International Registered Mail would result in a more compensatory product.¹⁴³

The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2020 because one sub-component, Inbound Competitive International Registered Mail, did not cover costs. The Commission directs the Postal Service to provide a detailed analysis of obstacles that prevent the Postal Service from meeting performance targets for inbound registered items, as well as the projected cost of attaining performance targets, within 120 days of issuance of this ACD.

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.

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 understanding that each NSA within a product must cover its attributable cost.¹⁴⁴ Functionally equivalent international NSAs are collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

The Postal Service reports volume, revenue, and cost data for each Competitive international NSA comprising Competitive international products. *See Revised Library Reference USPS-FY20-NP2.* For FY 2020, the Postal Service provided these data for 789 international NSAs, 771 of which include negotiated rates for outbound mail and 18 of which include negotiated rates for inbound mail.¹⁴⁵ Of the 789 international NSAs, revenues for 11 contracts did not cover their attributable costs in FY 2020.¹⁴⁶ In addition, one category of Competitive international products consisting of NSAs, Global Expedited

¹⁴³ The UPU registered payment per item will increase by 8 percent in CY 2021, from 1.3 SDR to 1.4 SDR. With improved performance in CY 2021, and the associated supplementary revenue it would furnish, the registered payment per item could increase by 46 percent, from 1.3 SDR to 1.9 SDR.

¹⁴⁴ *See, e.g.,* Docket No. CP2011-34, *et al.*, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

¹⁴⁵ Library Reference PRC-LR-ACR2020-NP2. When producing this summary value, the Commission counted each agreement or volume within the same agreement for which cost coverage is evaluated separately, as one, *e.g.*, financial performance for volume under Docket No. R2018-2 in Quarter 1 was counted as one NSA, and the financial performance for volume under the same docket in Quarter 2 and Quarter 3 was counted as a separate NSA. In addition, the Commission reviews the financial performance of each serial-numbered agreement under the GEPS—NPR products; each such serial-numbered agreement is counted as one NSA in this summary value.

¹⁴⁶ Errata to Certain Pages of the FY 2020 ACR at 8; *see Revised Library Reference USPS-FY20-NP2*; *see also* Library Reference PRC-LR-ACR2020-NP2. The Commission notes that the revised ICRA, filed by the Postal Service on February 22, 2021, resulted in an increase in the number of Competitive international NSAs that failed to cover their attributable costs in FY 2020 from the originally reported 10 contracts to 11 contracts. *Compare* FY 2020 ACR at 70, *with* Errata to Certain Pages of the FY 2020 ACR at 8.

Package Services (GEPS) Contracts, and one outbound international product consisting of NSAs, GEPS 11, did not cover their attributable costs in FY 2020. FY 2020 ACR at 70.

The Public Representative observes a discrepancy between the number of contracts with below 100-percent cost coverage indicated by the data originally filed by the Postal Service and the number of such contracts reported in the FY 2020 ACR.¹⁴⁷ He also notes that the Postal Service's claim that all NSA categories covered their attributable costs in FY 2020 is not supported by the financial workpapers filed. PR Comments at 134. Accordingly, the Public Representative urges the Postal Service to address the discrepancy. *Id.* In addition, he reiterates the Commission's recommendation to "continually monitor the financial performance of each contract and take aggressive steps on an ongoing basis to terminate any agreements that are not compensatory." *Id.* at 134-35 (quoting FY 2019 ACD at 81).

The Commission notes that the Postal Service corrected its statement that all Competitive international NSA categories covered their attributable costs in FY 2020, reporting that one category of Competitive international products, GEPS Contracts, did not cover costs. Errata to Certain Pages of the FY 2020 ACR at 8.

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. Under outbound NSAs, mailers must commit to tendering specified minimum volume and/or revenue on an annual basis in exchange for reduced rates from the Postal Service. The Commission has previously expressed concern that the Postal Service does not always enforce customers' minimum volume commitments.¹⁴⁸ The Commission continues to monitor compliance with statutory requirements regardless of adherence to contractual minimums. Additional postal services may be available for products with rates and fees not of general applicability.¹⁴⁹ Table IV-2 shows the FY 2020 product category for each of these products for which the Postal Service reports FY 2020 financial results.¹⁵⁰

¹⁴⁷ PR Comments at 134; see Library Reference USPS-FY20-NP44, February 17, 2021. The discrepancy between the number of contracts that did not cover their attributable costs reported by the Postal Service in the FY 2020 ACR and the number of such contracts referred to by the Public Representative stems from the fact that four agreements under a GEPS—NPR product were included in the Postal Service's reported value. FY 2020 ACR at 70; PR Comments at 134.

¹⁴⁸ See Docket Nos. MC2019-127 and CP2019-136, Order Adding Priority Mail Express & Priority Mail Contract 92 to the Competitive Product List, April 30, 2019, at 5 (Order No. 5077).

¹⁴⁹ See, e.g., MCS Section 2510.3.5 for additional services available to products included in the GEPS Contracts category.

¹⁵⁰ The Postal Service does not report FY 2020 financial results for the following Competitive outbound international products: Global Bulk Economy (GBE) Contracts, Priority Mail International Regional Rate Boxes—Non-Published Rates, Outbound Competitive International Merchandise Return Service Agreement with Royal Mail Group, Ltd., Priority Mail International Regional Rate Boxes (PMI RRB) Contracts 1, Competitive International Merchandise Return Service Agreements with Foreign Postal Operators 1, Competitive International Merchandise Return Service Agreements with Foreign Postal Operators 2, Alternative Delivery Provider (ADP) Contracts 1, Alternative Delivery Provider

Table IV-2
Competitive Outbound International Products by Category, FY 2020¹⁵¹¹⁵²

Product Category	Product Name
Global Expedited Package Services (GEPS) Contracts	GEPS 7 GEPS 8 GEPS 9 GEPS 10 GEPS 11
Global Expedited Package Services (GEPS)—Non-Published Rates	Global Expedited Package Services (GEPS)—Non-Published Rates 14 Global Expedited Package Services (GEPS)—Non-Published Rates 15
Global Plus Contracts	Global Plus 1D Global Plus 1E Global Plus 3 Global Plus 4 Global Plus 5 Global Plus 6
Global Reseller Expedited Package Contracts	Global Reseller Expedited Package Services 2 Global Reseller Expedited Package Services 4
Priority Mail Express International, Priority Mail International & First-Class Package International Service Contracts	Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 1 Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 2
Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contracts	Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 2 Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 3 Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 4 Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 5 Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 6

Reseller (ADPR) Contracts 1, GEPS 3, GEPS 5, GEPS 6, Global Plus 1C, Global Plus 2C, Global Reseller Expedited Package Services (GREPS) 1, GREPS 3, GEPS—NPR 2, GEPS—NPR 3, GEPS—NPR 4, GEPS—NPR 5, GEPS—NPR 6, GEPS—NPR 7, GEPS—NPR 8, GEPS—NPR 9, GEPS—NPR 10, GEPS—NPR 11, and GEPS—NPR 13.

¹⁵¹ This table presents outbound international products by product category as they appear in the MCS.

¹⁵² Products and product categories that did not cover costs in FY 2020 are denoted in red.

	International & First-Class Package International Service with Reseller Contract 2 International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 3 International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 4 International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 5
International Priority Airmail Contracts	International Priority Airmail Contract 1
International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contracts	International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 1 International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 2

Source: MCS Section 2510.

The Postal Service reports financial results for each outbound international NSA within these products. Of the 771 outbound international NSAs, the revenues for 11 contracts, 1 outbound international product consisting of NSAs, and 1 category of outbound international products, GEPS Contracts, did not cover their attributable costs in FY 2020. The financial results for GEPS 11 were significantly negative enough to result in the entire category of GEPS products being non-compensatory in FY 2020. Errata to Certain Pages of the FY 2020 ACR at 8. All 11 NSAs have expired. *Id.* The non-compliant product is discussed below.

(1) GEPS 11

In FY 2020, the GEPS 11 product did not cover its attributable cost.¹⁵³ The Postal Service provided financial results for two NSAs within the GEPS 11 product, and neither NSA covered its attributable cost.¹⁵⁴ The subsequent paragraphs discuss the relevant background for the agreement that is the subject of the Docket No. CP2019-176, one of the two NSAs included in the non-compliant GEPS 11 product. This agreement is discussed because the issues are illustrative of the problems with GEPS 11 in FY 2020.

¹⁵³ See Library Reference USPS-FY20-NP2; see also Revised Library Reference USPS-FY20-NP2; Library Reference PRC-LR-ACR2020-NP2.

¹⁵⁴ See Library Reference USPS-FY20-NP2; see also Revised Library Reference USPS-FY20-NP2; Library Reference PRC-LR-ACR2020-NP2.

When the Postal Service entered into the agreement that is the subject of Docket No. CP2019-176, the United States was participating in negotiations with the UPU regarding the ability of the Postal Service to self-declare rates for inbound format E items to the United States.¹⁵⁵ As part of the pre-implementation review for this agreement, a CHIR was issued inquiring about the Postal Service's plans to address potential future increases in outbound international mail costs.¹⁵⁶ The Postal Service stated that it intended to revisit active customer agreements to determine if they were viable in CY 2020.¹⁵⁷ The UPU Third Extraordinary Congress resulted in the payment of the same rate for outbound format E flows to all UPU country groups as of CY 2020, which represented increases in the agreement's underlying costs.¹⁵⁸

In the FY 2019 ACD, the Commission recommended that the Postal Service "continually monitor the performance of each [Competitive outbound international] contract and take aggressive steps on an ongoing basis to terminate any agreements that are not compensatory." FY 2019 ACD at 81. Notwithstanding the Commission's 2019 ACD directive and the Postal Service's express intention to revisit the viability of active customer agreements, which included the agreement under discussion, the Commission notes that the Postal Service did not file a modified agreement in the docket until 4 months following the implementation of the new format E rates.¹⁵⁹

The supporting documentation for this agreement, as with many NSAs, relied on the Postal Service's assumptions as to the characteristics of the mailpieces to calculate projected costs, and therefore demonstrate that revenues will exceed those projected costs. If the Postal Service's assumptions as to the characteristics of the mailpieces and the distribution of mailpieces by destination deviate significantly from the actual characteristics and distribution, the actual cost coverage will differ from the projected cost coverage. For the instant agreement, the Postal Service filed workpapers with the Commission in advance of the agreement's implementation. The projected revenues and costs for the agreement included in the workpapers—calculated for the customer's projected mailpieces and their assumed characteristics—demonstrated revenues in excess of projected costs.

¹⁵⁵ The negotiations culminated in the UPU Third Extraordinary Congress, held in September 2019. Reforms adopted at the Third Extraordinary Congress allowed for the harmonization of format E rates beginning on January 1, 2020, and for the self-declaration of format E terminal dues, beginning on July 1, 2020. The reform that was relevant to the agreement at issue was the harmonization of format E rates.

¹⁵⁶ See Docket No. CP2019-176, Chairman's Information Request No. 1 and Notice of Filing Under Seal, July 3, 2019, question 1.

¹⁵⁷ Docket No. CP2019-176, Response of the United States Postal Service to Chairman's Information Request No. 1, with Portions filed Under Seal, July 10, 2019, question 1.

¹⁵⁸ See Universal Postal Convention, Second Additional Protocol to the Universal Postal Convention, Article III (Article 29 amended) and Article IV (Article 30 amended). Considering the effective period of the agreement at issue, the harmonization of format E rates represented increases in the underlying costs for the agreement. This reform resulted in the same level of terminal dues charged by all FPOs for their inbound format E flows from the United States, subject to applicable business rules. The level of terminal dues charged was that of UPU group I countries (highest level). In other words, in the absence of this reform, only the Postal Service's outbound format E flows to UPU group I countries would have been subject to UPU group I terminal dues. Flows to UPU group II, III, and IV countries would have been subject to progressively lower terminal dues.

¹⁵⁹ See Docket No. CP2019-176, Notice of the United States Postal Service of Filing Modification One to a Global Expedited Package Services 11 Negotiated Service Agreement, April 27, 2020 (Modification One). As mentioned above, the harmonized format E rates were effective January 1, 2020.

As mentioned above, in April 2020, the Postal Service filed Modification One to the agreement in question. The financial workpapers filed in support of the modification used negative inflation factors to project international and domestic transportation costs for the agreement. A CHIR in the docket was issued requesting information on the reasonableness of such cost projections and on the Postal Service's expectations regarding the impact of the COVID-19 pandemic on the costs of the agreement.¹⁶⁰ The CHIR also requested information on the Postal Service's expectation as to the impact of the COVID-19 pandemic on costs for all active outbound NSAs and their ability to continue to comply with 39 U.S.C. § 3633(a)(2). Docket No. CP2019-176, CHIR No. 2, question 2. The Postal Service filed its response under seal.¹⁶¹ In it, the Postal Service expressed optimism with regard to the agreement's cost coverage. As for the COVID-19 pandemic's impact on the costs for other active outbound international NSAs, the Postal Service listed its options to address non-compliant agreements.

The data show that the Postal Service's assumptions regarding the agreement's mail characteristics and distribution did not materialize. The resulting cost coverage reported for the agreement was significantly below the originally projected cost coverage, and the agreement was non-compensatory.¹⁶²

The Commission notes that on two separate occasions, described above, CHIRs were issued with regard to the accuracy of cost projections for the agreement under discussion. Neither Postal Service response included updates to underlying cost projections for the agreement. The Commission emphasizes that the rate design for this complicated outbound international agreement required accurate projection of the customer's behavior and of the input costs, including settlement costs. The risk of not accounting for unforeseen circumstances is inherent in cost projections. However, even when circumstances such as the COVID-19 pandemic are known, the ability to accurately adjust cost estimates to account for their financial implications is a difficult task. In the case of the instant agreement, the COVID-19 pandemic could not have been predicted at the time of the original filing. However, the Commission expressed concern about the Postal Service's reliance on negative inflation factors at the time the Postal Service filed Modification One to the agreement.¹⁶³ In Docket No. CP2019-176, a cumulative effect of errors and unexpected events occurred. The input costs for the agreement changed dramatically during the course of the agreement in ways that could not be anticipated, such as the COVID-19 pandemic, and ways that could be anticipated, such as the changes resulting from UPU negotiations. The customer profile (mailpiece characteristics and distribution) also differed from the Postal Service's projections in ways that impacted cost coverage negatively. All of these factors highlight the importance of designing outbound international agreements without

¹⁶⁰ Docket No. CP2019-176, Chairman's Information Request No. 2, April 30, 2020, question 1 (Docket No. CP2019-176, CHIR No. 2).

¹⁶¹ Docket No. CP2019-176, Response of the United States Postal Service to Chairman's Information Request No. 2, May 7, 2020.

¹⁶² See Library Reference PRC-LR-ACR2020-NP2, Excel file "CP2019-176 Analysis.xlsx" for a more detailed analysis of the agreement that is the subject of the Docket No. CP2019-176.

¹⁶³ Negative inflation factors were used for a cost segment for which expenses, when combined with settlement costs, represent a significant portion of total costs for this NSA.

rate cells that have non-compensatory cost coverage and of continuously monitoring the performance of agreements to prevent one agreement from turning an entire product consisting of NSAs, such as GEPS 11, and an entire category of products consisting of NSAs, such as the GEPS Contracts category, non-compensatory.

The Commission concludes that one Competitive outbound international product consisting of NSAs, GEPS 11, did not satisfy 39 U.S.C. § 3633(a)(2) because revenue did not exceed the attributable cost for the product. The two contracts in this product are no longer active, and thus no longer need to be terminated. The Commission directs the Postal Service to continually monitor the financial performance of outbound international NSAs. For details pertaining to the monitoring of the financial performance of international NSAs, see Section IV.C.4.c. below.

b. Competitive Inbound International Products Consisting of NSAs

Competitive inbound international products with negotiated rates are classified on the Competitive product list. Inbound international agreements entered into by the Postal Service and one or more FPOs provide inbound services and prices that are available only to mailers meeting defined eligibility requirements for mail preparation, content, size, and weight limitations. Table IV-3 below shows the product category for each inbound international product for which the Postal Service reports FY 2020 financial results.¹⁶⁴

**Table IV-3
Competitive Inbound International Products by Category, FY 2020¹⁶⁵**

Product Category	Product Name
International Business Reply Service (IBRS) Competitive Contracts	IBRS Competitive Contract 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	Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1

Source: MCS Section 2515.

The Postal Service reports financial results for each inbound Competitive NSA within these products. In FY 2020, each inbound Competitive international product and each inbound Competitive NSA within these products covered its attributable costs.

¹⁶⁴ The Postal Service does not report FY 2020 financial results for the following 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 Contracts with Foreign Postal Administrations 1.

¹⁶⁵ This table presents inbound international products by product category as they appear in the MCS.

The Commission notes that prior to Quarter 2 of FY 2020, international NSAs entered into by the Postal Service and one or more FPOs for the delivery of format E items¹⁶⁶, as well as for the provision of services pertaining to format E items,¹⁶⁷ were included on the Market Dominant product list. Following the transfer of format E items previously included under Inbound Letter Post (MCS Section 1130) from the Market Dominant to the Competitive product list as Inbound Letter Post Small Packets and Bulky Letters, effective in Quarter 2 of FY 2020, the above mentioned international agreements were also transferred to the Competitive product list. *See* Order No. 5437. In addition, the Postal Service entered into four new Competitive inbound international NSAs with FPOs during FY 2020.¹⁶⁸ The inbound international mail volume that entered the United States under Competitive inbound international NSAs has increased accordingly between FY 2019 and FY 2020.¹⁶⁹

The Commission observes that the increase in the number of Competitive inbound international NSAs, and in the volume that enters the Postal Service's network under these NSAs, necessitates monitoring of these agreements' financial performance in order to ensure their continued compliance with the provisions of 39 U.S.C. § 3633(a)(2).

The Commission concludes that Competitive inbound 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 continually monitor the financial performance of each inbound international contract and take aggressive steps to terminate or renegotiate agreements that are not compensatory.

c. Monitoring of Competitive Outbound International NSAs
Financial Performance

Financial performance of Competitive outbound international NSAs is determined by the ratio of the revenues earned and the costs incurred by the Postal Service for volumes shipped under NSAs. For postal products available to outbound international NSAs, the

¹⁶⁶ See Canada Post Agreement (Docket No. R2018-2), included under the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product (MCS Section 1602.3) prior to Quarter 2 of FY 2020.

¹⁶⁷ See Australia Post Agreement (Docket No. R2017-2), included under the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product (MCS Section 1602.3) prior to Quarter 2 of FY 2020. *See also* Inbound Market Dominant Express Service Agreement 1 (Docket No. R2011-6), Inbound Market Dominant Registered Service Agreement 1 (Docket No. R2016-6), and Inbound Market Dominant PRIME Tracked Service Agreement (Docket No. R2017-3), included in MCS Sections 1602.4, 1602.5, and 1602.6, respectively, prior to Quarter 2 of FY 2020.

¹⁶⁸ See Docket No. CP2020-141, Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with Foreign Postal Operators, May 15, 2020; *see also* Docket No. CP2020-144, Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with Foreign Postal Operator – FY20-1, May 21, 2020; Docket No. CP2020-167, Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with Foreign Postal Operator – FY20-2, June 8, 2020; Docket No. CP2020-211, Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with Foreign Postal Operator – FY20-3, June 30, 2020.

¹⁶⁹ See Library Reference PRC-LR-ACR2020-NP2, Excel file "PRC-LR-ACR2020-NP2 UNIFIED ICRA.xlsx," tab "ACR2020 Comp IB Intl NSAs," cell E79; *see also* Docket No. ACR2019, Library Reference PRC-LR-ACR2019-NP2, March 25, 2020, Excel file "PRC-LR-ACR2019-NP2 UNIFIED ICRA.xlsx," tab "ACR2019 Comp IB Intl NSAs," cell G67. At the conclusion of FY 2019, one agreement was included under the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product (MCS Section 2515.10). At the conclusion of FY 2020, seven agreements were included under the product.

Postal Service operates in a competitive market, which has an impact on the rates the Postal Service can offer to its domestic customers shipping internationally, as it competes for their volumes. With revenues that can be generated by international NSAs constrained by market competition, accurate determination of costs expected to be incurred is essential. Only then can the Postal Service determine reliably whether the negotiated rates it offers to customers are sufficiently high to generate revenues in excess of costs.

The accuracy of the Postal Service's cost projections increases with the amount of customer-specific information used and with reliance on realistic inflation and exchange rates pertaining to projection terms. Costs for outbound international volumes can reasonably be expected to vary with the distance these outbound volumes travel to reach their respective destinations, as well as with terminal dues that designated FPOs charge for the delivery of the Postal Service's outbound international volumes within their territories. Terminal dues vary by destination country and are assessed on the basis of volume and weight of inbound international mail.¹⁷⁰ It follows that reliance on accurately projected characteristics of the customers' volumes and their distributions by destination is essential for the accuracy of cost projections.

While terminal dues have historically been easier to predict reliably,¹⁷¹ in particular for outbound international NSAs in effect for 1 year or less, the interpretation of certain provisions related to the remuneration for format E items, which resulted from the Third Extraordinary Congress, continues to be the subject of discussion.¹⁷² In addition, remuneration changes are also proposed for format P/G items for the coming years.¹⁷³ For format E items, the impact of the final adopted interpretations of the referenced provisions on the Postal Service's costs is destination-specific and difficult to project. For format P/G items, the large annual increases in terminal dues over the coming years are difficult to

¹⁷⁰ See, e.g., Universal Postal Convention, Article 28 for general provisions related to terminal dues remuneration under which receiving designated FPOs have the right to charge for the delivery of inbound letter post items in their respective territories. Terminal dues are assessed on a per-item and per-kilogram basis or on the basis of a total rate per kilogram. Terminal dues charged by receiving FPOs vary according to the classification of receiving countries as either target system countries, further classified as group I, II, and III countries, or as transitional system countries, which include countries classified as group IV countries.

¹⁷¹ *Id.* Articles 29-30. Terminal dues ranges, expressed as cap and floor rates, are included in relevant Universal Postal Convention articles for four consecutive CYs. For example, Articles 29 and 30 of the most recent Universal Postal Convention include terminal dues rates for format P/G items for CY 2018 to CY 2021.

¹⁷² See Universal Postal Union, Second Additional Protocol to the Universal Postal Convention, Article 28bis, ¶¶ 6bis and 6quater. The provisions of the Second Additional Protocol to the Universal Postal Convention, which allowed the Postal Service to self-declare its E format prices effective on July 1, 2020, allowed corresponding designated operators to do likewise, on the basis of reciprocity. Article 28bis, paragraph 6bis and 6quater include a protection mechanism with the intent to protect countries with low outbound letter post volumes to the countries invoking Article 28bis, paragraph 6bis (i.e., the United States), from being subject to self-declared rates. The protected volumes pertain to letter post volumes from group II and group III countries with total weight to the United States below 25 tonnes and to letter post volumes from group IV countries with total weight to the United States below 100 tonnes. See Article II (Article 28bis added), ¶¶ 1.1.6 and 1.1.7. The Commission notes that the interpretation of the protection mechanism is subject to clarification. See also Article 28bis, ¶ 6ter. Calculation of the cost-to-tariff ratio is also subject to clarification.

¹⁷³ See Docket No. IM2020-1, Notice of Posting of Proposals, March 26, 2020; Docket No. IM2020-1, Notice of Posting of Document, March 30, 2020. Format P/G terminal dues are scheduled to be harmonized by CY 2025. This will lead to annual settlement cost increases of 5.0 percent for outbound format P/G flows to UPU group I countries, 8.7 percent to UPU group II countries, 12.1 percent to UPU group III countries, and 15.5 percent to UPU group IV countries, between CY 2022 and CY 2025.

capture in financial workpapers that project costs for only the first 12 months of outbound international agreements.

Starting in Quarter 2 of FY 2020, the Postal Service's operations were impacted by the COVID-19 pandemic. The challenges posed by the COVID-19 pandemic were expected to have financial and service quality implications.¹⁷⁴ The negative financial implications of the COVID-19 pandemic are apparent in the Commission's review of financial data pertaining to FY 2020 in the instant docket. Circumstances such as the COVID-19 pandemic, and their likely continued fallout, introduce uncertainty into cost projections, potentially rendering them less reliable.

The Commission observes that issues related to the costs incurred by NSAs exceeding revenues are avoidable when they are due to inaccurately projecting a customer's mail profile (the distribution of volume by country group and weight per piece) coupled with rate designs that do not allow for deviations from such projections. Consequently, the Commission encourages the Postal Service to include customer-specific volume and weight distributions when calculating projected revenues and costs for outbound international NSAs. The Commission further encourages the Postal Service to ensure that cost coverage is maintained even if a customer's mail profile deviates from expectations on which revenue and cost projections were based at the time of the agreement's implementation.

The Commission recognizes that there is inherent uncertainty within international NSA cost projections because developments at the UPU can lead to changes in terminal dues and settlement costs. The Commission further recognizes the difficulty in producing reliable cost projections that are based on inflation and exchange rate forecasts relating to contract terms characterized by uncertain economic outlooks. However, the Commission emphasizes that such developments can be monitored and encourages the Postal Service to strive to file modifications without delay for active NSAs impacted by such circumstances.

The Commission reiterates that the non-compliant GEPS 11 product discussed in Section IV.C.4.a.1. was in effect for 1 year. As evidenced by the financial data reported for the agreement that is the subject of Docket No. CP2019-176, inaccurate projections of the customer's volume can lead to failure of an NSA to cover its attributable cost. Negotiated rates that do not ensure cost coverage when the customer's mail profile deviates from projections can lead to the failure of an NSA to generate revenue in excess of costs. Not updating the underlying costs of an agreement with the most recent changes in terminal dues remuneration, even if these changes affect only a portion of an active agreement's effective term, can lead to failure of an NSA to maintain cost coverage above 100 percent. Reliance on inflation forecasts used to produce cost estimates for contract terms characterized by conditions such as those brought about by the COVID-19 pandemic, even if these circumstances impact only a portion of an active agreement's effective term, can lead to incurred costs in excess of projected costs. As a result, the Commission emphasizes

¹⁷⁴ See generally Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-2 of Commission Information Request No. 4, September 23, 2020.

that inadequate cost projections are more likely to lead to prices negotiated between the Postal Service and the customers that do not guarantee revenues in excess of costs for the duration of the effective terms of outbound international NSAs.

The above summarized concerns are, in the Commission's view, further exacerbated by the recent implementation of outbound international NSAs for contract periods longer than 1 year.¹⁷⁵ The Commission determines that as the length of NSAs' effective terms increase, the accuracy of their cost coverage projections can reasonably be expected to diminish, particularly beyond the first 12 months of NSAs' effective terms.

Lastly, the Commission points out that the number of outbound international NSAs that the Postal Service has filed with the Commission at one time since the implementation of self-declared rates for format E items has been large.¹⁷⁶ During the most recent such filings of a large number of NSAs, the financial workpapers filed with the Commission, which pertained to 19 outbound international NSA dockets, included a redesigned NSA model and employed novel approaches.¹⁷⁷ The most recent NSAs have also contained terms of longer than 1 year. These factors combine to increase the possibility that the contract projections will deviate from actual results, increasing the need for ongoing reporting.

This section has described the circumstances that can lead to non-compliance of outbound international NSAs. Each of these circumstances, individually, can be problematic. In the past year, the Postal Service has implemented novel approaches to the NSA model, filed contemporaneously in 19 dockets, for NSAs entered into for contract terms longer than 1 year. During FY 2020 the financial data revealed the cost and volume impacts of the COVID-19 pandemic on outbound international NSAs. The FY 2020 financial data also revealed the cost and revenue impact of the major changes at the UPU. The Commission determines that it is necessary to continually monitor the financial performance of outbound international NSAs in order to ensure their compliance with 39 U.S.C. § 3633(a)(2) and to allow for more

¹⁷⁵ See, e.g., Docket No. CP2020-183, Docket No. CP2020-192, CP2020-198, Docket No. CP2020-200, Docket No. CP2020-201, which have been approved to be in effect until February 28, 2023. See Docket No. CP2020-183, *et al.*, Order Approving Modification One to International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Negotiated Service Agreements, January 21, 2021 (Order No. 5824). When entering into outbound international NSAs, the Postal Service files financial workpapers for the Commission's review, which include cost coverage projections for the first 12 months of respective contracts. These projections are based on cost estimates pertaining to the latest fiscal year data approved by the Commission at the time of the Postal Service's filings. For example, the financial workpapers for the above referenced dockets, approved by the Commission in January 2021, and set to expire in February 2023, were based on FY 2019 cost estimates, since cost data pertaining to the more recent fiscal year, FY 2020, was at the time the subject of the FY 2020 ACR docket review. The lack of information that would reveal the financial impacts of the COVID-19 pandemic on outbound international NSAs in FY 2020 at the time of these NSA filings made the Commission's review of the adequacy of cost assumptions difficult. Consequently, as the length of outbound international agreements increases, and their projected performance is not based on cost data for the most recent fiscal year, their financial performance is more likely to be impacted by factors unaccounted for in cost coverage projections for the first 12 months of respective agreements.

¹⁷⁶ For example, between December 3, 2020 and December 16, 2020, the Postal Service filed financial workpapers for the Commission's review in 19 dockets pertaining to outbound international NSAs. See, e.g., Docket No. CP2020-198, Docket No. CP2020-200, Docket No. CP2020-201, Docket No. CP2020-194, Docket No. CP2020-197, Docket No. CP2020-183.

¹⁷⁷ See Docket No. CP2020-198, Chairman's Information Request No. 1 and Notice of Filing Under Seal, December 16, 2020, questions 1-20; see also Docket No. CP2020-173, *et al.*, Order Approving Modifications to Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Negotiated Service Agreements, January 19, 2021 (Order No. 5820).

immediate actions, such as the modification of rates or termination of non-compliant agreements.

The Commission directs the Postal Service to monitor the financial performance of each outbound international contract on a quarterly basis and to file with the Commission a summary Excel file pertaining to the latest postal quarter. The summary file should be filed with the Commission within 30 days of the conclusion of each postal quarter, including postal Quarter 4. The summary file should include, for each active NSA and each outbound international service included in each such NSA, revenues, pieces, weight, and costs.

d. Revisions to the ICRA

The ICRA filed by the Postal Service on December 29, 2020 contained multiple errors. The errors were identified by the Commission and raised via CHIRs issued between January 19, 2021, and February 10, 2021.¹⁷⁸ The Postal Service addressed the issues and, on February 22, 2021, filed revised ICRA data.¹⁷⁹ The revisions to the ICRA, which are found in the non-public Library Reference USPS-FY20-NP2, resulted in updates to three additional public library references and two additional non-public library references. Notice of Revisions to ACR Folders at 1-2.

The errors that led to the revised ICRA filing revealed two main issues. *See* Notice of Revisions to ACR Folders at 2. First, the Postal Service did not incorporate the transfer of the PRIME agreements from the Market Dominant to the Competitive product list effective in Quarter 2 of FY 2020¹⁸⁰, when it reported revenues and costs associated with Market Dominant and Competitive international products. *Id.* Second, the Postal Service reported the incorrect Revenue, Pieces, and Weight (RPW) data for IPA and ISAL. *Id.* The necessary corrections for these two main issues, as well as additional corrections related to more minor errors, included shifting of pieces, weights, and the associated revenues and costs among international products. *Id.* For Competitive international products with rates of general applicability, the most notable shift was an increase in the cost coverage reported for the Inbound Letter Post Small Packets and Bulky Letters product, which resulted in the product's revenues exceeding attributable costs for FY 2020.¹⁸¹ For Competitive

¹⁷⁸ See Chairman's Information Request No. 4 and Notice of Filing Under Seal, January 19, 2021, question 3 (CHIR No. 4); see also Chairman's Information Request No. 7 and Notice of Filing Under Seal, January 29, 2021, questions 6, 7; Chairman's Information Request No. 12 and Notice of Filing Under Seal, February 5, 2021, question 3 (CHIR No. 12); Chairman's Information Request No. 14 and Notice of Filing Under Seal, February 10, 2021, question 2.

¹⁷⁹ See Notice of Revisions to ACR Folders. Revised library references included: USPS-FY20-1, USPS-FY20-41, USPS-FY20-43, USPS-FY20-NP2, USPS-FY20-NP10, and USPS-FY20-NP11. See Responses of the United States Postal Service to Questions 2, 3, 6, 9, and 10 of Chairman's Information Request No. 4, January 26, 2021; see also Library Reference USPS-FY20-NP34, January 26, 2021, question 3; Responses of the United States Postal Service to Questions 1-7, 10-11 of Chairman's Information Request No. 7, February 5, 2021; Library Reference USPS-FY20-NP37, February 5, 2021, questions 6, 7; Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 12, February 22, 2021; Library Reference USPS-FY20-NP46, February 22, 2021, question 3; Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 14, February 17, 2021; Library Reference USPS-FY20-NP44, question 2.

¹⁸⁰ See Order No. 5437.

¹⁸¹ Errata to Certain Pages of the FY 2020 ACR at 7. The Postal Service noted that the Inbound Letter Post Small Packets and Bulky Letters product was non-compensatory using the originally filed ICRA data. FY 2020 ACR at 67. However, the product did cover costs using the more accurate revised ICRA.

international products consisting of NSAs, the number of contracts that did not cover their attributable costs in FY 2020 increased from 10 to 11. Errata to Certain Pages of the FY 2020 ACR at 8.

Overall, for international products, the revisions resulted in a shift of \$88.9 million in revenues from Market Dominant to Competitive products.¹⁸² With respect to attributable costs, the revisions shifted \$0.7 million from Competitive to Market Dominant international products. *Id.*

The Commission notes that the Postal Service was unable to identify all dockets with data issues for IPA and ISAL when responding to CHIR No. 4, in which the issue was raised for the first time.¹⁸³ The Commission emphasizes that 34 calendar days passed between the issuance of CHIR No. 4 and the filing of the revised ICRA. *See* Errata to Certain Pages of the FY 2020 ACR; *see also* Notice of Revisions to ACR Folders. This delay in filing of corrected ICRA data significantly reduced the time available to the Commission to analyze the revised ICRA.

The Commission urges the Postal Service to provide accurate data pertaining to the latest fiscal year at the time of the original submission of fiscal year data in future Annual Compliance Review dockets.

5. Competitive Nonpostal Services

In FY 2020, Competitive nonpostal services¹⁸⁴ generated \$147 million in revenue and incurred \$51 million in expenses, which resulted in a net revenue of \$96 million. USPS-FY20-NP27, Preface. This figure represents a 14-percent decrease compared to FY 2019, but an overall cost coverage of 286 percent.

The Commission concludes that Competitive Nonpostal Services satisfied 39 U.S.C. § 3633(a)(2) because revenues exceeded attributable cost for each product.

¹⁸² *Id.*; *see* Revised Library Reference USPS-FY20-NP2, Excel file "Reports (Unified).xlsx," tab "A Pages Summary;" *see also* Library Reference USPS-FY20-NP2, Excel file "Reports (Unified).xlsx," tab "A Pages Summary."

¹⁸³ CHIR No. 4, question 3, issued on January 19, 2021, identified eight dockets with potential IPA and ISAL data issues. In its response to CHIR No. 4, question 3, filed on January 26, 2021, the Postal Service was unable to identify additional dockets with similar problems. The Commission subsequently identified additional dockets with IPA and ISAL issues, which were included in CHIR No. 12, question 3. CHIR No. 12 was issued on February 5, 2021.

¹⁸⁴ The seven Competitive products are: (1) Licensing of Intellectual Property other than Officially Licensed Retail Products; (2) Mail Service 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).

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 what the Commission determines to be an appropriate share of the institutional costs of the Postal Service.” 39 U.S.C. § 3633(b) requires the Commission to review the appropriate share requirement every 5 years to determine whether the requirement “should be retained in its current form, modified, or eliminated.” In implementing section 3633 after the PAEA was enacted, the Commission set the initial appropriate share requirement at 5.5 percent of total institutional costs.¹⁸⁵ In FY 2012, the Commission conducted its first review of the appropriate share and found it appropriate to maintain the requirement at 5.5 percent.¹⁸⁶

Following its second review of the appropriate share, which was initiated in FY 2017, the Commission implemented a new, formula-based methodology for determining what the appropriate share should be.¹⁸⁷ Under this approach, the appropriate share was to be updated annually as part of the ACD. Order No. 4963 at 27. FY 2019 was the first year to which the new methodology was applicable, and the formula-derived appropriate share for FY 2019 was 8.8 percent. FY 2018 ACD at 112, 116. The Commission determined in the FY 2018 ACD that the appropriate share for FY 2020 would remain at 8.8 percent. *Id.* at 116-17. The Commission determined in the FY 2019 ACD that the appropriate share for FY 2021 would be 9.1 percent. FY 2019 ACD at 87-89.

Order No. 4963 was appealed to the United States Court of Appeals for the District of Columbia Circuit, which, on April 14, 2020, remanded it to the Commission for clarification of a particular aspect of the Commission’s interpretation of 39 U.S.C. § 3633.¹⁸⁸ The Commission is currently working to address the Court of Appeals’ remand, and in the meantime will not use the formula-derived appropriate share amount for purposes of determining compliance with 39 U.S.C. § 3633(a)(3). However, because the formula is recursive, the Commission will continue to perform the relevant calculations to determine what the formula-based appropriate share for FY 2022 would be, in order to avoid any disruption in the formula’s operation while the remand is being addressed.

¹⁸⁵ See Docket No. RM2007-1, Order Establishing Rate-making Regulations for Market Dominant and Competitive Products, October 29, 2007, at 90-92 (Order No. 43).

¹⁸⁶ See Docket No. RM2012-3, Order Reviewing Competitive Products’ Appropriate Share Contribution to Institutional Costs, August 23, 2012, at 24-25 (Order No. 1449).

¹⁸⁷ See Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019 (Order No. 4963).

¹⁸⁸ See *United Parcel Serv., Inc. v. Postal Regul. Comm’n*, 955 F.3d 1038 (D.C. Cir. 2020).

1. Comments on Appropriate Contribution Provision

The Postal Service asserts that the total Competitive product contribution for FY 2020 was \$11.095 billion, or 30.8 percent of total institutional costs, an amount that complied with the requirements of 39 U.S.C. § 3633(a)(3). FY 2020 ACR at 70-71.

The Public Representative and Pitney Bowes concur that Competitive products' contribution to institutional costs in FY 2020 was compliant with 39 U.S.C. § 3633(a)(3). PR Comments at 135-36; Pitney Bowes Comments at 4-5.

UPS argues that the appropriate share requirement “remains untethered to the growing prominence of the competitive products business[,]” and is “too low to be economically meaningful.”¹⁸⁹ It further asserts that “the Commission should act promptly to issue a new order setting the appropriate share in accordance with the D.C. Circuit’s opinion” UPS Comments at 7.

2. Commission Analysis

a. FY 2020 Appropriate Share

In FY 2020, the total institutional costs of the Postal Service were \$35.986 billion.¹⁹⁰ In FY 2020, the total contribution made by Competitive products collectively to institutional costs was \$11.185 billion¹⁹¹ (approximately 31.1 percent of total institutional costs), which would have met either the 5.5 percent requirement or the formula-derived 8.8 percent requirement. Therefore, the Postal Service was compliant with 39 U.S.C. § 3633(a)(3).

UPS’s comments pertaining to the amount of the appropriate share requirement are outside the scope of the ACD, which determines compliance with statutory requirements using established methodologies. Comments pertaining to the methodology for determining the appropriate share amount are appropriately addressed in separate dockets pertaining to that issue.¹⁹²

The Commission finds that in FY 2020 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service’s institutional costs.

¹⁸⁹ Initial Comments of United Parcel Service, Inc. on the United States Postal Service’s Annual Compliance Report for Fiscal Year 2020, February 1, 2021, at 6 (UPS Comments).

¹⁹⁰ Library Reference PRC-LR-ACR2020-1, Excel file “FY20 Summary_LR-1.xlsx,” tab “Total All Mail Appendix A,” cell D79.

¹⁹¹ *Id.* tab “Total All Mail Appendix A,” cell E23.

¹⁹² See, e.g., Docket No. RM2017-1, in which the Commission in Order No. 4963 adopted final rules with respect to the appropriate share amount that were subsequently remanded. The Commission is currently working to address the issues raised by the Court of Appeals, and interested parties will have an opportunity to comment further in that docket.

b. FY 2021 Appropriate Share

The formula-based approach to determining the appropriate share is recursive. Each year when conducting its annual compliance review, the Commission determines the appropriate share for the upcoming fiscal year. Order No. 4963 at 26-27. In conducting its annual compliance review for FY 2019, which was carried out during FY 2020, the Commission applied the formula and determined that the appropriate share for FY 2021 would be 9.1 percent. FY 2019 ACD at 87-89.

c. FY 2022 Appropriate Share

In this section, the Commission applies the formula to determine what the appropriate share would be for FY 2022 under the formula-based approach. The first component of the formula is the Competitive Contribution Margin, which is calculated as follows:

$$\text{Competitive Contribution Margin} = \frac{\text{Total Revenue} - \text{Total Attributable Cost}}{\text{Total Revenue}}$$

Order No. 4963 at 23. “Total attributable cost” refers to the cost incurred by the Postal Service in producing Competitive products collectively. *Id.* at 23-24. “Total revenue” refers to the total amount of revenue that the Postal Service is able to realize from its Competitive products collectively. *Id.* at 24.

The second component of the formula is the Competitive Growth Differential, which is calculated as follows:

$$\begin{aligned} \text{Competitive Growth Differential} \\ = \text{Market Share}_{USPS} * (\% \Delta \text{Revenue}_{USPS} - \% \Delta \text{Revenue}_{C\&M}) \end{aligned}$$

Order No. 4963 at 25. “*Market Share*_{USPS}” refers to the Postal Service’s share of the overall parcel delivery market, expressed as a percentage. It “is determined by dividing the Postal Service’s total competitive product revenue by the sum of the Postal Service’s total competitive product revenue” and the total revenue earned by the Postal Service’s competitors collectively,¹⁹³ as represented in the following equation:

$$\text{Market Share}_{USPS} = \frac{\text{Revenue}_{USPS}}{\text{Revenue}_{USPS} + \text{Revenue}_{C\&M}}$$

¹⁹³ Revenue data for the Postal Service are obtained from the Product Finances Analysis, which the Commission produces each year as part of the ACD. Revenue data for the Postal Service’s competitors are obtained from the United States Census Bureau. Order No. 4963 at 25.

Id. at 25 n.54. “ $\% \Delta Revenue_{USPS}$ ” refers to the percentage change in the Postal Service’s total real Competitive product revenue compared to the previous year. *Id.* at 25. “ $\% \Delta Revenue_{C\&M}$ ” refers to the percentage change in the total real revenue earned by the Postal Service’s competitors collectively compared to the previous year. *Id.*

With the forgoing component values, the appropriate share for a given fiscal year can be calculated using the formula adopted by the Commission in Order No. 4963. Specifically, the formula is:

$$AS_{t+1} = AS_t * (1 + \% \Delta CCM_{t-1} + CGD_{t-1})$$

If t = 0 = FY 2007, AS = 5.5%

Where,

AS = Appropriate Share

CCM = Competitive Contribution Margin

CGD = Competitive Growth Differential

t = Fiscal Year

Id. at 26. “ AS_t ” refers to the appropriate share value for the fiscal year during which an ACD proceeding is being conducted. Since the ACD is conducted after the close of each fiscal year, this will always be the fiscal year immediately following the fiscal year under review. For example, this ACD evaluates compliance for FY 2020, but is being conducted in FY 2021, and, as it relates to the formula, is being used to determine what the appropriate share will be in FY 2022. “ AS_{t-1} ” refers to the appropriate share value from the fiscal year being evaluated during an ACD proceeding (for purposes of the present analysis, this is FY 2020). “ AS_{t+1} ” refers to the appropriate share value for the fiscal year after the fiscal year during which an ACD proceeding is being conducted (for purposes of the present analysis, this is FY 2022).

For the Competitive Contribution Margin, in FY 2020, the total Competitive product revenue was \$30.610 billion. The FY 2020 total attributable cost incurred in producing Competitive products was \$19.426 billion. Therefore, the Competitive Contribution Margin value was:

$$\frac{\$30.610 \text{ billion} - \$19.426 \text{ billion}}{\$30.610 \text{ billion}} = 0.365,$$

representing a 7.2-percent increase from FY 2019.¹⁹⁴

For the Competitive Growth Differential, the Commission calculates the growth rates for both the Postal Service and its competitors in FY 2020. In FY 2019, the Postal Service’s total real Competitive product revenue was \$19.633 billion, while in FY 2020 it was \$24.523 billion. The percentage change from FY 2019 to FY 2020 was 24.9 percent. In FY 2019, the

¹⁹⁴ The following calculations can also be found in a library reference accompanying this Report. See Library Reference PRC-LR-ACR2020-10.

total real revenue earned by the Postal Service's competitors collectively was \$81.071 billion, while in FY 2020 it was \$88.756 billion. The percentage change from FY 2019 to FY 2020 was 9.5 percent. The Postal Service's market share was 19.5 percent. The Competitive Growth Differential value for FY 2020 was thus:

$$19.5\% * (24.9\% - (9.5\%)) = 3.0\%.$$

See Library Reference PRC-LR-ACR2020-10.

When the component values are plugged into the formula, the result is:

$$9.1\% * (1 + 7.2\% + 3.0\%) = 10.0\%.$$

Therefore, the appropriate share requirement for FY 2022 would be 10.0 percent under the formula-based approach.

CHAPTER V. SERVICE PERFORMANCE

A. Service Performance Results

1. Introduction

Before the PAEA, the Postal Service had internal delivery service standards for major types of mail, but lacked statutory guidance on how to establish delivery standards and did not measure and report its delivery performance for most types of mail.¹⁹⁵ The PAEA required the Postal Service to establish an initial set of service standards for Market Dominant products to take effect within 1 year of the PAEA's enactment. 39 U.S.C. § 3691(a). These service standards must be established "by regulation" and "in consultation with the Postal Regulatory Commission." *Id.* The Postal Service may "from time to time thereafter by regulation revise" these standards.¹⁹⁶ The PAEA also requires the Postal Service to develop a "plan for meeting those [service] standards," within which it must "establish performance goals" for its delivery performance. PAEA § 302(a), (b)(1), 120 Stat. at 3219.

The Postal Service promulgated its initial service standards in 2007.¹⁹⁷ As designed by the Postal Service, the standards specify the amount of time within which a customer may ordinarily expect that a particular mailpiece will be delivered, in accordance with a detailed set of "business rules."¹⁹⁸ The Postal Service has since revised these standards, most significantly through its "Mail Processing Network Rationalization" initiative beginning in FY 2012¹⁹⁹ and its "Standard Mail Load Leveling" initiative beginning in FY 2014.²⁰⁰ The Postal Service proceeded to implement both initiatives, notwithstanding the conclusions and recommendations by the Commission that the Postal Service should perform

¹⁹⁵ United States Government Accountability Office, Report No. GAO-06-733, U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement, published July 2006, at 2-4, available at <https://www.gao.gov/assets/260/250894.pdf> (GAO-06-733).

¹⁹⁶ *Id.* Any "change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis" requires an advisory opinion by the Commission. *Id.* § 3661(b).

¹⁹⁷ See Modern Service Standards for Market-Dominant Products, 72 Fed. Reg. 72,216 (Dec. 19, 2007) (to be codified at 39 C.F.R. pts. 121 and 122).

¹⁹⁸ *Id.* at 72,220. 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)." United States Postal Service *Publication 32, Glossary of Postal Terms*, July 2013, available at http://about.usps.com/publications/pub32/pub32_terms.htm (Postal Service *Glossary of Postal Terms*). "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.*

¹⁹⁹ See Revised Service Standards for Market-Dominant Mail Products, 77 Fed. Reg. 31,190 (May 25, 2012) (codified at 39 C.F.R. pt. 121).

²⁰⁰ See Service Standards for Destination Sectional Center Facility Rate Standard Mail, 79 Fed. Reg. 12,390, 12,393 (Mar. 5, 2014) (codified at 39 C.F.R. pt. 121).

additional analysis of the potential effects before proceeding.²⁰¹ As required by section 302 of the PAEA, the Postal Service also prepared a plan for meeting its service standards: development of a set of percentage on-time performance targets.²⁰² The Postal Service has since updated these on-time targets annually and gradually increased them over time for most products. *See, e.g.*, FY 2018 ACD at 164, 178, 185, 187, 191.

Each year, the Postal Service must report²⁰³ 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. Reliability refers to consistency of delivery. *Id.*

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.²⁰⁴

Below, Figure V-1 categorizes Market Dominant products according to whether or not they achieved their annual service performance targets for FY 2020.

²⁰¹ *See* Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 45-46 (Docket No. N2012-1, Advisory Opinion) (concluding that "it is possible for the Postal Service to undertake significant network rationalization and realize substantial cost savings while preserving most current service levels" and encouraging "the Postal Service to consider the advice in this opinion and study the effects of the service standard changes implemented on July 1, 2012, before going forward with Phase 2, and its further reductions in service"); Docket No. N2014-1, Advisory Opinion on Service Changes Associated With Standard Mail Load Leveling, March 26, 2014, at 1 (recommending that the Postal Service "undertake a more rigorous cost-benefit analysis, additional field testing and service performance analysis, and volume impact studies before committing to a nationwide rollout of the Load Leveling Plan[]").

²⁰² *See* United States Postal Service, *Postal Accountability and Enhancement Act § 302 Network Plan*, June 2008, at 7; The Three R's of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness, Hearing Before the Subcomm. on Federal Workforce, Postal Service, and Dist. of Columbia of the H. Comm. on Oversight and Gov't Reform, 110th Cong., at 47 (July 24, 2008) (statement of Patrick R. Donahoe, Deputy Postmaster General/Chief Operating Officer, United States Postal Service) (stating that the Postal Service would fulfill its section 302 mandate by, among other things, establishing "'percentage on-time' targets [that] will be shared with the Commission and will serve as the basis for its annual review of [the Postal Service's] service standards compliance[]").

²⁰³ "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* 39 U.S.C. § 3652(d), (e).

²⁰⁴ 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.

**Figure V-1
FY 2020 Market Dominant Products Service Performance Results**



Source: Library Reference USPS-FY20-29, December 29, 2020, PDF file "FY20-29 Service Performance Report.pdf," at 4, 14, 17, 20, 25 (FY 2020 Service Performance Report).

Section A. of this chapter begins with an overview of the events in FY 2020 that affected service performance of all Market Dominant products. Next, the Commission describes the systems the Postal Service uses to measure service performance for Market Dominant products. Finally, the Commission discusses the Postal Service's FY 2020 service performance results by class of mail.

2. FY 2020 Events Affecting Service Performance for All Market Dominant Products

a. Overview

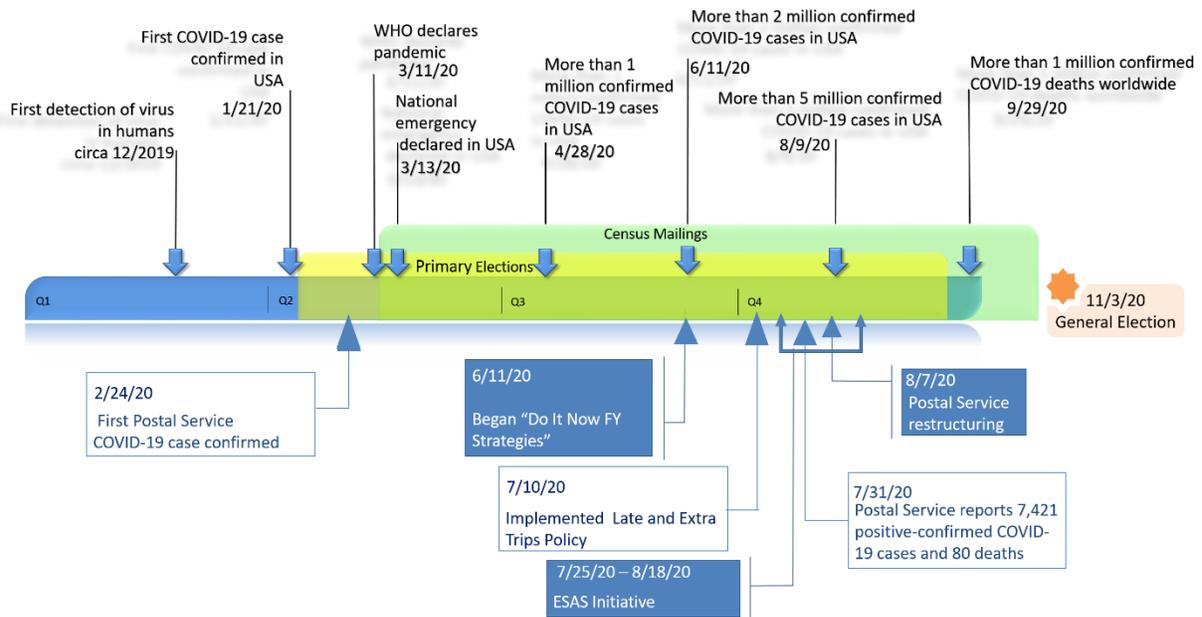
In FY 2020 (October 1, 2019 through September 30, 2020), the most significant event affecting the Postal Service, and the public at large, was the COVID-19 pandemic. The pandemic remains a public health and economic emergency. Because Postal Service employees perform an essential function as part of the nation's critical infrastructure, they continue to process and deliver the nation's mail. The Commission expresses its appreciation for the continuous efforts of the frontline Postal Service workers, who are performing essential work that allows millions of Americans to minimize their exposure to COVID-19 by remaining at home.

The pandemic had a tremendous impact on the Postal Service, which became widespread and significant in Quarters 3 and 4 of FY 2020 (April 1, 2020 through September 30, 2020). The Postal Service reports that COVID-19 primarily impacted service performance by reducing employee availability, disrupting its contract transportation arrangements, and changing the mail mix. In addition to responding to the pandemic in Quarter 4 of FY 2020, the Postal Service undertook operational changes and corporate reorganization. Further, the Postal Service strived to prioritize delivery of Political Mail, Election Mail, and Census Mail.²⁰⁵ Each of these events, which are discussed separately below, had significant impacts on the Postal Service's Market Dominant service performance results. Moreover, because the timing of these events overlapped, their combination exacerbated the extent and duration of the impacts.

Below, Figure V-2 displays a timeline that highlights several key events in FY 2020 that affected service performance for all Market Dominant products.

²⁰⁵ The Commission uses the term "Election Mail" to refer to any item mailed to or from authorized election officials that enables citizens to participate in the voting process, such as balloting materials, voter registration cards, absentee applications, and polling place notifications, and uses the term "Political Mail" to refer to any item mailed for campaign purposes by a registered political candidate, campaign committee or committee of a political party, political action committee, or organization engaging in issue advocacy or voter mobilization. See United States Postal Service, *Postal Bulletin* No. 22539, February 13, 2020, at 4, available at <https://about.usps.com/postal-bulletin/2020/pb22539/pb22539.pdf> (*Postal Bulletin* No. 22539). The Commission uses the term "Census Mail" to refer to any item mailed by the Census Bureau or respondents relating to the 2020 Census.

**Figure V-2
FY 2020* Timeline**



Note:

* For purposes of Postal Service reporting, FY 2020 covers October 1, 2019 through September 30, 2020, and events on or after October 1, 2020 occur during FY 2021. Events during FY 2021 Quarter 1, such as the General Election held on November 3, 2020, are included in this timeline for context.

Sources: CNN Editorial Research, *Coronavirus Outbreak Timeline Fast Facts*, March 1, 2021, available at <https://www.cnn.com/2020/02/06/health/wuhan-coronavirus-timeline-fast-facts/index.html>; United States Postal Service, Office of Inspector General, Report No. 20-259-R21, *Employee Safety – Postal Service COVID-19 Response*, November 20, 2020, at 5, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/20-259-R21.pdf> (OIG Report No. 20-259-R21); Proclamation 9994 of March 13, 2020, *Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak*, 85 Fed. Reg. 15,337-38, (Mar. 18, 2020); Lynsey Jeffrey, NPR, *U.S. Surpasses 1 Million Coronavirus Cases*, April 28, 2020, available at <https://www.npr.org/sections/coronavirus-live-updates/2020/04/28/846741935/u-s-surpasses-1-million-coronavirus-cases>; Bill Chappell, NPR, *U.S. Hits 2 Million Coronavirus Cases As Many States See A Surge Of Patients*, June 10, 2020, available at <https://www.npr.org/sections/coronavirus-live-updates/2020/06/10/873473805/u-s-hits-2-million-coronavirus-cases-as-many-states-see-a-surge-of-patients>; Jason Slotkin, NPR, *U.S. Hits 5 Million Coronavirus Cases As Debate Lingers Over The Path Forward*, August 9, 2020, available at <https://www.npr.org/sections/coronavirus-live-updates/2020/08/09/900640397/u-s-hits-5-million-coronavirus-cases-as-debate-lingers-over-the-path-forward>; BBC, *Coronavirus: Global Covid-19 death toll passes one million*, September 29, 2020, available at <https://www.bbc.com/news/world-54334496>; United States Postal Service, Office of Inspector General, Report No. 21-014-R21, *Deployment of Operational Changes*, November 6, 2020, at 5, 7, Appendix B at 20-22, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/21-014-R21.pdf> (OIG Report No. 21-014-R21); National Conference of State Legislatures, *2020 State Primary Election Dates*, available at <https://www.ncsl.org/research/elections-and-campaigns/2020-state-primary-election-dates.aspx> (2020 State Primary Election Dates); United States Census Bureau, *2020 Census Operational Adjustments Due to COVID-19*, available at <https://2020census.gov/en/news-events/operational-adjustments-covid-19.html> (2020 Census Operational Adjustments); *Postal Bulletin* No. 22539 at 4.

b. The COVID-19 Pandemic

COVID-19 was first detected in humans in approximately December 2019.²⁰⁶ For Postal Service reporting purposes, this occurred during FY 2020 Quarter 1 (October 1, 2019 through December 31, 2019).

During FY 2020 Quarter 2 (January 1, 2020 through March 31, 2020), COVID-19 was first detected in the United States. *Id.* The Postal Service reported its first confirmed case on February 24, 2020. OIG Report No. 20-259-R21 at 5. In mid-March 2020, approximately 2 weeks before the end of FY 2020 Quarter 2, the World Health Organization declared the outbreak to be a pandemic and the President of the United States issued a national emergency declaration.²⁰⁷

During FY 2020 Quarters 3 and 4 (April 1, 2020 through September 30, 2020), the spread of the pandemic accelerated. The number of confirmed cases in the United States reached 1 million by April 28, 2020,²⁰⁸ 2 million by June 11, 2020,²⁰⁹ and 5 million by August 9, 2020.²¹⁰ By September 29, 2020, just as FY 2020 was ending, there were 1 million confirmed deaths due to COVID-19 worldwide.²¹¹ The Postal Service reports that as of the end of FY 2020 Quarter 4 (September 30, 2020), approximately 38,769 employees were presumed to have contracted COVID-19 and 129 had died from the virus.²¹² The pandemic's impacts continued into FY 2021 (beginning October 1, 2020).

The Postal Service describes three primary examples of how the pandemic has affected service performance: reduced employee availability, contract transportation constraints, and surging growth in packages (changes in mail mix). Each of these three issues are discussed separately below.

²⁰⁶ See *Coronavirus Outbreak Timeline Fast Facts*, available at <https://www.cnn.com/2020/02/06/health/wuhan-coronavirus-timeline-fast-facts/index.html>.

²⁰⁷ Fed. Reg. 15,337-38 (Mar. 18, 2020).

²⁰⁸ *U.S. Surpasses 1 Million Coronavirus Cases*, available at <https://www.npr.org/sections/coronavirus-live-updates/2020/04/28/846741935/u-s-surpasses-1-million-coronavirus-cases>.

²⁰⁹ *U.S. Hits 2 Million Coronavirus Cases As Many States See A Surge Of Patients*, available at <https://www.npr.org/sections/coronavirus-live-updates/2020/06/10/873473805/u-s-hits-2-million-coronavirus-cases-as-many-states-see-a-surge-of-patients>.

²¹⁰ *U.S. Hits 5 Million Coronavirus Cases As Debate Lingers Over The Path Forward*, available at <https://www.npr.org/sections/coronavirus-live-updates/2020/08/09/900640397/u-s-hits-5-million-coronavirus-cases-as-debate-lingers-over-the-path-forward>.

²¹¹ *Coronavirus: Global Covid-19 death toll passes one million*, available at <https://www.bbc.com/news/world-54334496>.

²¹² See Responses of the United States Postal Service to Questions 1-7, 10-20 of Chairman's Information Request No. 6, February 4, 2021, question 3, Excel file "ChIR.6.Q.3.COVID.xlsx," tabs "Fatalities" and "Cases" (February 4 Response to CHIR No. 6).

(1) Reduced Employee Availability

The Postal Service explains that the pandemic reduced employee availability on a national level leading to significant absenteeism in “hot spots,” which caused the Postal Service to supplement its workforce with less experienced employees.²¹³ The Postal Service attributed this increased absenteeism to COVID-related family leave, primarily due to childcare needs.²¹⁴

The Postal Service reports that it started FY 2020 with 76.9 percent availability of full-time regular²¹⁵ mail processing employees nationwide in October 2019 (the first quarter of FY 2020) and that availability subsequently decreased to 68.9 percent in May 2020 (during the third quarter of FY 2020). *See* Response to CIR No. 1, question 1.b. Although the Postal Service’s FY 2020 national employee availability level stayed above the 60 percent threshold needed to keep essential operations running, availability decreased from FY 2019 to FY 2020. OIG Report No. 20-275-R21 at 8. National availability levels varied throughout the year, but averaged 78 percent in FY 2019 and 77 percent in FY 2020.²¹⁶

Figures V-3 through V-5 disaggregate employee availability by mail processing (Function 1), delivery services (Function 2), and customer service (Function 4).

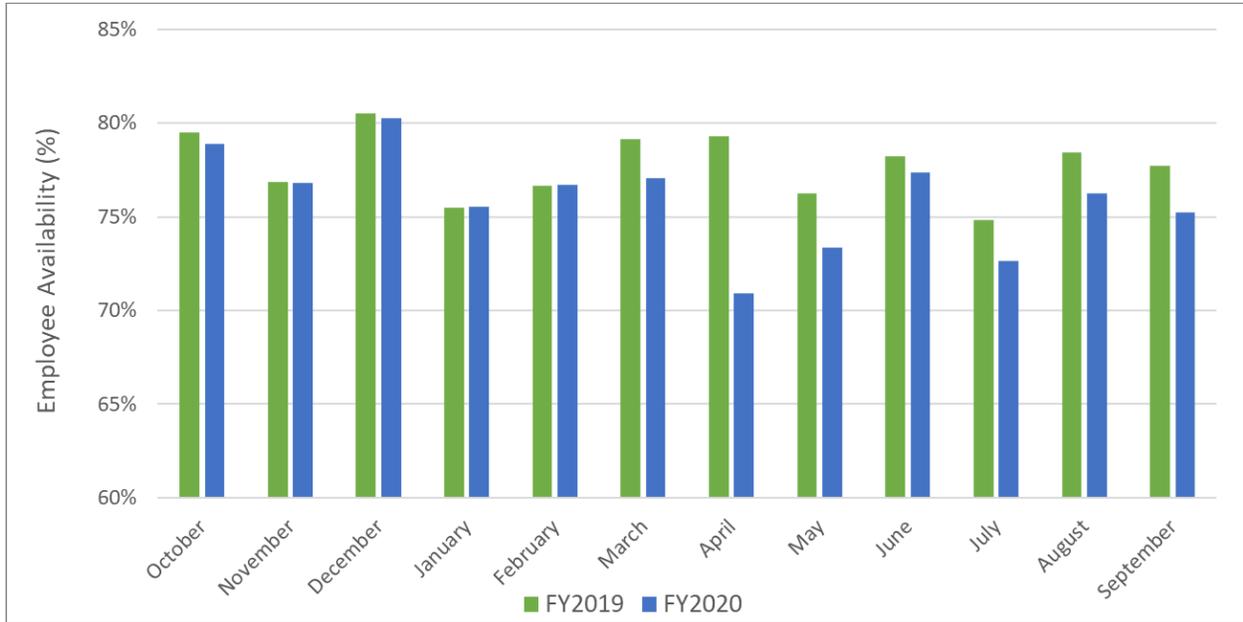
²¹³ See Responses of the United States Postal Service to Questions 1-21 of Commission Information Request No. 1, January 15, 2021, questions 1.a., 6.b. (Response to CIR No. 1).

²¹⁴ United States Postal Service, Office of Inspector General, Report No. 20-275-R21, Mail Service During the Early Stages of the COVID-19 Pandemic, January 4, 2021, at 12, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2021/20-275-R21.pdf> (OIG Report No. 20-275-R21).

²¹⁵ The Postal Service uses the terms “career” and “regular” interchangeably. The Postal Service categorizes its workforce into two types of employees: career and non-career. Career (regular) employees serve in permanent positions on a full-time or part-time basis and typically receive full federal benefits. Non-career employees are temporary workers who do not receive the same employee benefits as career employees. *See* United States Postal Service, Office of Inspector General, Report No. 19POG001SAT000-R20, Effectiveness of the Postal Service’s Efforts to Reduce Non-Career Employee Turnover, February 12, 2020, at 4, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/19POG001SAT000-R20.pdf>.

²¹⁶ February 4 Response to CHIR No. 6, question 2, Excel file “Q.2 Employee Availability Data.xlsx,” tab “Month_Quarter.”

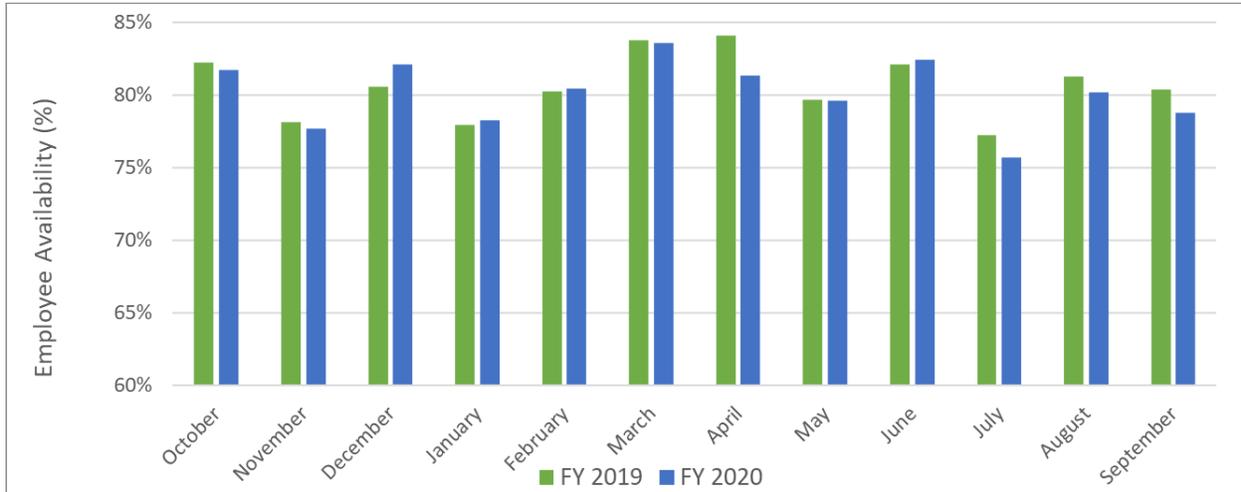
Figure V-3
Mail Processing (Function 1) Employee Availability, by Month
FY 2019–FY 2020



Note: A complete list of the Postal Service’s functions and Labor Distribution Codes appears in Docket No. R2006-1, Library Reference USPS-LR-L-55, May 3, 2006, folder “LR-L-55 electronic version (.doc & .excel),” folder “lr-l-55 part1,” PDF file “_Labor Distribution Codes.pdf.”

Source: February 4 Response to CHIR No. 6, question 2, Excel file “Q.2 Employee Availability Data.xlsx,” tab “Month_Quarter_Func.”

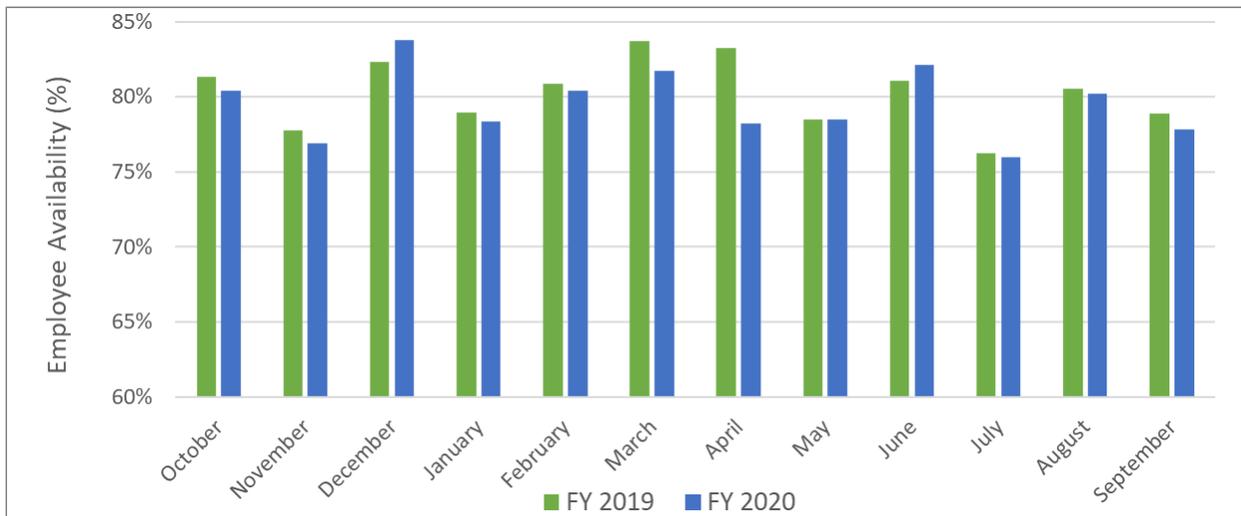
Figure V-4
Delivery Services (Function 2) Employee Availability, by Month
FY 2019–FY 2020



Note: A complete list of the Postal Service’s functions and Labor Distribution Codes appears in Docket No. R2006-1, Library Reference USPS-LR-L-55, folder “LR-L-55 electronic version (.doc & .excel),” folder “lr-l-55 part1,” PDF file “_Labor Distribution Codes.pdf.”

Source: February 4 Response to CHIR No. 6, question 2, Excel file “Q.2 Employee Availability Data.xlsx,” tab “Month_Quarter_Func.”

Figure V-5
Customer Service (Function 4) Employee Availability, by Month
FY 2019–FY 2020



Note: A complete list of the Postal Service’s functions and Labor Distribution Codes appears in Docket No. R2006-1, Library Reference USPS-LR-L-55, folder “LR-L-55 electronic version (.doc & .excel),” folder “lr-l-55 part1,” PDF file “_Labor Distribution Codes.pdf.”

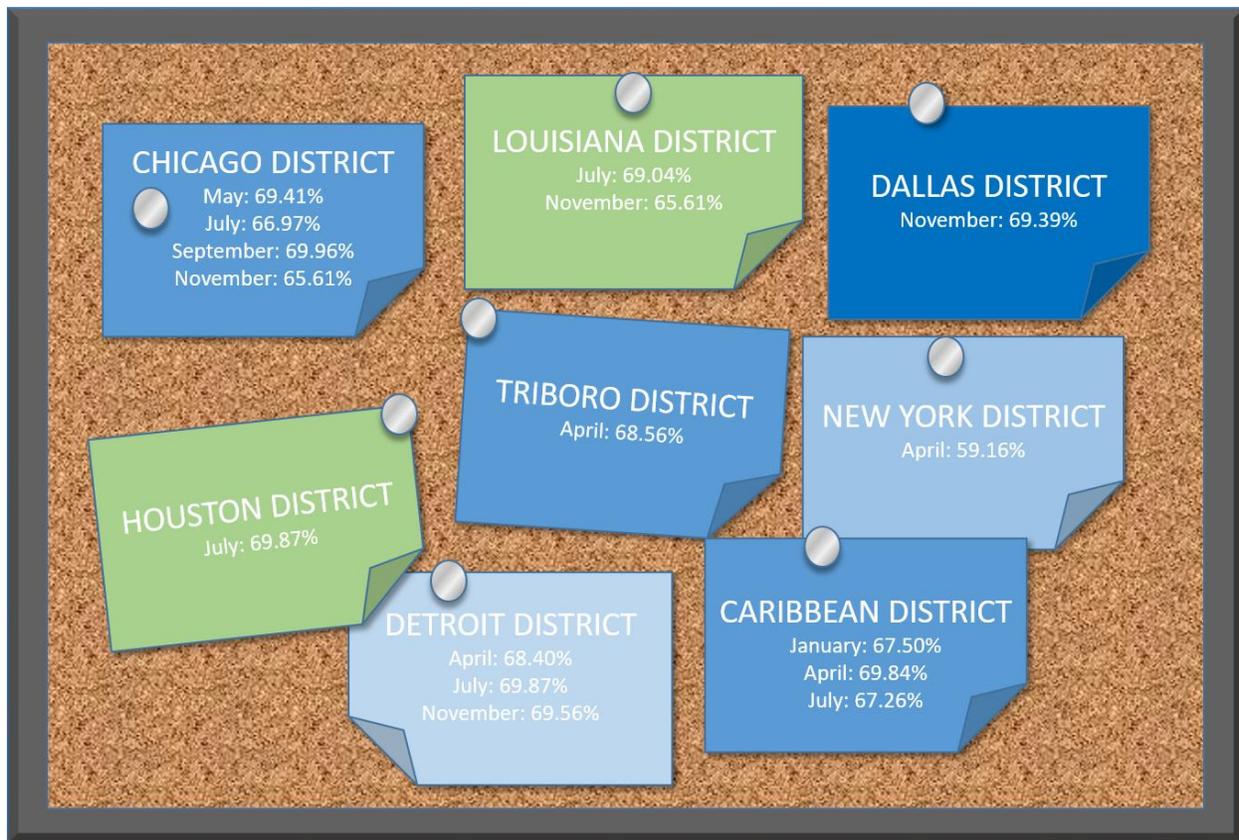
Source: February 4 Response to CHIR No. 6, question 2, Excel file “Q.2 Employee Availability Data.xlsx,” tab “Month_Quarter_Func.”

Figures V-3 through V-5 provide insight into the fluctuation of employee availability for processing, at the national level, throughout FY 2020 as compared to FY 2019. The Commission compares average national employee availability for the second half of FY 2020 (April to September 2020) versus the same period in FY 2019. Average employee availability for mail processing (Function 1) was 74.3 percent for the period of April to September 2020. This constitutes a 3.16 percentage point decline compared to the average during the same period in FY 2019 (77.46 percent). For the period of April to September 2020, average employee availability for delivery services (Function 2) and customer service (Function 4) declined from the averages during the same period in FY 2019 by 1.12 and 0.95 percentage points, respectively.²¹⁷ These data indicate that the Postal Service's challenges with national employee availability were greater for mail processing than delivery services and customer service. Nonetheless, based on divergence from FY 2019 results, national employee availability for mail processing, delivery services, and customer service, seemed to be most challenged during the month of April 2020.

In addition to this national reduction in employee availability, the Postal Service refers to "numerous pockets of *hot spots* at different times." Response to CIR No. 1, question 1.a. (emphasis added) (internal marks omitted). The Postal Service describes the significant impact of employee availability falling below 50 percent in numerous facilities at different times. *See id.* question 1.b.; Response to CHIR No. 11, question 13.a. At the District level, the Postal Service contends that monthly employee availability of less than 70 percent could be "most effective in distinguishing particularly-challenged Districts." Response to CHIR No. 11, question 13.b. Below, Figure V-6 displays the Districts reported by the Postal Service with monthly employee availability lower than this 70 percent threshold during CY 2020.

²¹⁷ For the period of April to September, the average employee availability for delivery services (Function 2) employees was 79.66 percent in FY 2020 and 80.78 percent in FY 2019. For the period of April to September, the average employee availability for customer service (Function 4) employees was 78.81 percent in FY 2020 and 79.76 percent in FY 2019.

Figure V-6
Monthly Employee Availability, Below 70 Percent, by District, CY 2020



Note: The Postal Service reported its first confirmed COVID-19 case on February 24, 2020. OIG Report No. 20-259-R21 at 5. The data provided by the Postal Service correspond to calendar year rather than fiscal year.

Source: Response to CHIR No. 11, question 13.b.

As illustrated by Figure V-6 above, employee availability for the Caribbean,²¹⁸ Detroit, and Chicago Districts was less than 70 percent for at least 3 months during CY 2020. The lowest District-level availability reported by the Postal Service was for the New York District in April 2020. July was a particularly challenging month for the Postal Service, with five Districts with employee availability below 70 percent.

To investigate the impact of employee availability on service performance, Table V-1 below compares weekly service performance results in July 2020 for 3-5-Day First-Class Mail Single-Piece Letters/Postcards against the same period in FY 2019 for the three districts with monthly employee availability of less than 70 percent occurring at least 3 months during CY 2020.

²¹⁸ The issues with lower availability in the Caribbean District in January 2020 occurred before the first confirmed Postal Service COVID-19 case reported on February 24, 2020, and thus appears to be unrelated to the COVID-19 pandemic. See Response to CHIR No. 11, question 13.b.; OIG Report No. 20-259-R21 at 5.

Table V-1
3-5-Day First-Class Mail Single-Piece Letters/Postcards Service Performance Results,
by Percent, by District, by Week, July FY 2019–FY 2020

Districts	Week 1		Week 2		Week 3		Week 4		Week 5	
	FY 2019	FY 2020								
Caribbean	89.49	67.91	85.54	63.79	80.72	54.02	82.50	47.99	77.43	40.01
Chicago	88.51	83.38	84.39	80.46	87.69	69.34	87.96	66.22	88.78	60.20
Detroit	85.05	75.78	79.43	65.53	87.83	52.63	88.65	51.30	88.15	52.88

Source: Docket No. ACR2019, Supplemental Responses of the United States Postal Service to Revised Questions 1-2 of Commission Information Request No. 3, October 28, 2020, Excel file "CIR.3.Oct.28.ServPerf.Attachmnt.xlsx," tab "FC District" (Docket No. ACR2019, Supplemental Response to CIR No. 3).

As illustrated by Table V-1 above, service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards were significantly lower for each of the Districts challenged with lower employee availability during July 2020 compared to July 2019. The Postal Service states that reduced employee availability in these hot spots may have impacted service performance not only in the affected facilities but in downstream operations as well. *See* Response to CIR No. 1, question 1.a. The Postal Service observes that lack of carrier availability for completing Last Mile delivery also adversely impacted service performance in particular geographic areas. *See id.*

The Postal Service states that it worked to realign its resources to mitigate the service performance impact of reduced employee availability related to COVID-19. *See* FY 2020 ACR at 38. The Postal Service Office of Inspector General (OIG) confirmed that the Postal Service implemented strategies similar to those used by foreign posts, including increasing the workforce by hiring new employees.²¹⁹ The Postal Service increased the number of non-career employees to support sites experiencing high COVID-19-related absenteeism by executing Memorandums of Understanding with its unions and hiring new workers.²²⁰ As a result, the Postal Service reports that it is also utilizing "approximately three to four times the amount of new, inexperienced employees in F1 [Function 1 Operations—Mail Processing] operations" than normal. Response to CIR No. 1, question 2.b.

The Postal Service states that these mitigation factors will not lead to increased service performance results until the pandemic's impacts subside and new employees gain sufficient experience in mail processing operations. *See id.* question 2.d. Observing that "[t]he additional non-career employees hired do not have the knowledge, skills and abilities that the regular employees have," the Postal Service plans to emphasize on-the-job

²¹⁹ OIG Report No. 20-275-R21 at 24. The Postal Service also attempted to mitigate employee unavailability by "[a]llowing mail processing supervisors to perform employee duties such as forklift operations and operating mail processing equipment." *See id.* at 12.

²²⁰ *See* Response to CIR No. 1, question 2.a., 2.b. The Postal Service reports that the number of non-career employees increased from 136,174 in FY 2019 to 148,092 in FY 2020. *FY 2019 Annual Report* at 28. Notably, the number of non-career Mail Handler Assistants increased from 6,369 in FY 2019 to 12,927 in FY 2020, and the number of non-career Casuals increased from 849 in FY 2019 to 10,261 in FY 2020. *See id.*

training and conduct reviews at every mail processing plant during FY 2021. *Id.* question 2.c. The Commission observes that providing relevant training and timely feedback to all employees is critical for any organization, regardless of a pandemic, and encourages the Postal Service to amplify its efforts. As essential workers, Postal Service employees are in Group 1B for the COVID-19 vaccine. *See id.* question 2.d. The Postal Service reiterates its commitment to “continu[ing] to coordinate with federal and state health officials regarding all matters related to the COVID pandemic.” *Id.*

(2) Transportation Challenges

Transit has been a major area of concern in the Commission’s past evaluations of the Postal Service’s service performance results. *See, e.g.,* FY 2019 ACD at 106-12, 119-21. The pandemic exacerbated the Postal Service’s challenges relating to transporting mailpieces that are destined for an address outside of the local service area from which the mailpiece was mailed.²²¹ After completing origin processing, the Postal Service assigns mail to the air or surface network for transportation to a facility closer to the addressee. Because the Postal Service does not operate its own aircraft, it contracts with commercial airlines to rent space for mail on passenger flights as well as cargo-only flights.²²² To move mail to the next facility via the surface network, the Postal Service may use contractors or Postal Service career employees as drivers.²²³

The Postal Service asserts that if a mailpiece misses its scheduled transportation, then generally that mailpiece will not be delivered within the expected timeframe absent “extraordinary measures at substantial cost, such as extra transportation along with clerk and carrier overtime at the delivery point.”²²⁴ The Postal Service explains that for Market Dominant products, processing and operating plans utilizing ground or air transportation typically do not have an error margin built into planned processing that may even accommodate an hour of late mail. *See* Response to CIR No. 1, question 3.a.

In response to the Commission’s inquiries regarding quantification of the impacts of the pandemic on transit in FY 2020, the Postal Service maintains that the impacts were negative and nationwide, but are not quantifiable. *See id.* question 7.a., 7.c.; *see also id.* questions 1, 3, 5, 6. Further, the Postal Service acknowledges that “[t]here is no absolute way to distinguish impacts that might be related to COVID-19 and impacts not related.” *Id.* question 7.c.i.

²²¹ Local service area, or local zone, refers to a nonnumbered zone that applies to mail deposited at any Post Office for delivery to addresses within the delivery area of that Post Office. This includes ZIP Codes assigned to postal facilities, Post Office Box sections, Caller Service, vertical improved mail units in buildings, and delivery units. Postal Service *Glossary of Postal Terms*.

²²² United States Postal Service, *Airmail: A Brief History*, March 2018, at 4-5, available at <https://about.usps.com/who-we-are/postal-history/airmail.pdf>.

²²³ United States Postal Service, Office of Inspector General, Report No. 20-144-R20, *Transportation Network Optimization and Service Performance*, June 5, 2020, at 8, available at <https://www.uspsaig.gov/sites/default/files/document-library-files/2020/20-144-R20.pdf> (OIG Report No. 20-144-R20).

²²⁴ Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-9 of Chairman’s Information Request No. 13, February 21, 2019, question 2 (Docket No. ACR2018, Response to CHIR No. 13).

The Postal Service asserts that the COVID-19 pandemic impacted both air and surface contract transportation. *See id.* question 5.a. Constraints on contract transportation compounded the problems presented by the reduced availability of full-time regular Postal employees and the Postal Service's increased reliance on newly hired inexperienced non-career employees. *See id.* question 3. To mitigate these impacts, the Postal Service implemented several responses, including working to secure additional capacity on airplanes and trucks, developing action plans for underperforming contractors, diverting air volumes to its surface network, and using its Surface Transit Center network more efficiently to reduce the number of trips needed to transport the mail. *See id.* questions 3.a., 3.b., 4.a., 5.c. Additional detail regarding air and surface transportation follows.

(a) Air

The Postal Service does not have its own air fleet; instead, it contracts with Federal Express Corporation, UPS, commercial airlines, and supplemental charters for space on passenger flights and cargo-only flights to transport some of the mail to a destination processing facility. *See* OIG Report No. 20-144-R20 at 6, 8-9. The Postal Service also contracts with third-party affiliates referred to as the Terminal Handling Service (THS) to build up and break down airline containers used to move mail.²²⁵

Due to COVID-19, air transit suppliers cancelled and/or imposed unexpected weight and space restrictions on flights to transport mail. *See* Response to CIR No. 1, questions 3.a., 4.b., 5.a. These restrictions resulted in mail being held for later flights with an increased likelihood of the mail missing its Required Delivery Time (RDT).²²⁶ The Postal Service lacks a metric to quantify cancellations and restrictions for FY 2019 and FY 2020.²²⁷

To mitigate delays, the Postal Service requested additional air capacity and diverted volume to the surface network. *See* February 5 Response to CHIR No. 6, question 9.c. The Postal Service is unable to quantify how these actions impacted service performance results for Market Dominant products. *See id.* question 9.d. The Commission observes that for First-Class Mail Single-Piece Letters/Postcards, the proportions of mailpieces traveling by air versus surface remained similar in FY 2020 to prior fiscal years—surface is used to transport approximately two-thirds of 3-5-Day mailpieces and 99 percent of 2-Day

²²⁵ *See* Response to CIR No. 1, question 3.a. The specifics of THS operations vary depending on which contracted air carrier is used. *See* OIG Report No. 20-144-R20 at 9.

²²⁶ *See* Response to CIR No. 1, question 3.a. The Postal Service uses supplier scans of handling units by the RDT to measure on-time performance. *See* February 5 Response to CHIR No. 6, question 8.d.i.

²²⁷ *See* Responses of the United States Postal Service to Questions 8-9 of Chairman's Information Request No. 6, February 5, 2021, question 9.a. (February 5 Response to CHIR No. 6).

mailpieces.²²⁸ These proportions remained relatively similar through each quarter of FY 2020 and in prior fiscal years.²²⁹

The Postal Service also reports that these cancellations and restrictions were compounded by the increased COVID-19-related absenteeism experienced by its contractors, such as air transit suppliers and THS providers. *See* Response to CIR No. 1, question 3.a. At the same time, air transit was further strained by the surging package volume in the midst of the pandemic, which led to shortfalls in air cargo capacity. *See* February 5 Response to CHIR No. 6, question 9.d.

In an effort to mitigate the impact from the ongoing pandemic, the Postal Service conducted weekly evaluations to identify suppliers that significantly and consistently failed to meet their RDTs. *See* Response to CIR No. 1, question 5.c. Weekly service performance calls were made to suppliers to discuss and correct performance failures and to develop action plans. *See id.* As needed, underperforming suppliers were replaced. *See* February 5 Response to CHIR No. 6, question 9.a.ii.

To monitor whether the Postal Service tenders mailpieces to air transit suppliers on-time, it measures mailpieces reported as assigned to the air network by 02:30 hours each day.²³⁰ The Postal Service explained that this indicator primarily applies to mailpieces with a 3-5-Day service standard.²³¹ Below, Table V-2 displays the level of mailpieces reported as assigned to the air network by 02:30 hours for FY 2019 and FY 2020.

²²⁸ *See* Response to CHIR No. 1, question 19 (reporting that in FY 2020, surface was used to transport 64.03 percent of 3-5-Day mailpieces and 99.42 percent of 2-Day mailpieces); Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-22 of Chairman's Information Request No. 3, January 21, 2020, question 2 (Docket No. ACR2019, Response to CHIR No. 3) (reporting that in FY 2019, surface was used to transport 65.26 percent of 3-5-Day mailpieces and 99.34 percent of 2-Day mailpieces); Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman's Information Request No. 1, January 11, 2019, question 23, Excel file "ChIR.1.Multiple.Responses.xlsx," tab "Q23" (Docket No. ACR2018, January 11 Response to CHIR No. 1) (reporting that in FY 2018, surface was used to transport 68.2 percent of 3-5-Day mailpieces and 99.2 percent of 2-Day mailpieces and in FY 2017, surface was used to transport 67.7 percent of 3-5-Day mailpieces and 99.3 percent of 2-Day mailpieces).

²²⁹ *See* Response to CHIR No. 1, question 19; Docket No. ACR2019, Response to CHIR No. 3, question 2; Docket No. ACR2018, January 11 Response to CHIR No. 1, question 23, Excel file "ChIR.1.Multiple.Responses.xlsx," tab "Q23."

²³⁰ *See* Library Reference USPS-FY20-29, Excel file "FY20 FCM Q4 EOY - 24 hr clock.xlsx." 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). Docket No. ACR2018, January 11 Response to CHIR No. 1, question 47.c.; February 4 Response to CHIR No. 6, question 15.

²³¹ *See* 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.

Table V-2
Nationwide Mailpieces Assigned to Air Networks by 02:30 hours,
by Percent, by Quarter, FY 2019–FY 2020

	Q1 Oct. 1–Dec. 31		Q2 Jan. 1–Mar. 31		1st Half Oct. 1–Mar. 31		Q3 Apr. 1–June 30		Q4 July 1–Sept. 30		2nd Half Apr. 1–Sept. 30		Annual Oct. 1–Sept. 30	
	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020
Mail Assigned Air Networks by 02:30 hours	73.0	89.4	78.1	90.6	75.6	90.0	91.5	90.5	92.5	90.2	92.0	90.3	90.1	90.2

Source: Library Reference USPS-FY19-29, December 27, 2019, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tab “Q5;” Library Reference USPS-FY20-29, Excel file “FY20 FCM Q4 EOY - 24 hr clock.xlsx.”

As illustrated by Table V-2 above, year-over-year, the level of mail assigned to the air network by 02:30 hours is very consistent: 90.1 percent in FY 2019 and 90.2 percent in FY 2020. For the first half of FY 2020 (Quarters 1 and 2), the level of mail assigned to the air network by 02:30 hours increased by approximately 15 percentage points compared to the same period in FY 2019. The Commission commends the Postal Service for achieving demonstrable year-over-year improvement before the widespread onset of the pandemic. The Commission recognizes that the pandemic’s impact on Postal Service operations contributed to the inability to maintain this year-over-year improvement during the second half of FY 2020. For the second half of FY 2020 (Quarters 3 and 4), the level of mail assigned to the air network by 02:30 hours in FY 2020 decreased by approximately 2 percentage points compared to the same period in FY 2019. Notwithstanding the pandemic, assignment levels remained above 90 percent for FY 2020.

The consistent ability of the Postal Service to assign mail in a timely fashion confirms that other downstream components of air transportation were the primary areas of concern. For instance, the Postal Service explains that after mail was assigned to suppliers, it “was sometimes held off until the next flight due to flight cancellations[]” and, “[a]s a result, the mail did not always make the Required Delivery Time” *See* Response to CIR No. 1, question 3.b. Further compounding the problem, the Postal Service explains that Carrier Generated Route (CGR) offerings were significantly reduced, causing the volume of mail tendered to the Postal Service’s cargo-only suppliers to overwhelm the suppliers. *See id.* In an effort to mitigate the impact of reduced CGR offerings, the Postal Service requested additional space from cargo carriers. *See* February 5 Response to CHIR No. 6, question 9.d. Notwithstanding these efforts, the Postal Service reports a total air capacity shortfall of more than 22 percent for the second half of FY 2020. *See id.*

(b) Surface

The Postal Service's surface network moves mail to a facility closer to the addressee by highway contract route (HCR) or Postal Vehicle Service (PVS). *See* OIG Report No. 20-144-R20 at 6, 8-9. HCR refers to a route served by a contract driver transporting mail over highways. *See id.* at 8. PVS refers to the use of career Postal Service employees as drivers who move mail among processing facilities, inner-city delivery offices, and local businesses and mailers. *See id.*

Due to flight cancellations and delays, the Postal Service increased its reliance on its surface network to transport mail. *See* February 5 Response to CHIR No. 6, question 9.d.; Response to CIR No. 1, question 3.a. However, surface transit was also directly impacted by COVID-19, which reduced truck driver availability. *See* Response to CIR No. 1, question 4.c. Moreover, increased package volume increased the demand for tractor-trailer operators; however, these firms faced difficulties with worker absenteeism and hiring due to the pandemic.²³²

To mitigate the pandemic's impact on surface transportation, the Postal Service reports three primary mitigation strategies: (1) prevention by ensuring timely dispatch and departure, (2) work-arounds by increasing the efficiency of its routes, and (3) correction by monitoring problems with surface transportation. *See* Response to CIR No. 1, question 4.

First, the Postal Service has increased its focus on prevention of transportation delays by working to ensure its processing operations dispatch volume as scheduled, thereby allowing trucks to depart on time and minimizing the need for late or extra trips. *See id.* question 4.a.

Below, Table V-3 compares the number of extra trips used to transport mail for each month of FY 2020 with the same month in FY 2019, along with the corresponding percent difference.

²³² *See* Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 2, January 21, 2021, question 1.a (Response to CHIR No. 2).

Table V-3
Surface Transportation Extra Trips, by Month, FY 2019–FY 2020

Month	FY 2019	FY 2020	Percent Difference
October	61,014	61,230	0.4%
November	74,928	67,523	-9.9%
December	109,114	109,462	0.3%
January	61,399	61,086	-0.5%
February	50,574	50,024	-1.1%
March	52,537	48,641	-7.4%
April	52,340	65,718	25.6%
May	55,554	84,650	52.4%
June	47,890	74,546	55.7%
July	52,817	45,522	-13.8%
August	47,564	20,542	-56.8%
September	51,257	24,541	-52.1%

Source: Response to CHIR No. 6, question 7, Excel file “Q.7_FY19 and FY20 Late and Extra Trips.xlsx,” tab “FY19 & FY20 Extra Trips.”

As illustrated by Table V-3 above, year-over-year, the largest percent increases in extra trips to transport mail occurred in FY 2020 Quarter 3 (April through June). Year-over-year, the largest percent decreases in extra trips to transport mail occurred in FY 2020 Quarter 4 (July through September), which coincides with the Postal Service’s operational focus as discussed below in Section V.A.2.c.1., *infra*.

Second, the Postal Service is working to increase the efficiency of its routes by using fewer trips and miles to move mail. *See* Response to CIR No. 1, question 4.a. The Postal Service has a network of facilities that accept, re-process, and dispatch mail in transit to destination facilities referred to as Surface Transfer Centers (STCs).²³³ During FY 2020, the Postal Service redesigned this network to reduce the number of trips and miles needed to transport mail. *See* Response to CHIR No. 1, question 15.a., 15.b. Specifically, the Postal Service realigned transportation at its 11 pre-existing STCs and opened 2 new STCs in Kansas City, Missouri and Chicago, Illinois.²³⁴ This redesign was completed on September 14, 2020, just before the end of FY 2020 (September 30, 2020). *See* Response to CHIR No. 1, question 15.a. Accordingly, the Postal Service explains that the redesign did not significantly impact on-time service performance results for Market Dominant products in FY 2020. *See id.* question 15.b.

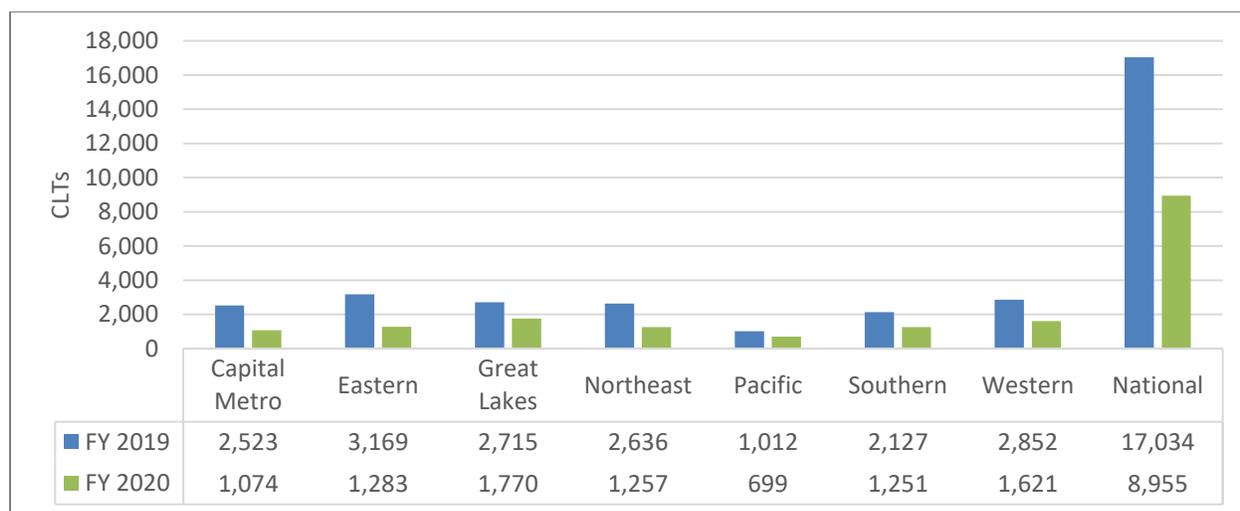
²³³ *See* Docket No. ACR2013, Response of the United States Postal Service to Question 4 of Chairman’s Information Request No. 16, March 28, 2014, question 4.b.

²³⁴ *See* Docket No. ACR2019, Library Reference USPS-FY19-17, December 27, 2019; *FY 2019 Annual Report* at 23; Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-7 of Chairman’s Information Request No. 10, February 11, 2020, question 6.b. (Docket No. ACR2019, Response to CHIR No. 10).

Third, the Postal Service uses its near-real-time scanning to monitor and correct problems as they arise. *See id.* question 4.e. For instance, the Postal Service tracks HCR trips that arrive more than 4 hours late, referred to as Critically Late Trips (CLTs).²³⁵ “The CLT is identified by [comparing] the actual arrival scan [to the] scheduled arrival scan at the destination facility.”²³⁶ The Postal Service stated that it uses its Surface Visibility diagnostic tool to identify the route, the trip, and the destination Area and District.²³⁷ The Postal Service remains unable to quantify the impact of CLTs on service performance results. *See* Response to CHIR No. 1, question 21; Docket No. ACR2019, Response to CHIR No. 3, question 6. The Postal Service reports that it does not have the metric(s) to isolate delays specific to moving mail between processing facilities (that is, to exclude delays that occurred in processing operations). *See* February 4 Response to CHIR No. 6, question 17.b. *The Commission recommends that the Postal Service develop such a metric to isolate such en route delays.*

Below, Figure V-7 illustrates the number of CLTs on an annual basis, by Area and nationally for FY 2019 and FY 2020.

Figure V-7
Total CLTs, by Area and Nation, FY 2019–FY 2020



Source: Library Reference USPS-FY20-29, Excel file “FY20 FCM Q3 CLT Natl Area Dist.xlsx,” tab “4.c.3 CLT;” Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tab “Q4.”

²³⁵ 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 12.b.i. (Docket No. ACR2015, Response to CHIR No. 22).

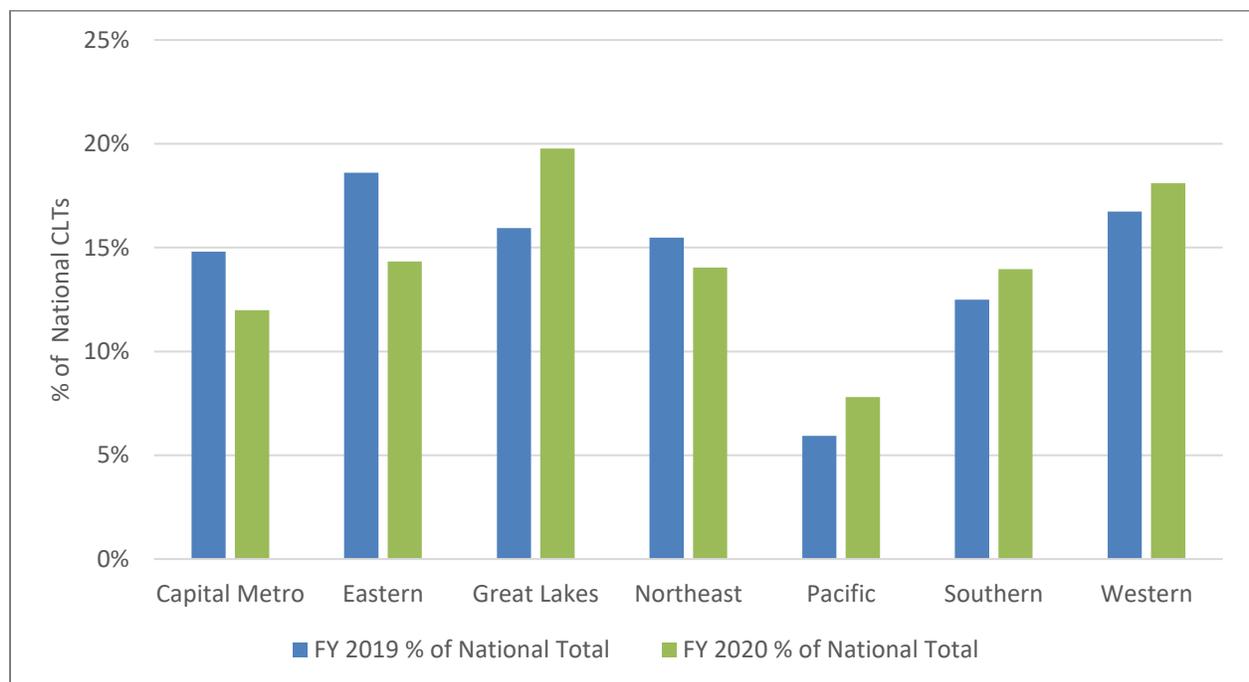
²³⁶ Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman’s Information Request No. 2, January 17, 2018, question 7.b.iii (Docket No. ACR2017, January 17 Response to CHIR No. 2); *see* Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-41 of Chairman’s Information Request No. 4, January 24, 2020, question 30.b. (Docket No. ACR2019, Response to CHIR No. 4).

²³⁷ *See* Docket No. ACR2019, Response to CHIR No. 4, question 30.b.; Docket No. ACR2017, January 17 Response to CHIR No. 2, question 7.b.iii.

As illustrated by Figure V-7 above, the number of nationwide CLTs in FY 2020 was approximately half of the number observed in FY 2019. The Postal Service asserts that this improvement from FY 2019 to FY 2020, despite the constraints of the COVID-19 pandemic, is primarily due to its focus on ensuring that mailpieces are placed on the dock and/or platform in a timely manner for loading on to trucks, which supports on-time departure. See February 4 Response to CHIR No. 6, question 5. The Postal Service also reports that it has been working with its suppliers to emphasize on-time arrival, loading, and departures. See *id.*

Rather than looking at absolute decline in CLTs, standardizing these Area data as a percent of nationwide CLTs more clearly illustrates each Area’s relative contribution to CLTs. Below, Figure V-8 displays the percent of total CLTs from each Area on an annual basis for FY 2019 and FY 2020.

Figure V-8
Percent of Total CLTs, by Area, FY 2019–FY 2020



Source: Library Reference USPS-FY20-29, Excel file “FY20 FCM Q3 CLT Natl Area Dist.xlsx,” tab “4.c.3 CLT;” Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tab “Q4.”

As illustrated by Figure V-8 above, the proportion of CLTs within and through the Great Lakes, Pacific, Southern, and Western Areas increased relative to FY 2019. The Commission views these increases as indications of Areas where CLTs persist despite a decrease in the absolute number. The Postal Service should investigate the underlying reasons for proportional increases and attempt to cross-apply the best practices used by the Capital Metro, Eastern, and Northeast Areas, each of which contributed a lower proportion of nationwide CLTs in FY 2020 than in FY 2019.

For delays caused by its contract truck drivers, the Postal Service requires the officer that is responsible for administering the contract (Administrative Official) to take progressive corrective actions against an underperforming supplier. *See* Docket No. ACR2017, January 17 Response to CHIR No. 2, question 7.b.i.; Docket No. ACR2015, Response to CHIR No. 22, question 12.b. Previously, the Postal Service has reported that training these Administrative Officials on this corrective action process and updating forms related to this process have helped to mitigate supplier delays. *See* Docket No. ACR2017, January 17 Response to CHIR No. 2, question 7.b.i. In a review of FY 2018 and FY 2019 contract renewals, the Postal Service's OIG identified a lack of adherence to established Postal Service due diligence procedures.²³⁸ The Postal Service asserts that it has updated its policies and corrected the deficiencies identified by the OIG. OIG Report No. 20-193-R21, Appendix B at 9-10. The Commission strongly encourages the Postal Service to monitor and ensure that Administrative Officials adhere to the established process of taking progressive corrective actions against an underperforming supplier and document such actions as they occur.

(3) Mail Mix Changes

In addition to the Postal Service's reduced employee availability and stressed transportation network, the mail mix entered into the Postal Service's network changed in FY 2020, as package volumes increased while letter- and flat-shaped volumes decreased.²³⁹ As a result of the pandemic,²⁴⁰ many people increased their reliance on e-commerce and mail-ordering, which increased the demand for packages in FY 2020.²⁴¹ Package-shaped items are more labor-intensive for the Postal Service to process, transport, and deliver than letter- and flat-shaped items.²⁴²

²³⁸ United States Postal Service, Office of Inspector General, Report No. 20-193-R21, Contract Delivery Service Contract Renewal Compliance, January 7, 2021, at 3-6, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2021/20-193-R21.pdf> (OIG Report No. 20-193-R21) (finding that FY 2018 and FY 2019 contract renewals lacked documentation regarding supplier performance and/or due diligence review and recommending that the Postal Service establish formal tracking and monitoring).

²³⁹ *See* Response to CIR No. 1, question 3.a., 3.b.; Response to CHIR No. 2, question 1.a.; Response of the United States Postal Service to Questions 1-26 of Chairman's Information Request No. 3, January 22, 2021, questions 14.b., 22.a., 24.a. (Response to CHIR No. 3); Response to CHIR No. 11, question 14.a.; Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 16, February 19, 2021, question 3.c. (Response to CHIR No. 16).

²⁴⁰ To minimize interactions that could transmit the COVID-19 virus, many people stayed home. *See* Response to CIR No. 1, question 3.a. While much remains unknown about COVID-19, it is generally acknowledged that the main way the virus spreads is by respiratory droplets. *See* Centers for Disease Control and Prevention, Frequently Asked Questions, available at <https://www.cdc.gov/coronavirus/2019-ncov/faq.html>. Accordingly, the public has been advised to use social distancing, masks, good hand hygiene, and other measures to limit the spread of the virus. *See id.* To limit the spread of the virus through human interactions and touching objects, many state and local governments ordered and/or recommended that people remain at home and limit their in-person interactions, to the extent possible. *See* The New York Times, *Coronavirus Restrictions and Mask Mandates for All 50 States*, available at <https://www.nytimes.com/interactive/2020/us/states-reopen-map-coronavirus.html>.

²⁴¹ *See* Response to CIR No. 1, question 3.a.; Response to CHIR No. 3, question 22.a. Although it may be possible that people can become infected with COVID-19 by touching a surface or object with the virus on it and then touching their own mouth, nose, or eyes, the Centers for Disease Control and Prevention (CDC) opines that COVID-19 is unlikely to be spread from domestic or international mail, products, or packaging. *See* Centers for Disease Control and Prevention, Frequently Asked Questions, available at <https://www.cdc.gov/coronavirus/2019-ncov/faq.html>.

²⁴² *See* Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 15, February 18, 2021, question 2.a. (Response to CHIR No. 15).

The Postal Service notes that this increase in package demand has strained the entire shipping industry. *See* Response to CIR No. 1, question 3.a. Increased package volume has increased the demand for cargo space on aircraft and trucks. *See id.*; Response to CHIR No. 2, question 1.a. However, because these operators faced challenges with worker absenteeism and hiring due to the pandemic there was insufficient capacity to satisfy this demand.²⁴³ This combination of factors put stress on the Postal Service's operations as well as its contractors, affecting service performance for all products.²⁴⁴

The Postal Service faces two additional related challenges that likely further strained the limited resources of the organization: offloads from private companies and the need to prioritize delivery of items sent for medical purposes. First, increased worker absenteeism and package demand due to the COVID-19 pandemic has led some private shipping companies to scale back their services and/or impose volume limits on customers.²⁴⁵ As a result, the Postal Service, which did not refuse packages tendered to it for delivery, has absorbed additional volume offloaded by private companies.²⁴⁶ Although this ACD pertains to FY 2020 (October 1, 2019 through September 30, 2020), the Postal Service states that offloads from third parties to the Postal Service increased during the holiday mailing season in FY 2021, Quarter 1.²⁴⁷

Second, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) requires the Postal Service to "prioritize delivery of postal products for medical purposes" during the COVID-19 emergency. Pub. L. No. 116-136 § 6001(c). Such items are not a distinct Postal Service "product" as defined by 39 U.S.C. § 102(6) or listed in the MCS. Instead, items sent for medical purposes use a wide variety of Postal Service offerings within Market Dominant and Competitive products. *See* February 4 Response to CHIR No. 6, question 16.c. The Postal Service faces substantial challenges in distinguishing between items sent for medical

²⁴³ *See* Response to CIR No. 1, question 3.a., 3.b.; Response to CHIR No. 2, question 1.a.; February 5 Response to CHIR No. 6, question 9.d.

²⁴⁴ *See* Response to CHIR No. 2, question 1.a.; Response to CHIR No. 3, questions 14.b., 20.a., 22.a., 24.a.; February 4 Response to CHIR No. 6, question 19.

²⁴⁵ *See, e.g.*, FedEx, Service Impact of COVID-19, available at <https://www.fedex.com/en-us/coronavirus.html> and https://www.fedex.com/content/dam/fedex/us-united-states/Service-Alerts/images/2020/Q4/2019_nCoV_Service_Impacts_Mar_23.pdf (suspending money back guarantees for delivery services as of March 23, 2020 to now); UPS, UPS Service Guarantee, Impact of the Coronavirus on our Service Guarantee (as of March 26, 2020), available at <https://www.ups.com/us/en/help-center/shipping-support/service-guarantee.page> (suspending service guarantees as of March 26, 2020 to now); Jason Del Rey, Vox, *Amazon Prime delivery delays are now as long as a month*, March 22, 2020, available at <https://www.vox.com/recode/2020/3/22/21190372/amazon-prime-delivery-delays-april-21-coronavirus-covid-19> (observing that in March 2020, the company was informing customers that prioritization of shipments containing essential items may result in "delivery promises being longer than usual"); Darrell Etherington, TechCrunch.com, *Amazon limiting shipments of certain types of products due to COVID-19 pandemic*, March 17, 2020, available at <https://techcrunch.com/2020/03/17/amazon-limiting-shipments-to-certain-types-of-products-due-to-covid-19-pandemic/> (suspending shipments of non-essential items to prioritize essential items in March and April 2020); Response to CHIR No. 15, question 10.a.

²⁴⁶ *See* Library Reference USPS-FY20-29, PDF file "CapMetro PRC FY 20 Svc Perf Report.pdf," at 3 ("Significant offloads from third parties have saturated the [Capital Metro] Area's plants with package volume to the extent that the limited available resources as result of the pandemic have been diverted to parcel processing to the detriment of letter and flat processing."); Response to CHIR No. 15, question 10.a.

²⁴⁷ *See* Response to CHIR No. 15, question 10.a.; *see also, e.g.*, Emily Badger, Quoctrung Bui, & Margot Sanger-Katz, The New York Times, *The Postal Service Survived the Election. But It Was Crushed by Holiday Packages*, January 19, 2021, available at <https://www.nytimes.com/interactive/2021/01/19/upshot/postal-service-survived-election-but-crushed-by-holidays.html>; Wimberly Patton, CDL Life, *Truckers are behind the scenes of the current mail crisis and it doesn't look good*, December 15, 2020, available at <https://cdllife.com/2020/truckers-are-behind-the-scenes-of-the-current-mail-crisis-and-it-doesnt-look-good/>.

purposes and other items. *See id.* question 16.a., 16.c. The Postal Service confirms that its field personnel worked (and will continue to work) to expedite any item that appears to be sent for medical purposes. *See id.* question 16.a., 16.e. Moreover, the Postal Service meets on a weekly basis with prescription mailers to discuss service conditions and process improvements. *See id.* question 16.e. While “the Postal Service cannot with confidence quantify the volume and percentage [of items] that were classified as Competitive Products versus Market Dominant products,” the Postal Service acknowledges “it seems reasonable to confirm that most items being sent for medical purposes in FY 2020 were likely classified as Competitive Products.” *Id.* question 16.d.

To address the increased package volume, the Postal Service identified two actions for FY 2020, increasing its workforce and moving volume quickly.

To increase its workforce, the Postal Service hired additional employees pursuant to the applicable bargaining agreements. *See* Response to CIR No. 1, question 2.a., 2.b.; February 4 Response to CHIR No. 6, question 19.a. The Postal Service has also been conducting reviews of employee needs at mail processing plants and plans to convert some non-career employees to career status to handle the expected additional package volume. *See* Response to CIR No. 1, question 2.c. The Headquarters staff of the new Processing Operations unit is responsible for tracking the efficacy of the staffing and scheduling model and will consider continuing changes in the mail mix. *Id.* question 2.e.

To move volume quickly, the Postal Service relied on its Network Operations Control Centers to analyze data in real time and communicate with facilities on issues related to operations and transportation. *See* FY 2020 ACR at 40; February 4 Response to CHIR No. 6, question 19.c. The Postal Service’s transportation managers worked to reduce trips and miles to move packages. *See* Response to CIR No. 1, question 4.a. During the Last Mile phase, carriers performed early parcel runs and returned to the office for letter- and flat-shaped mail and any remaining packages. *See* February 4 Response to CHIR No. 6, question 19.a.

c. Postal Service Operational Changes

On June 5, 2020, the Postal Service’s OIG issued an audit of the Postal Service’s Transportation Network Optimization and Service Performance, observing that “it is vital for the Postal Service to focus on its financial health and address causes for costs increasing at a time when mail volume decreased.” OIG Report No. 20-144-R20 at 1. The OIG noted that:

When operational issues exist, there is a downstream effect that causes management to face difficult and costly decisions. . . . Even with transportation’s mitigation efforts, the Postal Service did not meet most of its service performance targets in FY 2019. . . . In both the surface and air networks, misaligned transportation scheduling hindered efforts to meet service performance and cost savings goals.

Id. at 2.

On June 16, 2020, the Postal Service's OIG reported that the Postal Service spent \$1.1 billion in mail processing overtime and penalty overtime, \$280 million in late and extra transportation, and \$2.9 billion in delivery overtime and penalty overtime costs in FY 2019.²⁴⁸ The Postmaster General has indicated that he reviewed this report, stating:

Yet, even after incurring these additional costs, the Postal Service has not seen material improvement in [its] service performance scores. While [the Postal Service] did not fully agree with all aspects of OIG's report, [it] did not dispute the fundamental conclusion that [the Postal Service need[s] to redouble [its] efforts to focus on [its] plans to improve operational efficiency and to further control overtime expenditures.²⁴⁹

Starting on June 11, 2020, the Postal Service began to implement 57 initiatives referred to as "Do It Now FY Strategies," which were intended to achieve an estimated savings of 64 million workhours.²⁵⁰ These initiatives included changes such as eliminating pre-tour overtime in city delivery operations, eliminating certain mail processing operations on Saturday, and aligning clerk workhours to workload. OIG Report No. 21-014-R21 at 7, Appendix B at 20-22. These initiatives were generated and implemented by operations executives and were discussed at an introductory meeting with the new Postmaster General on July 7, 2020. OIG Report No. 21-014-R21 at 7.

Beginning on July 10, 2020, the Postal Service increased its focus on adhering to its operational schedules and aimed to eliminate unnecessary late and extra trips to transport mail. *See* Response to CIR No. 1, question 17.a.; OIG Report No. 21-014-R21 at 5. The Postmaster General stated that, "[u]pon review, [he] directed the Postal Service operations team to develop and execute on a plan to improve [the Postal Service's] adherence to the transportation schedules of [its] over 40,000 trips a day."²⁵¹

Further, from July 25, 2020 through August 18, 2020, the Postal Service conducted a pilot to reduce overtime at a limited number of offices, referred to as the Expedited to the Street

²⁴⁸ United States Postal Service, Office of Inspector General, Report No. 19XG013NO000-R20, U.S. Postal Service's Processing Network Optimization and Service Impacts, June 16, 2020, at 2, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/19XG013NO000-R20.pdf> (OIG Report No. 19XG013NO000-R20). Overtime is paid at one and one-half times the employee's hourly rate, and penalty overtime pay is paid, under specific conditions, at double the employee's hourly rate. United States Postal Service, Office of Inspector General, Report No. NO-AR-19-005, Mail Processing Overtime, June 13, 2019, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2019/NO-AR-19-005.pdf>.

²⁴⁹ United States Postal Service, National news, Postmaster General Statement on Operational Excellence and Financial Stability, July 27, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0727-pmg-statement-on-operational-excellence.htm> (citing OIG Report No. 19XG013NO000-R20 at 2).

²⁵⁰ OIG Report No. 21-014-R21, Appendix B at 20-22 (listing each initiative, its start date, its status in September 2020, and the affected Postal Service functional area).

²⁵¹ United States Postal Service, Postal News, Oral Statement of Postmaster General Louis DeJoy Before the House Committee on Oversight and Reform, August 24, 2020, at 2, available at <https://about.usps.com/newsroom/national-releases/2020/0824-oral-statement-of-pmg-louis-dejoy-before-the-house-committee-on-oversight-and-reform.pdf> (August 24, 2020 PMG Statement).

Afternoon Sortation (ESAS) Initiative. *See* Response to CIR No. 1, question 18.a.; OIG Report No. 21-014-R21 at 7.

These operational initiatives were criticized for slowing mail delivery during the summer of 2020. *See, e.g.*, OIG Report No. 21-014-R21 at 8. The Postal Service has disputed many of these criticisms, but it acknowledges that “implementation of the late and extra trips policy had a temporary and unintended impact on service in July [2020].” Response to CHIR No. 11, question 12.a.; *see also* OIG Report No. 21-014-R21, Appendix E at 26-27. Moreover, this late and extra trips policy coincided with the spread of the COVID-19 pandemic, the “Do It Now FY Strategies,” and the ESAS Initiative. Other than the ESAS Initiative, the Postal Service does not report piloting or formally studying the impact of these initiatives (the late and extra trips policy and the “Do It Now FY Strategies”) on Market Dominant service performance results, either before or during their implementation. *See* OIG Report No. 21-014-R21 at 8-9; Response to CIR No. 1, questions 17.b., 18.a., 18.b. Because these events occurred in the same short timeframe, and the Postal Service did not establish measurement goals or systems specific to each initiative (or the initiatives as a group), it is difficult to determine how much each individual event impacted service performance. *See* Response to CHIR No. 11, questions 11.a., 12.a.; Response to CIR No. 1, questions 17.c., 18.b. Below, the Commission describes the late and extra trips policy, the ESAS Initiative, and the “Do It Now FY Strategies.”

(1) Late and Extra Trips

As described above in Section V.A.2.b.2., *supra*, the Postal Service’s mail processing schedules generally cannot accommodate transportation delays of more than 1 hour. *See* Response to CIR No. 1, question 3.a. If a mailpiece misses its scheduled transportation, then generally that mailpiece will not be delivered within the expected timeframe absent “extraordinary measures at substantial cost, such as extra transportation along with clerk and carrier overtime at the delivery point.” Docket No. ACR2018, Response to CHIR No. 13, question 2.

The Postal Service takes issue with characterizations of efforts to eliminate late and extra trips as new, as requiring that mail be transported on regular routes or held until the next regular route is available, or as intended to delay service performance. *See* Response to CIR No. 1, question 17.a. The Postal Service maintains that these efforts beginning July 10, 2020 constituted a “renewed focus” on preexisting efforts to drive adherence to operational schedules. *See id.* The Postal Service asserts that its intent was to reduce costs and improve service by encouraging sites to use their best efforts to load mail on-time so trucks could depart as scheduled. *See id.* The Postal Service avers that feasible and necessary extra trips were not precluded. *See id.* The Postal Service insists that leaving mail behind at a facility was not approved “unless delaying a trip to transport a small volume of mail would risk delay in the delivery of a greater volume of mail to its intended destination.” *See id.*

The Postal Service did not complete a pilot or a formal study of the impact on Market Dominant service performance results before implementation of this initiative. *See id.* question 17.b. Instead, the Postal Service relied on the judgments of its management

regarding the need to adhere to existing operating schedules and the negative impacts of late trips and extra trips. *See id.* The Postal Service did not refresh these judgments to reflect the ongoing COVID-19 pandemic or the anticipated increase in Political Mail and Election Mail. *See id.* question 17.c., 17.d. The Postal Service did not anticipate that a negative impact on service performance would result from its efforts; rather, the Postal Service expected that its efforts would lead to improved service performance. *See id.* question 17.c., 17.d. Additionally, characterizing the anticipated increase in Election Mail and Political Mail as “only a small part of overall volume,” the Postal Service did not consider it to be a “significant factor in the Postal Service’s decision to renew its focus on adherence to transportation schedules.” *See id.* question 17.d., 17.e.

However, the Postal Service acknowledges a gap occurred between the intent of the late and extra trips policy and its actual impact on service performance in July and August 2020.²⁵² Following the implementation of these efforts on July 10, 2020, on-time service performance results declined. The Postal Service attributes this decline in part to unintended impacts of this policy and also to COVID-19.²⁵³ Based on the Postal Service’s responses to numerous information requests regarding quantification of the service performance impacts experienced in FY 2020, it is unclear what portion of the decline was due to this policy and what portion was due to the pandemic.²⁵⁴ The Postal Service also references extreme weather events: wildfires in nine states from July 7 through September 27, 2020; Hurricane Douglas affecting Hawaii on July 25, 2020; Hurricane Hanna affecting Texas from July 25 through 27, 2020; and Hurricane Isaias affecting four states from July 31, 2020 through August 3, 2020. Response to CHIR No. 16, question 3.c. The Postal Service remains unable to quantify the impact of extreme weather on service performance. *Id.*

The Postmaster General reported that the Postal Service had improved adherence to transportation schedules in July and August 2020, observing that “on-time departures are approaching 98% and wasteful extra trips are down by over 70%.” *See* August 24, 2020 PMG Statement at 2. He also acknowledged that “[w]hile [the Postal Service] ha[s] had a temporary service decline which should not have happened, [it] [is] fixing this.” *See id.* He testified before the United States House of Representatives Committee on Oversight and Reform that reducing late and extra trips “was not expected to have the impact it had for the duration of the period that it had.”²⁵⁵

The Postal Service explains that this late and extra trips policy led to an unintended decline in service performance results because when reducing late and extra trips, facility

²⁵² *See* Response to CIR No. 1, question 17.c.; Response to CHIR No. 11, questions 11.a., 12.a.; Response to CHIR No. 16, question 3.a., 3.b.; August 24, 2020 PMG Statement; Response to CIR No. 1, question 17.c.; OIG Report No. 21-014-R21 at 9-11.

²⁵³ *See* Response to CHIR No. 11, questions 11.a., 12.a.; August 24, 2020 PMG Statement; Response to CIR No. 1, question 17.c.; Response to CHIR No. 16, question 3.a., 3.b.; OIG Report No. 21-014-R21, Appendix E at 26.

²⁵⁴ Response to CHIR No. 16, question 3.a., 3.b.; Response to CIR No. 1, question 17.c.; Response to CHIR No. 11, questions 11.a., 12.a.; *see* Response to CIR No. 1, questions 1, 3, 5, 6, 7.

²⁵⁵ *Protecting the Timely Delivery of Mail, Medicine, and Mail-in Ballots: Hearing Before the H. Comm. on Oversight and Reform, 116th Cong. 80* (2020) (statement of Louis DeJoy, Postmaster General, United States Postal Service), available at <https://www.congress.gov/116/chrg/CHRG-116hrg41938/CHRG-116hrg41938.pdf>.

processing schedules were not aligned to match the transportation schedules. *See* Response to CIR No. 1, question 17.c.; Response to CHIR No. 11, questions 11.a., 12.a.

The Postal Service states that:

During the first weeks following July 10, 2020, ongoing analytics reports revealed a decline in service scores, and the Postal Service, during the course of its day-to-day monitoring of transportation schedules, concluded the decline was due in part to the failure of facility processing schedules to align with transportation schedules, as well as the spike in COVID-19 in July 2020.

Response to CIR No. 1, question 17.c.

Additionally, the Postal Service reported to its OIG that:

While the Postal Service recognizes that implementation of the late and extra trips policy had a temporary and unintended impact on service performance in July, after which there was a sharp recovery in August after the Postal Service made the necessary operational adjustments, that issue goes to the Postal Service's execution of the initiative, which [it] recognize[s] was not as effective as it should have been. It does not go to the decision to reemphasi[ze] operational discipline in the first place.

OIG Report No. 21-014-R21, Appendix E at 26.

Because the effects of the short duration of the July and August 2020 initiatives to reduce late and extra trips are masked in quarterly data, the OIG compared trips on a weekly basis for the relevant period in FY 2020 and the same period in FY 2019. OIG Report No. 21-014-R21 at 7. The OIG observed that weekly PVS late and extra outbound trips for July 11 through September 4, 2020 were lower than the late and extra outbound trips for the corresponding weeks in FY 2019. *Id.*

Below, the Commission examines service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, 3-5-Day single-piece First-Class Mail Flats, and origin-entered Outside County Periodicals during the relevant period.²⁵⁶ Table V-4 and Figure V-9 compare weekly service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from June through September in FY 2019 and FY 2020.

²⁵⁶ The Postal Service provided Periodicals data for the following categories: Destination-Entered Inside County, Origin-Entered Inside County, Destination-Entered Outside County, and Origin-Entered Outside County. *See* Docket No. ACR2019, Supplemental Response to CIR No. 3, Excel file "CIR.3.Oct.28.ServPerf.Attachmnt.xlsx," tab "PER Nation." Of these categories, the Commission's analysis focuses on Origin-Entered Outside County Periodicals, which travel the longest distance by truck.

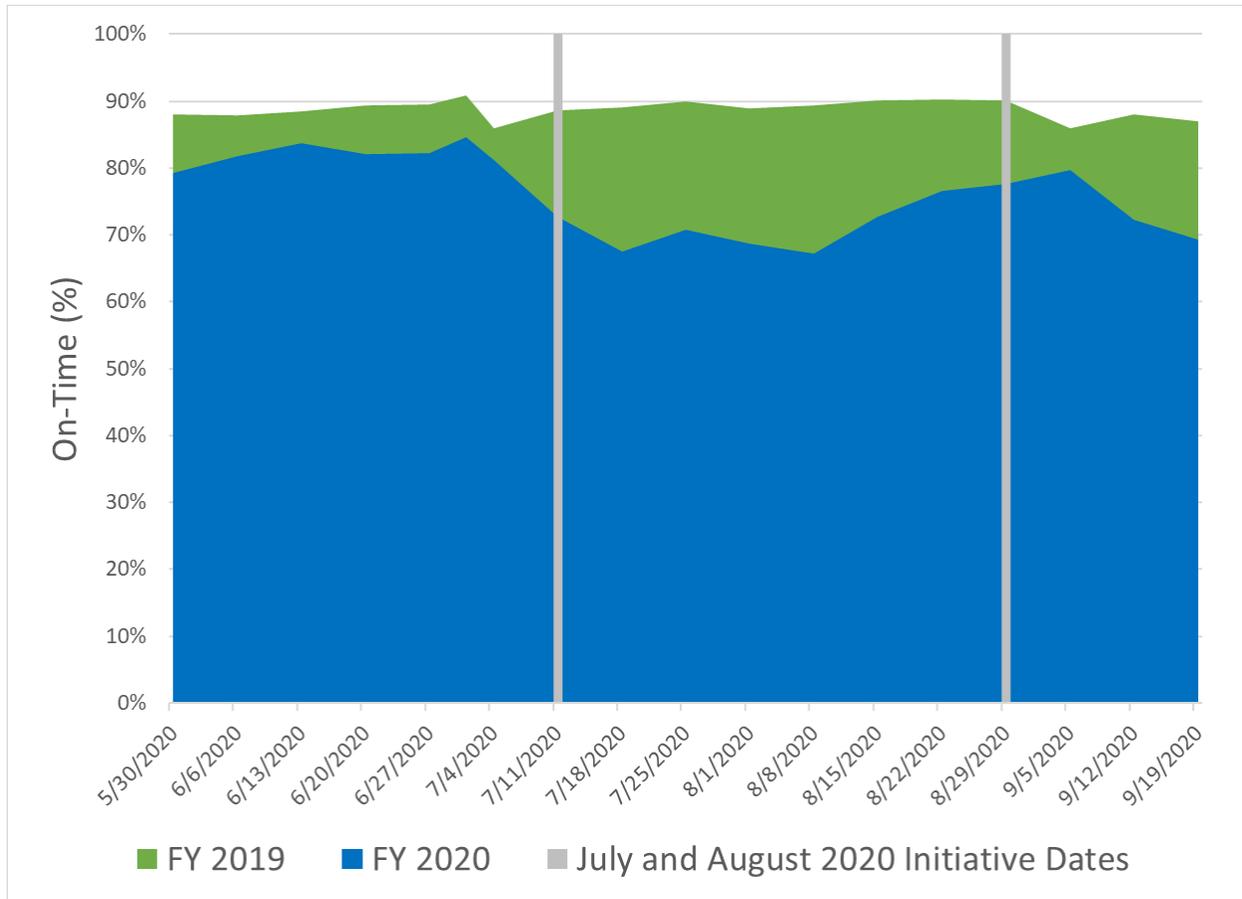
Table V-4
3-5-Day First-Class Mail Single-Piece Letters/Postcards
Service Performance Results, by Week, FY 2019–FY 2020

Week	FY 2019	FY 2020	% Diff
5/30/2020	87.95%	79.18%	-9.97%
6/6/2020	87.89%	81.73%	-7.01%
6/13/2020	88.47%	83.62%	-5.48%
6/20/2020	89.28%	82.13%	-8.01%
6/27/2020	89.50%	82.18%	-8.18%
7/1/2020	90.81%	84.62%	-6.82%
7/4/2020	85.87%	81.20%	-5.44%
7/11/2020	88.63%	72.73%	-17.94%
7/18/2020	89.05%	67.55%	-24.14%
7/25/2020	89.98%	70.75%	-21.37%
8/1/2020	88.88%	68.64%	-22.77%
8/8/2020	89.27%	67.24%	-24.68%
8/15/2020	90.13%	72.68%	-19.36%
8/22/2020	90.22%	76.60%	-15.10%
8/29/2020	90.15%	77.56%	-13.97%
9/5/2020	85.96%	79.66%	-7.33%
9/12/2020	88.07%	72.24%	-17.97%
9/19/2020	86.89%	69.32%	-20.22%

Note: The Postal Service reports data for a week running from Saturday to Friday (e.g., the week beginning Saturday, July 11, 2020 and ending on Friday, July 17, 2020).

Source: Docket No. ACR2019, Supplemental Response to CIR No. 3, Excel file "CIR.3.Oct.28.ServPerf.Attachmnt.xlsx," tab "FC Nation."

Figure V-9
3-5-Day First-Class Mail Single-Piece Letters/Postcards
Service Performance Results, by Week, FY 2019–FY 2020



As illustrated by Table V-4 and Figure V-9 above, this product’s weekly results declined significantly during the window of July 11 through September 4, 2020, compared to the same period in FY 2019. For July 11 through September 4, 2020, this product’s weekly results averaged 71.7 percent on-time. By contrast, this product’s weekly results averaged 89.5 percent on-time during the same period in FY 2019, which is a 19.9 percent decline year over year.

Table V-4 and Figure V-9 also illustrate that this product’s average weekly results also declined by 12.6 percent compared to the weeks preceding implementation of the late and extra trips policy. Just prior to implementation (May 30 through July 10, 2020), this product’s weekly results averaged 82.1 percent on-time, which was 10.4 percentage points higher than the weeks under scrutiny.

Similar declines in results occurred for other mailpieces that travel primarily by ground transportation during the late and extra trips policy's implementation.

Below, Table V-5 and Figures V-10 and V-11 show weekly service performance results for 3-5-Day single-piece First-Class Mail Flats and origin-entered Outside County Periodicals from June through September in FY 2019 and FY 2020.

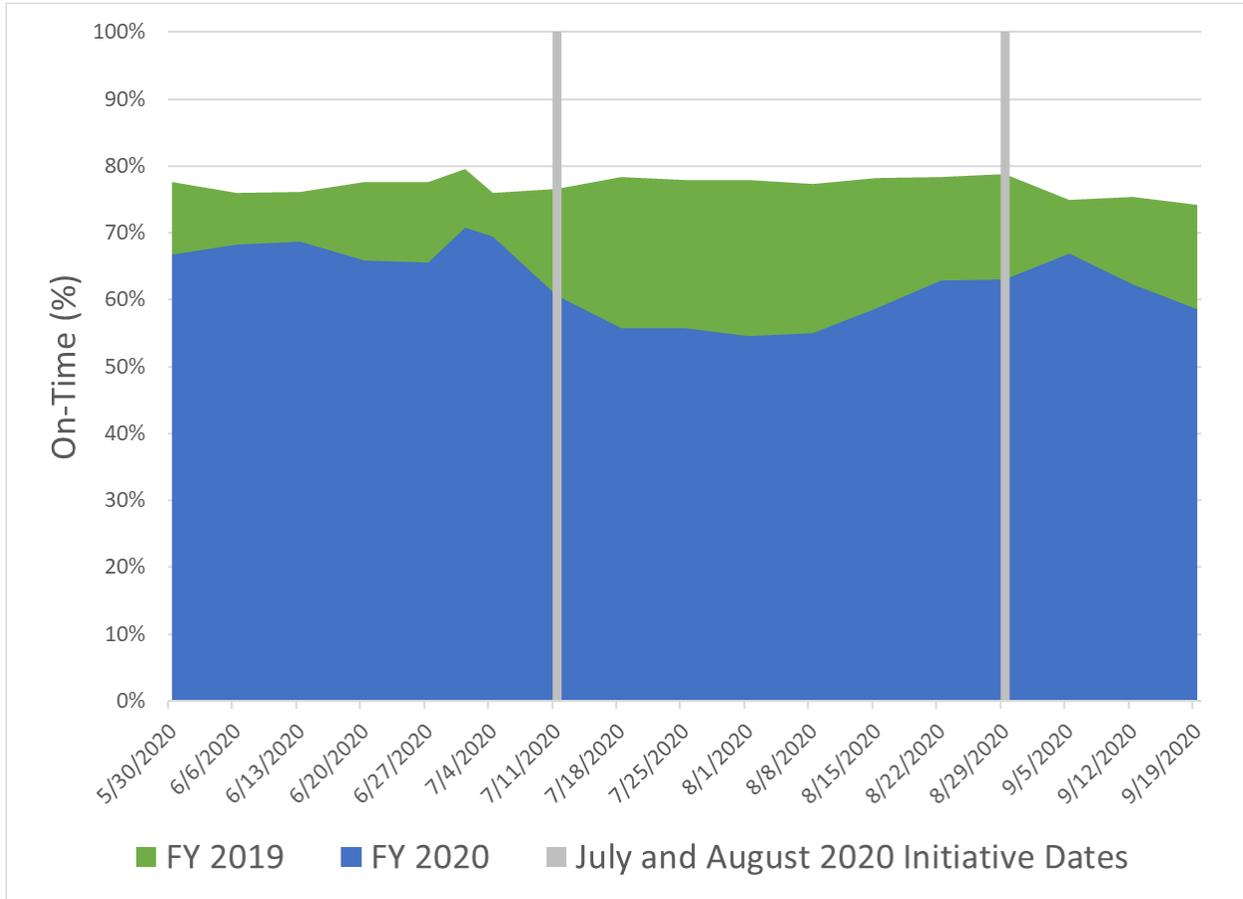
Table V-5
3-5-Day Single-Piece First-Class Mail Flats and
Origin-Entered Outside County Periodicals
Service Performance Results, by Week, FY 2019–FY 2020

Week	Single-Piece FCM Flats 3-5-Day			Outside County Periodicals		
	FY 2019	FY 2020	% Diff	FY 2019	FY 2020	% Diff
5/30/2020	77.54%	66.70%	-14.0%	86.38%	73.42%	-15.0%
6/6/2020	75.90%	68.29%	-10.0%	76.23%	63.02%	-17.3%
6/13/2020	76.10%	68.61%	-9.8%	81.25%	65.83%	-19.0%
6/20/2020	77.56%	65.91%	-15.0%	83.64%	67.12%	-19.8%
6/27/2020	77.64%	65.53%	-15.6%	91.82%	73.25%	-20.2%
7/1/2020	79.51%	70.75%	-11.0%	83.42%	75.85%	-9.1%
7/4/2020	76.03%	69.39%	-8.7%	81.61%	62.55%	-23.4%
7/11/2020	76.54%	60.65%	-20.8%	81.49%	63.73%	-21.8%
7/18/2020	78.29%	55.70%	-28.9%	83.77%	59.09%	-29.5%
7/25/2020	77.94%	55.76%	-28.5%	82.59%	61.32%	-25.8%
8/1/2020	77.95%	54.50%	-30.1%	78.59%	59.12%	-24.8%
8/8/2020	77.25%	55.02%	-28.8%	81.38%	55.67%	-31.6%
8/15/2020	78.25%	58.78%	-24.9%	82.27%	58.67%	-28.7%
8/22/2020	78.30%	62.86%	-19.7%	84.24%	59.46%	-29.4%
8/29/2020	78.80%	63.09%	-19.9%	79.84%	68.25%	-14.5%
9/5/2020	74.94%	66.89%	-10.7%	79.19%	65.27%	-17.6%
9/12/2020	75.42%	62.35%	-17.3%	76.58%	64.74%	-15.5%
9/19/2020	74.16%	58.55%	-21.0%	80.47%	67.12%	-16.6%

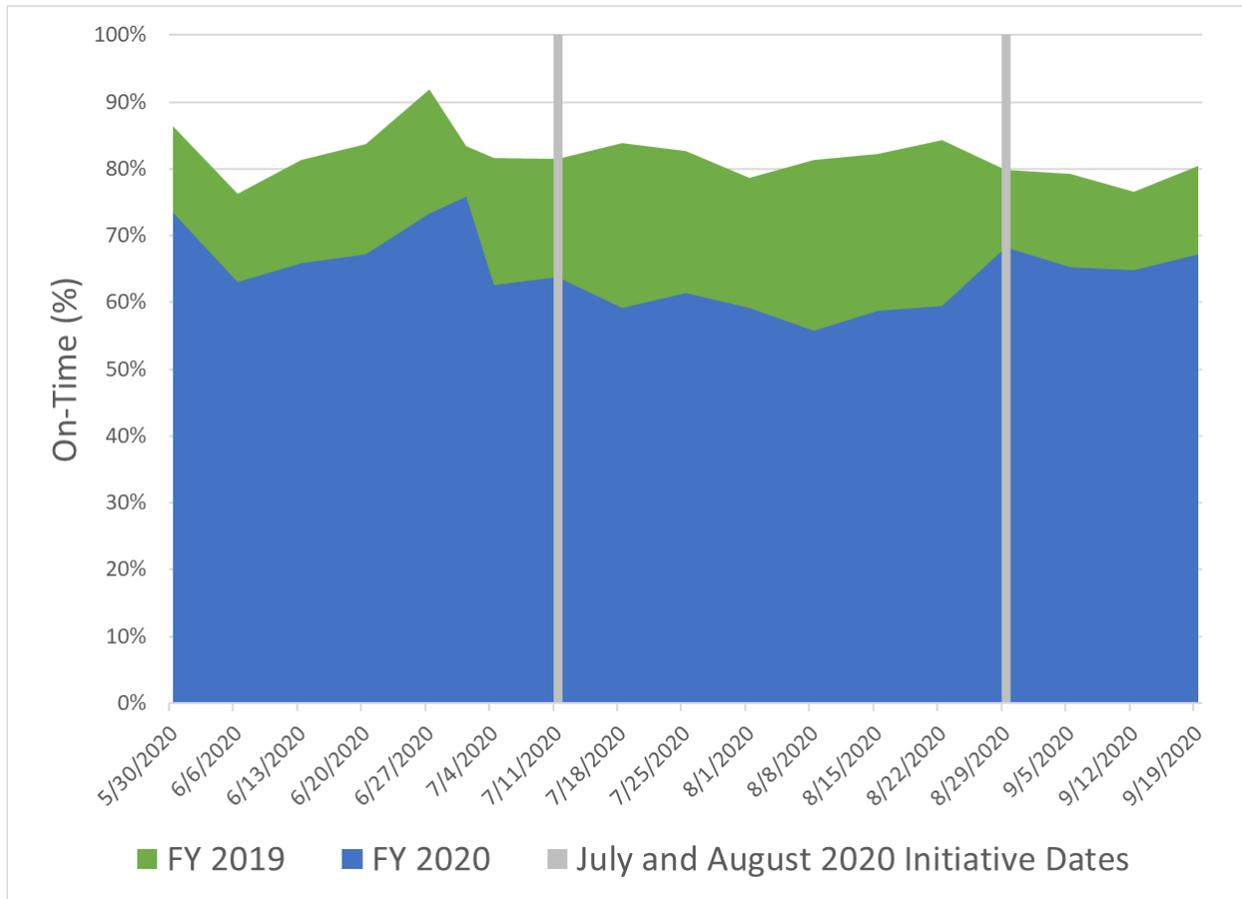
Notes: The Postal Service reports data for a week running from Saturday to Friday (e.g., the week beginning Saturday, July 11, 2020 and ending on Friday, July 17, 2020). "Single-Piece FCM Flats 3-5-day" refers to 3-5-Day single-piece First-Class Mail Flats. "Outside County Periodicals" refers to origin-entered Outside County Periodicals."

Source: Docket No. ACR2019, Supplemental Response to CIR No. 3, Excel file "CIR.3.Oct.28.ServPerf.Attachmnt.xlsx," tabs "FC Nation" and "PER Nation."

Figure V-10
3-5-Day Single-Piece First-Class Mail Flats
Service Performance Results, by Week, FY 2019–FY 2020



**Figure V-11
Origin-Entered Outside County Periodicals
Service Performance Results, by Week, FY 2019–FY 2020**



As illustrated by Table V-5 and Figures V-10 and V-11 above and similar to results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, these data also show a decrease in weekly service performance results for July 11 through September 4, 2020.

As illustrated by Table V-5 and Figure V-10 above, the 3-5-Day single-piece First-Class Mail Flats weekly results declined significantly during the window of July 11 through September 4, 2020, compared to the same period in FY 2019. For July 11 through September 4, 2020, this category’s weekly results averaged 58.3 percent on-time. By contrast, this category’s weekly results averaged 77.9 percent on-time during the same period in FY 2019, which is a 25.2 percent decline year over year. Moreover, this category’s average weekly results also declined by 14.1 percent compared to the weeks preceding implementation of the late and extra trips policy. Just prior to implementation (May 30 through July 10, 2020), this category’s weekly results averaged 67.9 percent on-time, which was 9.6 percentage points higher than the weeks under scrutiny.

As illustrated by Table V-5 and Figure V-11 above, the origin-entered Outside County Periodicals weekly results declined significantly during the window of July 11 through September 4, 2020, compared to the same period in FY 2019. Notably, for July 11 through September 4, 2020, this category's weekly results averaged 60.7 percent on-time. By contrast, this category's weekly results averaged 81.8 percent on-time during the same period in FY 2019, which is a 25.8 percent decline year over year. Moreover, this category's average weekly results also declined by 11.6 percent compared to the weeks preceding implementation of the late and extra trips policy. Just prior to implementation (May 30 through July 10, 2020), this category's weekly results averaged 68.7 percent on-time, which was 8.0 percentage points higher than the weeks under scrutiny.

When compared to the same period in FY 2019, the level of decline was more pronounced in particular Districts. Below, Table V-6 displays average weekly service performance results for the Baltimore, Central Pennsylvania, Caribbean, Los Angeles, Louisiana, Seattle, and Northern New Jersey Districts for July 11 through September 4, 2020, compared to results from the same period in FY 2019.

Table V-6
District-Level Average Weekly Service Performance Results
During Late and Extra Trips Policy (July 11, 2020–September 4, 2020)
Compared to Same Period in FY 2019

	3-5-Day First-Class Mail Single-Piece Letters/Postcards			3-5-Day single-piece First-Class Mail Flats			Outside County Periodicals		
	FY 2019	FY 2020	% Diff	FY 2019	FY 2020	% Diff	FY 2019	FY 2020	% Diff
Baltimore	88.3	51.9	-41.2%	75.1	42.3	-43.7%	77.1	47.7	-38.1%
Central Pennsylvania	90.5	56.3	-37.8%	80.1	57.3	-28.5%	81.8	59.9	-26.8%
Caribbean	82.1	47.7	-41.9%	70.7	38.23	-45.9%	91.4	58.6	-35.9%
Los Angeles	89.3	59.0	-33.9%	78.5	45.9	-41.5%	78.3	33.8	-56.8%
Louisiana	85.5	66.9	-21.8%	74.7	54.7	-26.8%	82.9	44.3	-46.6%
Seattle	88.3	66.7	-24.5%	75.5	59.9	-20.7%	85.2	66.8	-21.6%
Northern New Jersey	87.9	68.0	-22.6%	74.6	52.0	-30.3%	75.7	62.7	-17.2%

Notes: Purposive, or selective, sampling was used to select a cross-section of Districts from across the nation. The Postal Service reports data for a week running from Saturday to Friday (e.g., the week beginning Saturday, July 11, 2020 and ending on Friday, July 17, 2020). "Outside County Periodicals" refers to origin-entered Outside County Periodicals."

Source: Docket No. ACR2019, Supplemental Response to CIR No. 3, Excel file "CIR.3.Oct.28.ServPerf.Attachmnt.xlsx," tabs "FC District" and "PER District."

Results from Table V-6 above, show that at the District level, service performance results for some categories were nearly 57 percent lower than the same period in FY 2019. The Commission views the significant divergence from the same period during the prior fiscal year as demonstrative of the compounded effect of the COVID-19 pandemic and the implementation of the late and extra trips policy.

In addition, the Commission also compared these results against averages for the weeks prior to the policy implementation. Below, Table V-7 displays average weekly service performance results for the Baltimore, Central Pennsylvania, Caribbean, Los Angeles, Louisiana, Seattle, and Northern New Jersey Districts for July 11 through September 4, 2020, compared to results for May 30 through July 10, 2020.

Table V-7
District-Level Average Weekly Service Performance Results
During Late and Extra Trips Policy (July 11–September 4, 2020)
Compared to Preceding Period (May 30–July 10, 2020)

	3-5-Day First-Class Mail Single-Piece Letters/Postcards			3-5-Day single-piece First-Class Mail Flats			Outside County Periodicals		
	Policy		% Diff	Policy		% Diff	Policy		% Diff
	Preceding	During		Preceding	During		Preceding	During	
Baltimore	73.5	51.9	-29.4%	72.6	42.3	-41.7%	64.7	47.7	-26.3%
Central Pennsylvania	82.3	56.3	-31.6%	78.9	57.3	-27.4%	71.1	59.9	-15.8%
Caribbean	64.7	47.7	-26.3%	54.1	38.23	-29.3%	65	58.6	-9.8%
Los Angeles	72	59	-18.1%	56.5	45.9	-18.8%	48.5	33.8	-30.3%
Louisiana	80.2	66.9	-16.6%	67.7	54.7	-19.2%	56.7	44.3	-21.9%
Seattle	83.2	66.7	-19.8%	70	59.9	-14.4%	77.8	66.8	-14.1%
Northern New Jersey	74.5	68	-8.7%	60.1	52	-13.5%	63.9	62.7	-1.9%

Notes: Purposive, or selective, sampling was used to select a cross-section of Districts from across the nation. The Postal Service reports data for a week running from Saturday to Friday (e.g., the week beginning Saturday, July 11, 2020 and ending on Friday, July 17, 2020). "During Policy" refers to the average weekly results for July 11 through September 4, 2020. "Preceding Policy" refers to the average weekly results for May 30 through July 10, 2020. "Outside County Periodicals" refers to origin-entered Outside County Periodicals.

Source: Docket No. ACR2019, Supplemental Response to CIR No. 3, Excel file "CIR.3.Oct.28.ServPerf.Attachmnt.xlsx," tabs "FC District" and "PER District."

Table V-7 above, shows a significant decline in average service performance results after the policy's enactment. For instance, average results for the Baltimore District decreased by more than 25 percent for the three categories, 3-5-Day First-Class Mail Single-Piece Letters/Postcards, 3-5-Day single-piece First-Class Mail Flats, and origin-entered Outside County Periodicals, compared to weeks prior to implementation. Because the pandemic was ongoing during all of the weeks under consideration, the Commission views these declines as suggestive of the impact of the late and extra trips policy.

The Postal Service explains that the decline in service performance results due to the late and extra trips policy illustrates “the importance of ensuring appropriate alignment across operations, coupled with effective communication and message saturation, at the time that any such efforts to adhere to transportation schedules are implemented.” Response to CHIR No. 11, question 11.a. Similarly, the OIG observed deficiencies in communicating the policy to the field during July and August 2020, noting that changes were largely communicated orally and inconsistently across the nation.²⁵⁷ Following the issuance of a preliminary injunction,²⁵⁸ on September 21, 2020, the Postal Service management disseminated written clarification to address confusion about overtime, hiring, retail hours, collection boxes, late and extra trips, mail processing, and Election Mail.²⁵⁹

On August 31, 2020, the Postal Service reported to the United States Senate Committee on Homeland Security and Governmental Affairs and the United States House of Representatives Committee on Oversight and Reform that “[s]ervice performance is

²⁵⁷ OIG Report No. 21-014-R21 at 8. Multiple federal courts that issued preliminary injunctions relating to the late and extra trips policy heard testimony from Postal Service executives asserting that elimination of late and extra trips was aspirational rather than mandatory; however, documents and testimony reflect that many Postal Service workers received a different message. *See, e.g., Jones v. United States Postal Serv.*, No. 20 Civ. 6516 (VM), 2020 WL 5627002, at *5 (S.D.N.Y. Sept. 21, 2020) (observing that “these circumstances reflect evidence of conflicting signals or confusion, at the very least that different Postal Service employees understood their instructions differently[]” regarding the late and extra trips policy); *Vote Forward v. DeJoy*, No. Civ. A. No. 20-2405 (EGS), 2020 WL 5763869, at *4-7 (D.D.C. Sept. 28, 2020) (reviewing the contents of numerous communications disseminated to many Postal Service workers).

²⁵⁸ On September 17, 2020, the first nationwide preliminary injunction was issued requiring the Postal Service to discontinue implementation or enforcement of the changes to the late and extra trips policy announced in July 2020. *See Washington v. Trump*, No. 1:20-CV-03127-SAB, 2020 WL 5568557, at *5-6 (E.D. Wash. Sept. 17, 2020). Several other federal courts also issued similar preliminary injunctions on related claims in late September through October 2020. *See Jones v. United States Postal Serv.*, No. 20 Civ. 6516 (VM), 2020 WL 5627002, at *28-29 (S.D.N.Y. Sept. 21, 2020), *order clarified*, No. 20 Civ. 6516 (VM), 2020 WL 6554904 (S.D.N.Y. Sept. 29, 2020); *New York v. Trump*, No. 20-CV-2340 (EGS), 2020 WL 5763775, at *1, 13 (D.D.C. Sept. 27, 2020), *order clarified*, No. 20-CV-2340(EGS), 2020 WL 6572675 (D.D.C. Oct. 22, 2020); *Commonwealth of Penn. v. DeJoy*, Civ. A. No. 20-4096, 2020 WL 5763553, at *2, 43-44 (E.D. Pa. Sept. 28, 2020); *Vote Forward v. DeJoy*, Civ. A. No. 20-2405 (EGS), 2020 WL 5763869, at *1, 13 (D.D.C. Sept. 28, 2020); *National Ass'n for Advancement of Colored People v. United States Postal Serv.*, No. 20-CV-2295(EGS), 2020 WL 5995032, at *1, 14 (D.D.C. Oct. 10, 2020), *enforcement granted*, No. 20-CV-2295 (EGS), 2020 WL 6441317 (D.D.C. Oct. 27, 2020). The Postal Service initially appealed these cases; however, the courts granted the Postal Service's unopposed voluntary motions to dismiss its appeals. *See, e.g., National Ass'n for Advancement of Colored People v. United States Postal Serv.*, No 20-5375, ECF Document #1884707, at 1 (D.C. Cir. Feb. 10, 2021).

²⁵⁹ *See* Letter from the United States Department of Justice (counsel for defendants) to the Honorable Victor Marrero, September 25, 2020 (DOJ September 25, 2020 Letter), *Jones v. United States Postal Service*, No. 20 Civ. 6516 (VM), ECF Document #58 (describing that the Postal Service issued a clarifying operational instructions memorandum, attached as Exhibit 4, on September 21, 2021); Memorandum from Chief Retail and Delivery and Chief Logistics and Processing Operations to Officers, PCES [Postal Career Executive Service], and Pay Band Managers, Clarifying Operational Instructions, September 21, 2020, ECF Document #58-4 (Clarifying Operational Instructions Mem.).

improving and trucks continue to run on time.”²⁶⁰ The Postal Service committed to releasing service performance data on a weekly basis through the end of CY 2020. PMG Letter at 2.

The Postal Service continued to release public statements that service performance results continued to improve through September 11, 2020, “while ensuring trucks run on time and adhering to the Postal Service’s existing transportation schedule.”²⁶¹ After the Labor Day weekend, the Postal Service reported declines “attributable to volume buildup in the system from the holiday weekend which was quickly addressed but not before it had some impact on service performance data.”²⁶² For the following week, the Postal Service reported improvement for USPS Marketing Mail and Periodicals as well as slight declines in First-Class Mail service performance, which the Postal Service partially attributed to issues with “Presort First-Class Mail going through the Great Lakes and Chicago Surface Transfer Center” and reported the deployment of support personnel to the affected sites.²⁶³ For the last week of FY 2020, the Postal Service reported improvement for First-Class Mail and USPS Marketing Mail, as well as slight declines in Periodicals service performance.²⁶⁴

Because of the importance of all mail products making their scheduled transportation, the Postal Service states that it will continue to focus on adhering to its transportation schedules and improving on-time departures, while remaining consistent with applicable federal court mandates.²⁶⁵

(2) ESAS Initiative

In addition, the Postal Service piloted the ESAS Initiative from July 25, 2020 through August 18, 2020 at 384 facilities nationwide. *See* OIG Report No. 21-014-R21 at 7. This was conducted as a pilot to determine if carrier operations could be changed to reduce unearned overtime.²⁶⁶ *See* Response to CIR No. 1, question 18.a. The Postal Service

²⁶⁰ Letter from Postmaster General Louis DeJoy to the Honorable Ron Johnson, the Honorable Catherine B. Maloney, the Honorable Gary C. Peters, and the Honorable James R. Comer, August 31, 2020, at 1, available at <https://about.usps.com/newsroom/global/pdf/0831-honorable-carolyn-maloney-congressional-briefing-trans-serv-perf-updates.pdf> (PMG Letter).

²⁶¹ United States Postal Service, Postal News, USPS Service Performance Continues Upward Trend, September 10, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0910-usps-service-performance-continues-upward-trend.pdf>; United States Postal Service, Postal News, USPS Service Performance Continues to Show Uptick Through Labor Day Weekend, September 18, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0918-usps-service-performance-continues-uptick-through-labor-day-weekend.pdf>.

²⁶² United States Postal Service, Postal News, The U.S. Postal Service Issues New Performance Report for the Week of September 12th Consistent with Performance Metrics Following a Federal Holiday, September 24, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0924-usps-service-performance-update.pdf>.

²⁶³ United States Postal Service, Postal News, The U.S. Postal Service Issues New Service Performance Report for the Week of September 19th, October 1, 2020, at 1, available at <https://about.usps.com/newsroom/national-releases/2020/1001-usps-issues-new-service-performance-report.pdf>.

²⁶⁴ United States Postal Service, Postal News, USPS Issues New Service Performance Report for the Week of September 26th, October 8, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/1008-usps-issues-new-service-performance-report-for-the-week-of-sept-26.pdf>.

²⁶⁵ Library Reference USPS-FY20-29, PDF file “USPS-FY20-29.Preface.pdf,” at 4-5 (Preface).

²⁶⁶ Unearned overtime refers to overtime approved in advance based on workload.

indicates that the ESAS sites were selected “based on historical averages of cased volume when the Postal Service was experiencing unprecedented drops in volume.” *Id.* question 18.d. The Postal Service reports that “ESAS sites were not selected based on any type of political/election mail analysis.” *Id.* The Postal Service reports that both average weekly delayed volume and Last Mile Impact increased during the ESAS Initiative compared to the baseline. *See id.* question 18.b. The ESAS Initiative was suspended effective August 18, 2020.²⁶⁷

(3) “Do It Now FY Strategies”

The late and extra trips policy and the ESAS Initiative coincided with other operational initiatives included in the “Do It Now FY Strategies.” These 57 initiatives, which were intended to achieve an estimated savings of 64 million workhours, included changes such as eliminating pre-tour overtime in city delivery operations, eliminating certain mail processing operations on Saturday, and aligning clerk workhours to workload. OIG Report No. 21-014-R21 at 7, Appendix B at 20-22. These initiatives were generated from and executed by operations executives and were discussed at an introductory meeting with the new Postmaster General on July 7, 2020. OIG Report No. 21-014-R21 at 7.

Similar to the issues regarding late and extra trips summarized above in Section V.A.2.c.i., the Postal Service takes issue with characterizations of these efforts as new, as requiring the elimination of overtime, or as intended to delay service performance.²⁶⁸ The Postal Service asserts that it has undertaken similar “‘nuts and bolts’ tactics” in prior fiscal years: performing 44 initiatives in FY 2017, 53 initiatives in FY 2018, and 35 initiatives in FY 2019, respectively. OIG Report No. 21-014-R21, Appendix E at 25. The Postal Service states “[t]he ‘Do It Now’ initiatives included tactics that are aptly described as prudent management practices focused on day to day operational discipline to ensure that workhours are better aligned to mail volumes.” Response to CHIR No. 11, question 12.a.

With regard to overtime, the Postal Service maintains:

To be clear, there have been no changes to [the Postal Service’s] overtime policy. The Postal Service’s consistent practice in the past is to use justified and approved overtime hours where needed to deliver the mail on time, and that practice has continued. Management therefore seeks to ensure that the overtime policy is being followed in the normal course of business, such as the effort discussed by the OIG concerning pre-tour overtime.

Response to CIR No. 1, question 18.a.; *see* Response to CHIR No. 16, questions 4.a., 5.d.

²⁶⁷ *Id.* question 18.g. The OIG reports that the ESAS Initiative was scheduled to run July 25, 2020 through August 28, 2020, but that the Postmaster General suspended it 10 days early due to concerns with the scale and impact of site selection. *See* OIG Report No. 21-014-R21 at 7; *see also* Response to CHIR No. 16, question 5.d. (identifying the ESAS Initiative as a practice related to overtime cutbacks suspended by the Postmaster General on or about August 21, 2020).

²⁶⁸ *See* Response to CIR No. 1, question 18.a.; Response to CHIR No. 11, question 12.a.; OIG Report No. 21-014-R21 at 8-9, Appendix E at 26.

The Postal Service reported to its OIG that “[n]one of these routine efforts [‘Do It Now FY Strategies’], if properly implemented, should impact service; rather, their intended effect is to either enhance the Postal Service’s efficiency while meeting service levels, or to improve service.” OIG Report No. 21-014-R21, Appendix E at 26. Although the implementation of the “Do It Now FY Strategies” coincided with the declines in service performance observed during July and August 2020, “[t]he Postal Service is not aware of any established correlation or causation between those ordinary efforts to reduce overtime and a decrease in on-time performance” Response to CHIR No. 16, question 4.b.

The Postal Service does not report piloting or formally studying the impact of the “Do It Now FY Strategies” on Market Dominant service performance results, either before or during their implementation. *See* OIG Report No. 21-014-R21 at 8-9; Response to CIR No. 1, question 18.a., 18.b. Due to this lack of study and other coincident events, the actual impact of these “Do It Now FY Strategies” on Market Dominant service performance results remains unclear. *See* Response to CHIR No. 11, questions 11.a.-12.a.; Response to CIR No. 1, questions 17.c., 18.b. Generally, it appears that the Postal Service attributes the decline in service performance observed after July 10, 2020 to unintended effects of the late and extra trips policy and the COVID-19 pandemic. *See* Response to CHIR No. 11, questions 11.a.-12.a.; Response to CIR No. 1, questions 17.c., 18.b. The Postal Service indicates that staffing shortages in locations due to the pandemic “may have contributed to inaccurate media reports suggesting that the Postal Service was implementing broad policy changes that might compromise its ability to deliver Election Mail for the coming November 2020 election.” Response to CHIR No. 16, question 5.c. Additionally, similar to the issues regarding late and extra trips summarized above in Section V.A.2.c.1., *supra*, miscommunication (oral and inconsistent nationwide rollout) likely exacerbated the lack of clarity. *See* Response to CHIR No. 11, question 12.a., 12.b.; OIG Report. No. 21-014-R21 at 8, Appendix E at 26.

The Commission has reviewed the opinion of the OIG concerning the Postal Service’s deployment of the late and extra trips policy at the same time as multiple other operational initiatives (the 57 “Do It Now FY Strategies” and the now-suspended ESAS Initiative), stating “[w]hile these initiatives undertaken individually may not have been significant, launching all of these efforts at once, in addition to the changes instituted by the Postmaster General, had a significant impact on service performance.” OIG Report No. 21-014-R21 at 8. The OIG recommended that Postal Service management suspend ongoing and additional cost-reduction initiatives until after the end of the election and holiday mailing season as well as after completing service performance impact analyses. *Id.* at 3. Generally, the Postal Service “management agree[d] to undertake an impact analysis on any strategic initiatives that it deems likely to have significant service impacts.” *Id.* Appendix E at 28.

The Commission has taken into consideration the Postal Service’s objections that the OIG’s opinion was overbroad and would needlessly hinder the ability of Postal Service management to increase efficiency and reduce costs. *See* OIG Report No. 21-014-R21, Appendix E at 27. While the Postal Service admits that the late and extra trips policy contributed to unintentional and temporary declines in service performance, the Postal

Service also argues that the OIG combined multiple initiatives without examining their individual impact and that extensive analysis may be unnecessary or overly burdensome for isolated cost-cutting initiatives. *See* Response to CHIR No. 11, question 12.a.; OIG Report No. 21-014-R21, Appendix E at 27. Although the Postal Service management objected to the OIG’s aggregated evaluation of these initiatives, the Postal Service aggregated 57 initiatives as part of the “Do It Now FY Strategies” and did not produce an impact study of the “Do It Now FY Strategies” on service performance results either before or during their implementation. *See* OIG Report No. 21-014-R21 at 8-9; Response to CIR No. 1, question 18.a., 18.b. Thus, the resulting inability of the Postal Service to respond to inquiries regarding the actual impact on service performance of the “Do It Now FY Strategies” appears to be attributable to this lack of study. *See* Response to CHIR No. 11, question 12.a.; Response to CIR No. 1, question 18.b. For the separate ESAS Initiative discussed above in Section V.A.2.c.2., *supra*, which was conducted as a pilot to reduce overtime at a limited number of sites and suspended after less than 1 month, both average weekly delayed volume and Last Mile Impact increased during the ESAS Initiative compared to the baseline. *See* Response to CIR No. 1, question 18.b. *To the extent practicable, the Commission encourages the Postal Service to expand its use of pilot programs to better understand the impacts that cost-reduction initiatives may have on service performance results.*

d. Political Mail, Election Mail, and Census Mail

During the COVID-19 pandemic and the operational changes described above, the Postal Service also strived to prioritize delivery of Political Mail, Election Mail, and Census Mail. The post-election reports released by the Postal Service and its OIG detail the additional resources devoted—such as extra transportation and overtime—and extraordinary measures taken by the Postal Service to deliver Political Mail and Election Mail for the 2020 General Election and the two run-off elections for the United States Senate in Georgia held on January 5, 2021.²⁶⁹ Because the ACD pertains to FY 2020 (October 1, 2019 through September 30, 2020), this discussion is focused on events occurring during that timeframe, although some events of FY 2021 Quarter 1 are described for additional context.

November 3, 2020 was the date of the General Election for federal offices—President, Vice President, and United States Congress—and many state and local offices. *See Postal Bulletin* No. 22539 at 4. For purposes of Postal Service reporting, this occurred during FY 2021 Quarter 1. In FY 2020, prior to the General Election, the states held primary and runoff elections from February 3, 2020 through September 15, 2020.²⁷⁰ Additionally, the Census Bureau collected data for the 2020 Census from March 12, 2020 through October 15, 2020.²⁷¹

²⁶⁹ The Postal Service uses the term “extraordinary measures” to refer to processes it used “beyond [its] normal operations” such as “expedited handling, extra deliveries, and special pickups,” to accelerate the delivery of Election Mail, effective October 26, 2020. *See* February 4 Response to CHIR No. 6, question 11.b., PDF file “Extraordinary Measures Memorandum.pdf,” at 2 (Extraordinary Measures Mem.).

²⁷⁰ State Primary Election Dates (listing dates of state primaries, runoffs and presidential preference primaries, as postponed due to COVID-19).

²⁷¹ 2020 Census Operational Adjustments (listing dates for the Census Bureau’s data collection processes, as postponed due to COVID-19).

Political Mail, Election Mail, and Census Mail are not distinct Postal Service products; instead, these items are sent using the Postal Service’s existing First-Class Mail and USPS Marketing Mail products.²⁷² The Postal Service works with mailers to ensure that Election Mail bears the Official Election Mail logo and that Political Mail receives a red tag.²⁷³ The Postal Service works closely with the Census Bureau to ensure that items mailed by the Census Bureau and respondents have Intelligent Mail barcodes for tracking purposes. See *Postal Bulletin* No. 22541 at 41.

Below, Table V-8 displays monthly Census Volumes during FY 2020.

Table V-8
Decennial Census Mail Volumes by Month, FY 2020

Quarter	Month	First-Class Mail (Outgoing)	First-Class Mail (Incoming)	Priority Mail	Every Door Direct Mail—Retail	Total
Q1	Oct. 2019	0	0	0	9,763,007	9,763,007
	Nov. 2019	0	0	0	7,800,023	7,800,023
	Dec. 2019	0	0	0	9,175,439	9,175,439
Q2	Jan. 2020	0	0	0	8,568,613	8,568,613
	Feb. 2020	0	0	117,229	12,590,366	12,707,595
	Mar. 2020	348,764,914	6,577,832	0	20,285,909	375,628,655
Q3	Apr. 2020	123,885,875	6,579,117	0	420,000	130,884,992
	May 2020	48,300,484	4,133,653	0	1,717,794	54,151,931
	June 2020	13,768,094	822,353	0	2,301,920	16,892,367
Q4	July 2020	38,538,423	332,842	0	1,822,667	40,693,932
	Aug. 2020	0	339,382	0	2,254,349	2,593,731
	Sept. 2020	30,727,119	628,876	0	0	31,355,995
Total		603,984,909	19,414,055	117,229	76,700,087	700,216,280

Notes: “Outgoing” refers to mail sent by the Census Bureau and “Incoming” refers to mail sent to the Census Bureau. “Priority Mail” is a Competitive product.

Source: February 4 Response to CHIR No. 6, question 10, Excel file “Decennial Census Volumes by Month FY20.xlsx.”

As shown in Table V-8 above, most of the Census Mail using First-Class Mail for FY 2020 was mailed in March through May 2020. Nearly 90 percent of the Census Mail using Every Door Direct Mail—Retail in FY 2020 was mailed during Quarters 1 and 2 (October 2019 through March 2020). More than half of all Census Mail was sent during March 2020, which coincided with the declaration of a national emergency concerning the COVID-19 pandemic.

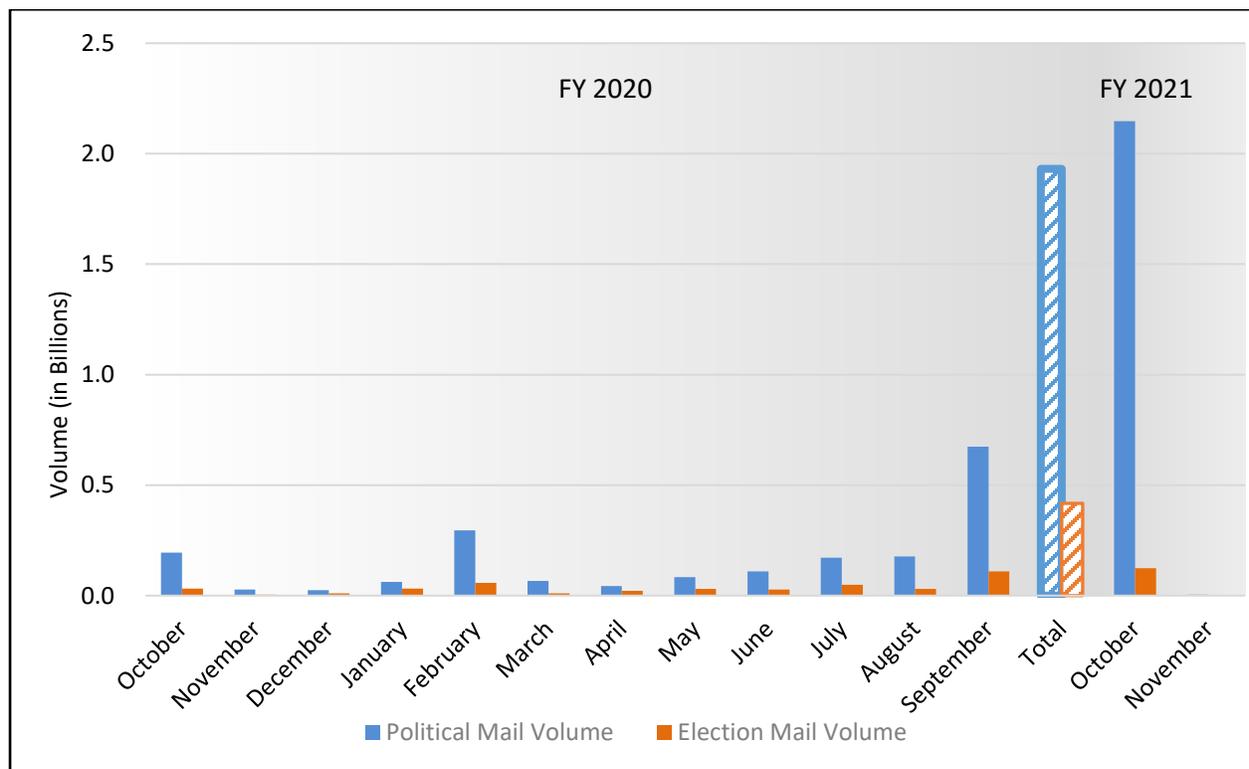
²⁷² See *Postal Bulletin* No. 22539 at 4; United States Postal Service, *Postal Bulletin* No. 22541, March 12, 2020, at 41, available at <https://about.usps.com/postal-bulletin/2020/pb22541/pb22541.pdf> (*Postal Bulletin* No. 22541).

²⁷³ See *Postal Bulletin* No. 22539 at 4; see also United States Postal Service, Election Mail, available at <https://about.usps.com/what/government-services/election-mail/welcome.htm>; United States Postal Service, Political Mail, available at <https://www.usps.com/business/political-mail.htm>.

During FY 2020, the Postal Service delivered approximately 417 million Election Mail pieces, 1.93 billion Political Mail pieces, and 700 million Decennial Census Mail pieces.²⁷⁴

Below, Figure V-12 displays Political Mail and Election Mail volumes by month, for October 2019 through November 2020 (which includes all of FY 2020 and the first 2 months of FY 2021 Quarter 1).

Figure V-12
Political Mail and Election Mail, by Month,
October 2019–November 2020



Source: February 4 Response to CHIR No. 6, question 10, Excel file “FY 2020 PEM Volume.xlsx.”

Note: Election mail volume was approximately 4 million pieces in November 2019; approximately 10 million pieces in December 2019; approximately 10 million in March 2020; and approximately 0.9 million in November 2020.

As illustrated by Figure V-12 above, the vast majority of Political Mail and Election Mail, 2.1 billion and 123 million pieces, respectively, was delivered in October 2020 (the first quarter of FY 2021).²⁷⁵ Within FY 2020, the greatest volume was delivered in September

²⁷⁴ See February 4 Response to CHIR No. 6, question 10, Excel files “FY 2020 PEM Volume.xlsx” and “Decennial Census Volumes by Month FY20.xlsx.”

²⁷⁵ See February 4 Response to CHIR No. 6, question 10, Excel file “FY 2020 PEM Volume.xlsx.”

2020—approximately 674 million Political Mail pieces and 110 million Election Mail pieces. *Id.*

Below, Table V-9 compares Political Mail and Election Mail volumes for FY 2016 and FY 2020: leading up to the General Elections of November 2016 and November 2020, respectively.

Table V-9
Political Mail and Election Mail, FY 2016 and FY 2020

Mail Volume (in Billions)	FY 2016	FY 2020
Political Mail	1.080	1.930
Election Mail	0.192	0.417
Total	1.272	2.347

Source: Response to CIR No. 1, question 19.c.

As shown by Table V-9 above, FY 2020 Political Mail and Election Mail volume nearly doubled from the levels observed in FY 2016.

Prior to the 2020 elections, the Postal Service did not complete a study and/or analysis of the expected impact of Political Mail and Election Mail on Market Dominant service performance. *See* February 4 Response to CHIR No. 6, question 11.a. The Postal Service explains that although it generally uses “normal delivery practices” for Political Mail and Election Mail, “the Postal Service has historically engaged in efforts to expedite the delivery of ballots as necessary based on local needs and capabilities.” *Id.* The Postal Service explains that “[t]hese efforts were not previously formalized in writing due in part to the need for local flexibility.” *Id.* The Postal Service asserts that it developed formal written national plans in September and October 2020 due to “the anticipated increase in volume, the fact that many jurisdictions and voters were using the mail to vote for the first time, and the increased attention on the Postal Service.” *Id.*

The Postal Service adds that it “engage[d] in extensive planning to ensure operational preparedness in advance of the 2020 primary elections and made adjustments leading into the [G]eneral [E]lection to address areas of opportunity and anticipated increases in Election Mail volume.” *Id.* The Postal Service elaborates that its advance planning “included updating and issuing standard operating procedures, stand-up talks, and other guidance documents, as well as holding trainings and conducting webinars to discuss best practices and common issues, among other things.” *Id.*

On August 18, 2020, the Postmaster General reiterated the Postal Service’s “critical role” and commitment to delivering Election Mail, and stated that on October 1, 2020, the Postal Service would “engage standby resources in all areas of [its] operations, including

transportation, to satisfy any unforeseen demand.”²⁷⁶ Additionally, on August 21, 2020, the Postal Service Board of Governors established a bipartisan Election Mail Committee to oversee the Postal Service’s support of the mail-in voting process.²⁷⁷ Further, the Postmaster General expanded the Postal Service’s pre-existing Election Mail Task Force to include leaders of the four major postal unions and the leaders of management associations to review the Postal Service’s plans.²⁷⁸

As described above in Section V.A.2.c.1., *supra*, multiple preliminary injunctions were issued by federal courts against the Postal Service in September and October 2020. On September 21, 2020, the United States District Court for the Southern District of New York issued a preliminary injunction requiring the Postal Service to develop a guidance memorandum concerning its treatment of Election Mail.²⁷⁹ On September 21 and 25, 2020, respectively, Postal Service management disseminated two written memoranda across the nation clarifying its operational instructions concerning its treatment of Election Mail and describing the additional resources that the Postal Service would dedicate to delivery of Election Mail beginning on October 1, 2020.²⁸⁰ Moreover, the Postal Service authorized “the use of extraordinary measures beyond [its] normal operations” such as “expedited handling, extra deliveries, and special pickups,” to accelerate the delivery of Election Mail, effective October 26, 2020. *See* Extraordinary Measures Mem. at 2.

The Postal Service developed a post-election analysis, as detailed below. The Postal Service reports that ballots were delivered faster than First-Class Mail in October 2020.²⁸¹ Specifically, in October 2020 the average delivery time for completed ballots returned by voters was 1.6 days, the average delivery time for sending ballots to voters was 2.1 days, and the average delivery time for First-Class Mail was 2.5 days. Postal Service Post-Election Report at 19. The Postal Service estimates that 97.9 percent of ballots mailed from voters to election officials were delivered within 3 days, and 99.7 percent of ballots mailed from voters to election officials were delivered within 5 days. *Id.* Further detail about the

²⁷⁶ United States Postal Service, Postal News, Postmaster General Louis DeJoy Statement, August 18, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0818-postmaster-general-louis-dejoy-statement.pdf>.

²⁷⁷ United States Postal Service, Postal News, USPS Board of Governors Announces Bipartisan Election Mail Committee, August 21, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0821-bog-announces-bipartisan-election-mail-committee.pdf>.

²⁷⁸ United States Postal Service, Postal News, Statement on Inaugural Meeting of the Postal Service’s Expanded Election Mail Task Force, September 3, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0903-usps-statement-on-election-mail-task-force-meeting.pdf>.

²⁷⁹ *Jones v. United States Postal Serv.*, No. 20 Civ. 6516 (VM), 2020 WL 5627002, at *22 (S.D.N.Y. Sept. 21, 2020) (“Plaintiffs have identified a profound and troubling lack of standards and uniformity with regard to USPS’s handling of Election Mail.”).

²⁸⁰ DOJ September 25, 2020 Letter, *Jones v. United States Postal Service*, No. 20 Civ. 6516 (VM), ECF Document #58 (describing that the Postal Service issued the memoranda, attached as Exhibits 4 and 5, on September 21 and 25, 2020); Clarifying Operational Instructions Mem.; Memorandum from Chief Retail and Delivery and Chief Logistics and Processing Operations to Officers, PCES [Postal Career Executive Service], and Pay Band Managers, Additional Resources for Election Mail Beginning October 1, September 25, 2020, ECF Document #58-5 (Additional Resources Mem.).

²⁸¹ United States Postal Service, 2020 Post-Election Analysis: Delivering the Nation’s Election Mail in an Extraordinary Year, updated January 12, 2021, at 19, available at https://about.usps.com/newsroom/national-releases/2021/usps_postelectionanalysis_1-12-21_georgia.pdf (Postal Service Post-Election Report).

extraordinary measures taken by the Postal Service to deliver Political Mail and Election Mail for the 2020 General Election and the two run-off elections for the United States Senate in Georgia held on January 5, 2021, is available at https://about.usps.com/newsroom/national-releases/2021/usps_postelectionanalysis_1-12-21_georgia.pdf.

Further, the OIG conducted unannounced site visits in October 2020 as well as daily announced site visits during the week of the General Election throughout the nation.²⁸² The OIG found that during the 2020 General Election, “[t]he Postal Service prioritized processing of Election Mail . . . , significantly improving timeliness over the 2018 mid-term election even with significantly increased volumes of Election Mail in the mailstream.” OIG Report No. 20-318-R21 at 1, 8. The OIG observed that the Postal Service took immediate corrective actions to address the delays and compliance issues identified by the OIG. *Id.* at 1, 4, 8. The OIG provided a number of recommendations for the Postal Service to: identify the reasons for why some ballots using Full-Service IMb were excluded from measurement, educate state and local election officials, improve internal communication of Election Mail processes and policies, enhance monitoring of local compliance with such processes and policies, and conduct a post-election analysis. *Id.* at 5, 16-17. The OIG also observed international Election Mail operations at ISCs during the General Election and the Georgia Senate run-off election and will issue a separate report of its findings. *Id.* at 1.

The Postal Service indicates that some non-Election Mail USPS Marketing Mail volumes may have incurred delays as a result of this prioritization of Election Mail; however, the Postal Service is unable to quantify this effect. *See* Response to CHIR No. 3, question 22.c. Additionally, in discussing decreases experienced in FY 2020 compared to FY 2019 on-time service performance for First-Class Mail in the Northeast Area, the Postal Service states that the decreases are partially attributable to “the volume of political and election mail [that] increased exponentially this year, as well as increased volume related to the Decennial Census.”²⁸³ The Postal Service explains that “[c]ollectively, these increases in volumes, coupled with decreased employee availability, led to competing goals of finalizing mail on time and getting it on a limited transportation network” across the nation. *See* Response to CIR No. 1, question 20.a., 20.c. The Postal Service does not quantify the costs that it incurred in FY 2020 to perform this public duty.

In addition, the Commission notes that the OIG recommended that in the future, the Postal Service begin conducting post-election reviews to identify lessons learned for use as a reference in future elections. OIG Report No. 20-318-R21 at 5. *The Commission concurs with this recommendation and also recommends that the Postal Service begin conducting post-election reviews following future elections.*

²⁸² United States Postal Service, Office of Inspector General, Report No. 20-318-R21, Service Performance of Election and Political Mail During the November 2020 General Election, March 5, 2021, at 1-4, 7, available at <https://www.uspsaig.gov/sites/default/files/document-library-files/2021/20-318-R21.pdf> (OIG Report No. 20-318-R21).

²⁸³ Library Reference USPS-FY20-29, folder “Area Reports,” PDF file “Northeast PRC FY 20 Svc Perf Report.pdf,” at 1.

e. Corporate Restructuring and Strategic Planning

On August 7, 2020, the Postmaster General announced a restructuring of the Postal Service's field operations and headquarters functions into three core business units: (1) Retail and Delivery Operations, (2) Logistics and Processing Operations, and (3) Commerce and Business Solutions.²⁸⁴ The Postal Service is also working to develop a new strategic plan and evaluate its service performance targets. *See* FY 2020 ACR at 39-40.

The Postal Service's corporate restructuring affects executive oversight of the field by separating service performance-related functions between retail and delivery versus processing and logistics. *See id.* at 39. The Postal Service explains that the legacy structure decentralized planning and executive functions across 7 Areas and 67 Districts. *See* Response to CIR No. 1, question 9.a.-b. The new separate Logistics and Processing Operations unit, which consists of the Eastern and Western Regions, will focus on efficient processing and transportation so as to deliver items within the applicable service standard. Library Reference USPS-FY20-29, Preface at 3. The new separate Retail and Delivery Operations unit, which consists of the Atlantic, Central, Southern, and Western-Pacific Areas, will oversee acceptance and delivery of mail and packages. *Id.* The Postal Service illustrates the geographic organization of each unit on pages 17 and 18 of the Postal Service's FY 2020 Annual Performance Report; however, it appears that additional changes are in progress.²⁸⁵

The Postal Service asserts that restructuring Logistics and Processing Operations to be a separate unit from Retail and Delivery Operations will lead to improved service performance results. *See* Response to CIR No. 1, question 9.a.-b. The Postal Service asserts that this new structure streamlines the legacy structure, eliminates different implementation strategies across the field, and improves the speed and consistency of communication and accountability. *See* FY 2020 ACR at 39; Response to CIR No. 1, question 9.a.-b. In response to an inquiry regarding quantitative support for these assertions, the Postal Service states "[w]hile the elements of a streamlined structure can in some sense be expressed quantitatively, the above explanation relies fundamentally on management judgment and experience." Response to CIR No. 1, question 9.a.-b. The Postal Service also avers that this new structure "is improving management's ability to communicate with the appropriate clarity, alignment, and saturation, regarding initiatives relating to transportation, as well as collection, processing, transporting, and delivery of mail, and is providing managers and employees with clearer understandings of what is expected." Response to CHIR No. 11, question 11.b.

²⁸⁴ United States Postal Service, Postal News, Postmaster General Louis DeJoy Modifies Organizational Structure to Support USPS Mission, August 7, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0807-pmg-modifies-organizational-structure.htm> (August 7, 2020 PMG Statement).

²⁸⁵ *See* United States Postal Service, Postal News, U.S. Postal Service Announces Next Phase of Organizational Changes Begun in August 2020, March 3, 2021, available at <https://about.usps.com/newsroom/national-releases/2021/0303-usps-announces-next-phase-of-organizational-changes-begun-in-august-2020.pdf> (announcing plans to consolidate the number of Districts from 67 to 50, centralize marketing functions, and realign the new Logistics and Processing Operations unit).

Under the new structure, all mail processing facilities and local transportation network offices report to the Logistics and Processing Operations unit. August 7, 2020 PMG Statement. The Postal Service explains that “[b]ecause the reorganization was announced only in late FY 2020, no nationwide initiatives were developed, implemented, and/or supervised by this new [Logistics and Processing Operations] operating unit in FY 2020.” Response to CIR No. 1, question 10.c.

Within this Logistics and Processing Operations unit, and reporting to the Vice President of Processing and Maintenance Operations, the Postal Service created a new Headquarters In-Plant Support Letter and Flat, Planning and Implementation group in FY 2021 Quarter 2. Library Reference USPS-FY20-29, Preface at 3; Response to CIR No. 1, question 11.a. The Postal Service reports that this newly dedicated group is working to strategically stabilize all letter- and flat-shaped products; create site-specific, achievable operating plans; and adjust reporting standards to identify the variance to the new site-specific plans. Response to CIR No. 1, question 11.a. The Postal Service reports that metrics associated with these plans will be developed. *See* February 4 Response to CHIR No. 6, question 13.

The Postal Service also reports that its Board of Governors is developing a new strategic business plan based on its examination of “its operations to identify strategies and opportunities to improve both the reliability and predictability of service performance, while also enhancing operational efficiency and effectiveness.” FY 2020 ACR at 39-40. In response to Commission inquiries, the Postal Service states that the elements of the plan, associated metrics, stakeholder engagement, and publication timeframe remain under deliberation. *See* Response to CIR No. 1, question 14. The Postal Service explains that this deliberation will also evaluate Market Dominant service performance targets for FY 2021. *See* FY 2020 ACR at 39. In response to Commission inquiries, the Postal Service states that it plans to set achievable targets during the first few months of CY 2021 that reflect current operating capabilities and conditions such as the COVID-19 pandemic. *See* Response to CIR No. 1, question 13.

f. Comments and Related Commission Analysis

Comments specific to each class of mail are summarized and responded to below in Section V.A.4. The comments (and reply comments, if applicable) that pertain more generally to events affecting service performance for all Market Dominant products in FY 2020 are organized by topic, summarized, and responded to below.

FY 2020 service performance generally. ACI asserts that service performance for Market Dominant products considerably lagged performance for Competitive products. *See* ACI Comments at 2. Frontiers of Freedom observes that the combination of the pandemic and the elections led to unprecedented increases in the volumes of packages and certain mail. *See* Frontiers of Freedom Comments at 1-2. NAPM also recognizes the extraordinary challenges presented by the pandemic; but, also observes that the Postal Service’s service performance issues persisted pre-pandemic as well. NAPM Comments at 7. Pitney Bowes observes that “[a]n unprecedented confluence of events at year-end created service performance challenges.” Pitney Bowes Comments at 5. SBE Council describes that small

businesses “were exasperated to find the USPS ‘gridlocked’ amid unprecedented levels of e-commerce packages.” SBE Council Comments at 2. The Postal Service responded that gridlock did not occur, stating “the system certainly did not come to a halt.” Postal Service Reply Comments at 6. The Postal Service acknowledges “that it has missed certain service performance targets in the past, and it is focused on improving performance in the future, even though the challenges of the pandemic persist.” *Id.* at 8.

The Public Representative acknowledges that the COVID-19 pandemic had an immense impact in FY 2020 and that these serious challenges will continue into FY 2021. PR Comments at 6-12, 40. He observes that the following issues are of critical importance for FY 2021: continuing to hire and train non-career employees, efficient and effective management under the new corporate business units, mitigating threats to air and surface contract transportation, continuing to leverage data tools to monitor service performance failures, and establishing realistic service performance targets. *See id.* at 40-42. Based on his review, he opines that “it appears that the Postal Service is planning to address service performance issues seriously. In FY 2021, the Commission, like the Postal Service, should be prepared to devote even more resources to service performance issues.” *See id.* at 42. The Postal Service generally agrees with the Public Representative’s observations. *See* Postal Service Reply Comments at 5-6, 8, 10.

The Commission acknowledges that the pandemic exacerbated existing service performance challenges for the Postal Service. The Commission’s previous analysis and discussion in this section reflect agreement with many of the commenters’ observations, and the Commission has taken these comments into account in formulating its recommendations and directives.

Development of FY 2021 targets. NAPM expresses concern about the Postal Service not having established service performance targets for FY 2021 yet. NAPM Comments at 9. The Postal Service responds that it has deferred doing so due to the unpredictability of COVID-19 impacts on employee availability, transit, and package volumes. *See* Postal Service Reply Comments at 12-13.

With regard to the Postal Service’s delay in establishing its FY 2021 service performance targets, the Commission shares this commenter’s concern. On March 23, 2021, the Postal Service published its 10-Year Plan, which did not include FY 2021 service performance targets.²⁸⁶ Although the Commission acknowledges that the current environment is complicated by external factors such as the ongoing COVID-19 pandemic, the Commission questions the Postal Service’s strategy of setting targets for FY 2021 service performance after nearly half of FY 2021 has elapsed.

Communications with the mailing industry. Based on the experiences of its members, NAPM recommends that the Postal Service enhance its ability to communicate with its industry

²⁸⁶ United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf.

partners regarding site-specific disruptions. NAPM Comments at 12-13. NAPM suggests that the Postal Service enhance the Last Mile delivery scan data provided to mailers to confirm the actual delivery date, and thereby enhance mailers' ability to plan follow-up communications to the addressee. *Id.* at 9-10. The Postal Service counters that "continued expansion of data reporting could be counterproductive, diverting attention and resources away from . . . developing and implementing solutions." Postal Service Reply Comments at 7.

The Commission notes that the Postal Service has also indicated that it is evaluating the viability of providing "external mailer access to internal Postal Service real-time analytics." Response to CHIR No. 10, question 6.c. *The Commission commends the Postal Service for undertaking this evaluation and encourages the Postal Service to engage meaningfully with its stakeholders regarding this evaluation. The Postal Service should also consider the feasibility of NAPM's suggestion to enhance the Last Mile data provided to customers.*

Lack of detail in the Postal Service's FY 2020 Annual Performance Report and FY 2021 Annual Performance Plan. NAPM also remarks on the lack of detail provided in the discussion of service performance in the Postal Service's FY 2020 Annual Performance Report and FY 2021 Annual Performance Plan regarding the Postal Service's planned changes to composite scores and the Disruptive Events Initiative. NAPM Comments at 8, 12. The Postal Service characterizes as "incorrect" NAPM's concern that the new Market Dominant Composite indicator may mean that the Postal Service plans to report its service performance for all Market Dominant mail only as one composite measure. Postal Service Reply Comments at 7. Specifically, the Postal Service confirms that "[i]ndeed, the Postal Service cannot unilaterally eliminate reporting on the performance of individual Market Dominant products." *Id.* Additionally, the Postal Service observes that the Commission requested additional detail on the Disruptive Events Initiative. *See id.* at 7 n.24.

Additional detail was requested on both of these issues.²⁸⁷ Consistent with past practice, the Commission will publish a separate analysis of the issues identified in the Postal Service's FY 2020 Annual Performance Report and FY 2021 Annual Performance Plan.²⁸⁸

Postal Service accountability. Asserting that the ACD has not held the Postal Service accountable for its failure to improve service performance, NPPC reiterates its disagreement with the Commission's withdrawn performance-based rate authority proposal in Docket No. RM2017-3. *See* NPPC Reply Comments at 5 n.5. NPPC expresses hope that the Commission will impose rate penalties to hold the Postal Service accountable for the lack of service quality. *See id.* at 5.

²⁸⁷ *See* Chairman's Information Request No. 8, January 29, 2021, question 2 (inquiring regarding the planned changes to composite indicators); Chairman's Information Request No. 10, February 4, 2021, questions 5, 6 (inquiring regarding network disruptions); Chairman's Information Request No. 15, February 11, 2021, questions 9, 11 (inquiring regarding the planned changes to composite indicators and the status of the Disruptive Events Initiative).

²⁸⁸ *See, e.g.,* Docket No. ACR2019, Analysis of the Postal Service's FY 2019 Annual Performance Report and FY 2020 Performance Plan, June 1, 2020.

With regard to the performance-based rate authority proposal to which NPPC objected in Docket No. RM2017-3, the Commission took into account the objections lodged by NPPC and others in determining to withdraw it. Order No. 5763 at 21, 158-66. The Commission extensively reviewed suggestions to link service performance with rate authority, taking into account the findings of Copenhagen Economics to confirm the Commission's cautious and measured approach to such action. *See id.* at 175-77. A new proceeding has been instituted to explore systemic issues related to maintaining high-quality service standards, in conjunction with other priorities.²⁸⁹ With regard to the use of the ACD to hold the Postal Service accountable for service performance, at this juncture, the Commission finds that continued consistent monitoring is the most productive Commission action to drive the Postal Service to improve its service performance results and ensure accountability for making improvements. The Commission reiterates that the Postal Service improved service performance results for many categories during the pre-pandemic period of FY 2020 from the levels observed in the same period in FY 2019. The directives in the FY 2020 ACD are aimed at monitoring the Postal Service's recovery from the pandemic and also ensuring that any management initiatives that are reasonably foreseeable to impact service performance results are studied prior to their implementation.

g. Commission Analysis of Overall FY 2020 Impacts and
FY 2021 Outlook

The Commission reiterates its appreciation for the tremendous efforts of the frontline Postal Service workers to provide continuous mail service to the nation during the COVID-19 pandemic. Frontline Postal Service workers continue to perform essential services that allow millions of Americans to minimize their exposure to COVID-19 by remaining at home.

As described above, the spread of the COVID-19 pandemic in FY 2020 and its effects, particularly in Quarters 3 and 4, presented serious service performance challenges for the Postal Service. The three primary challenges—reduced employee availability, contract transportation disruptions, and changes in the mail mix—are likely to persist for some time into FY 2021. In addition to responding to the pandemic, the Postal Service undertook voluntary operational and structural changes in Quarter 4 of FY 2020. Moreover, the Postal Service strived to prioritize delivery of Political Mail, Election Mail, and Census Mail throughout FY 2020 and into FY 2021. It is also evident that the Postal Service, as an organization, understands the importance of prioritizing items sent for medical purposes and continues its efforts to do so.²⁹⁰

Each of these effects, which are discussed separately above, had significant impacts on service performance. The Commission observes that the combination of all effects together increased the extent and duration of the impact. The interconnectivity of the mail network is sensitive to internal and external disruptions. For instance, the Postal Service explains

²⁸⁹ See Docket No. RM2021-2, Advance Notice of Proposed Rulemaking Regarding Performance Incentive Mechanism, January 15, 2021 (Order No. 5816).

²⁹⁰ See February 4 Response to CHIR No. 6, question 16; *see also* OIG Report No. 20-275-R21 at 20 (describing the efforts of Postal Service personnel to identify and prioritize any mailpiece that might contain medicine).

that certain “hot spots” in one geographic area can impact downstream operations in other facilities. *See* Response to CIR No. 1, question 1.a. This appears to be particularly applicable for transportation challenges. The Postal Service explains that operating plans allow little margin of error: if air or surface transportation is more than 1 hour late, the mail is unlikely to be delivered within its service standard, absent extraordinary efforts made by the downstream facility and/or mail carrier. *See id.* question 3.a.; *see also* FY 2019 ACD at 109. Due to this interconnectivity, the Postal Service must take care to ensure that it thoroughly examines the service performance impact of adapting operations to respond to the challenges posed by COVID-19. The Commission has taken this into account with respect to formulating its recommendations and directives.

The Postal Service is required to include in its ACR filing an explanation of why each service performance target is not met and a plan describing the steps that have been or will be taken to ensure that the product achieves the target. *See* 39 C.F.R. § 3055.2(h); *see also* 39 U.S.C. § 3652(d), (e). Additionally, the Postal Service must provide a more detailed analysis regarding its failures to achieve stated goals for on-time delivery standards if the Commission observed and commented upon the same matter in the ACD for the previous fiscal year. *See* 39 C.F.R. § 3050.20(c). However, the Postal Service’s FY 2020 ACR filing lacked quantitative or qualitative support for its generalized assertions regarding the impact of the COVID-19 pandemic and the steps taken to restore service performance. *See* FY 2020 ACR at 38-40. Nor did the Postal Service’s FY 2020 ACR filing address issues identified by OIG reports (such as the late and extra trips policy) as contributing to declining service performance during FY 2020 or the status of many of the service performance improvement plans identified by the Postal Service during Docket No. ACR2019 (such as the STC redesign). To prompt the Postal Service to explain and quantify the impact on service performance of issues identified by the Postal Service (such as the pandemic), as well as to address issues identified by OIG reports (such as the late and extra trips policy) and the status of many of the service performance improvement plans identified during Docket No. ACR2019 (such as the STC redesign), approximately 90 questions were posed by a CIR and multiple sets of CHIRs.²⁹¹ Although approximately half of these questions were posed in the first half of January 2021 via CIR No. 1 and CHIR No. 1, the responses to the CIR and the CHIRs generated follow-up questions.

Overall, more information regarding the nature and extent of service performance issues experienced in FY 2020 was obtained via responses to the CIR and the CHIRs than through the Postal Service’s FY 2020 ACR filing.²⁹² Supporting information is necessary to allow the Commission to evaluate the assertions contained in the ACR. Not including supporting

²⁹¹ *See* CIR No. 1, questions 1-21; CHIR No. 1, questions 15-35; Chairman’s Information Request No. 3 and Notice of Filing Under Seal, January 15, 2021, questions 14-26 (CHIR No. 3); Chairman’s Information Request No. 5 and Notice of Filing Under Seal, January 26, 2021, questions 2-7; CHIR No. 6, questions 1-20; CHIR No. 11, questions 11-16; Chairman’s Information Request No. 16 and Notice of Filing Under Seal, February 12, 2021, questions 3-5.

²⁹² By way of example, when prompted to quantify the impact of reduced employee availability, the Postal Service provided pictures of line graphs and an observation regarding 2 months of FY 2020. *See* Response to CIR No. 1, question 1.b. This prompted the issuance of CHIR No. 6, questions 1 and 2, which directly asked the Postal Service to identify the source and to provide the underlying data in an Excel spreadsheet. *See* CHIR No. 6, questions 1, 2. These data were provided by the Postal Service on February 4, 2021. *See* February 4 Response to CHIR No. 6, question 2.

information in the ACR filing delayed this evaluation. Moreover, providing such information in multiple filings makes it hard for the public to follow the docket and understand the context of the situation that the Postal Service is experiencing. *The Postal Service will need to be attentive to filing relevant quantitative and/or qualitative support for its principal assertions with its FY 2021 ACR filing.* Doing so would improve regulatory efficiency and transparency for the general public.

In terms of lessons learned from FY 2020, the Commission provides recommendations for the Postal Service to pursue in FY 2021 regarding its workforce communications, corporate restructuring, and customer outreach.

The Postal Service appears to recognize the importance of improving its communication of expectations from the executive level to field managers and personnel across the nation. *See Response to CHIR No. 11, question 11.a., 11.b. “[E]nsuring appropriate alignment across operations, coupled with effective communication and message saturation”²⁹³ lays a critical foundation for the successful implementation of operational initiatives. The Commission views written and widely disseminated communication such as the memoranda issued in September and October 2020²⁹⁴ as positive developments that contribute to uniting the efforts of Postal Service workers nationwide. *The Commission encourages the Postal Service to engage in such efforts before and during implementation of future initiatives.**

The Postal Service views its corporate restructuring, announced during FY 2020 Quarter 4, as supporting these communication efforts. The Postal Service asserts that its corporate restructuring should lead to improved service performance by establishing clear lines of accountability, enhancing communication and oversight, and ensuring quicker implementation of strategies and initiatives. *See FY 2020 ACR at 39.* However, in response to inquiries, the Postal Service qualifies this assertion, clarifying that it does not intend to specifically measure the success of the restructuring at achieving these goals and that the aim of the restructuring is limited to improving corporate performance. *See February 4 Response to CHIR No. 6, question 12. To the extent that the Postal Service believes that achieving these goals would improve service performance, the Commission recommends that the Postal Service develop metrics to evaluate how the corporate restructuring affects such achievement (such as monitoring the timeliness and consistency of communication between the executive level, field managers, and personnel across the nation).*

Under this new corporate structure, the Vice President of Processing and Maintenance Operations will oversee the new Headquarters In-Plant Support Letter and Flat, Planning and Implementation group. *See Response to CIR No. 1, question 11.a.* This group was configured, enabled, and became fully operational in FY 2021 Quarter 2. *See id.* The Postal Service asserts that this newly dedicated group should lead to improved service performance by: stabilizing all letter- and flat-shaped products; creating site-by-site

²⁹³ *See id.* questions 11.a., 12.a.

²⁹⁴ *See, e.g.,* Clarifying Operational Instructions Mem.; Additional Resources Mem.; Extraordinary Measures Mem.

specific, achievable operating plans; and adjusting reporting standards to identify a site's deviation from the new site-specific operating plans. See FY 2020 ACR at 39. However, in response to inquiries, the Postal Service did not provide specific metrics to evaluate the efficacy of this group's actions at achieving these goals. See February 4 Response to CHIR No. 6, question 13. *To maximize the positive impact of this group on service performance for letter- and flat-shaped products, the Commission recommends that the Postal Service develop specific goals and a realistic timeframe for taking specific measureable steps for achievement of those goals (such as developing and implementing site-specific operating plans for certain percentages of facilities by a certain date).* As detailed in Chapter 6, *infra*, the Commission has recommended the Postal Service develop a plan to measure, track, and report on cost and service issues for flat-shaped mail since the FY 2015 ACD.

At the same time as the Postal Service is undertaking internal changes, it also must respond to substantial external disruptions to its network, largely related to the ongoing COVID-19 pandemic. The disruptions experienced in FY 2020 have persisted into FY 2021, which underscores the need for the Postal Service to devote more resources to timely and consistent communication with mail users. Timely and consistent communication regarding disruptions with mail users represents another way for the Postal Service to mitigate service performance impacts. The Commission recognizes that the Postal Service has improved its efforts to alert users to disruptions. Notably, the Postal Service has developed a dedicated alerts webpage, which is available at <https://about.usps.com/newsroom/service-alerts>. Further, the Postal Service has committed to developing a dashboard combining regular status updates on facility conditions with on-time data. See <https://federalnewsnetwork.com/agency-oversight/2021/02/usps-creating-dashboard-to-address-performance-data-demands/>. *The Commission views these actions as very positive steps and recommends that the Postal Service evaluate the efficacy of its communication efforts and strive for improvement in terms of timeliness and consistency. In order to assess the efficacy of its past communications and identify areas for improvement, the Commission recommends that the Postal Service surveys stakeholders.*

The Commission commends the Postal Service for having developed outreach efforts specific to the needs of particular customers. For instance, the Postal Service has published Coronavirus FAQs specific to the needs of residential and business customers, which are available at <https://faq.usps.com/s/article/USPS-Coronavirus-Updates-for-Residential-Customers> and <https://faq.usps.com/s/article/USPS-Coronavirus-Updates-for-Business-Customers>, respectively. Notably, the Postal Service holds weekly operational meetings to update pharmaceutical customers on service conditions and process improvements. See February 4 Response to CHIR No. 6, question 16.e. *The Commission encourages the Postal Service to continue and expand these efforts.*

The Commission has been attentive to the public perception that there have been delays in unloading volumes at Postal Service facilities and has inquired as to the feasibility of the Postal Service developing a dedicated metric as well as the steps taken to abate these delays and to inform affected customers. See CIR No. 1, question 21. The Postal Service responded that development would require partnering with the shipping industry. See *id.*

question 21.a. The Postal Service emphasizes that it is also attentive to abating such delays via continuous yard checks to verify the mail is being unloaded timely and alerting industry partners of disruptions. *See id.* question 21.b., 21.c. *The Commission recommends that the Postal Service work with the shipping industry to develop a dedicated metric to reduce such delays.*

h. Commission Directives

In FY 2020, more Market Dominant products failed to meet their service performance targets than in any of the past 10 years.²⁹⁵ Of the 22 Market Dominant products measured, more than 77 percent (17 products) did not meet their targets in FY 2020. *See* Figure V-1, *supra*. Moreover, FY 2020 service performance results for most Market Dominant products (15 of the 22 measured Market Dominant products) were lower than in FY 2019. As a result, more Market Dominant products posted results in FY 2020 that are substantially below their targets. This systemic decline in service performance results is troubling. As described above, the COVID-19 pandemic was an external factor contributing to the decline in service performance to which the Postal Service has made reasonable efforts to respond. The Commission will monitor these efforts through its class- and product-specific directives. The exact requirements of these directives are discussed in Sections V.A.4.a.6., b.6., c.6., d.6., and e.6., *infra*.

With respect to factors undertaken voluntarily by the Postal Service that contributed to the decline in service performance, the Commission focuses on the late and extra trips policy implemented in July and August 2020. The Postal Service admits that implementation of the late and extra trips policy had a temporary and unintended impact on service performance results.²⁹⁶ Because this initiative concerns surface transit, it impacts products among all classes of Market Dominant mail.

As described in Section V.A.2.c.1., *supra*, comparing average weekly on-time service performance results from July 11 through September 4, 2020 to the same period in FY 2019, 3-5-Day First-Class Mail Single-Piece Letters/Postcards, a category of mail that has been non-compliant since FY 2015, declined by 19.9 percent.²⁹⁷ Additionally, when comparing this period to the same period in FY 2019, average weekly on-time service performance results for 3-5-Day single-piece First-Class Mail Flats and origin-entered Outside County Periodicals declined by 25.2 percent and 25.8 percent, respectively. *Id.* As described in Section V.A.2.c.1., *supra*, the level of decline was more pronounced at the District level.

²⁹⁵ Compare Figure V-1, with FY 2019 ACD at 92 Tables V-1 and V-2; FY 2018 ACD at 128 Tables V-1 and V-2; FY 2017 ACD at 97 Tables V-1 and V-2; FY 2016 ACD at 90-91 Tables V-1 and V-2; FY 2015 ACD at 94-95 Tables V-1 and V-2; FY 2014 ACD at 87-88 Tables V-1 and V-2; FY 2013 ACD at 104 Table V-2, 108 Table V-3, 112 Table V-5, 114 Table V-6, 116 Table V-8; Docket No. ACR2012, *Annual Compliance Determination* (Revised May 7, 2013), May 7, 2013, at 52 Table VI-2, 54 Tables VI-5 and VI-6, 57 Table VI-8, 59 Table VI-9, 62 Table VI-11; FY 2011 ACD at 67-72 Figures VI-1 through V-17, 74-75 Figures VI-18 through V-21, 79 Table VI-6 (FY 2011 ACD); FY 2010 ACD at 60 Tables VI-1 and VI-2, 61 Table VI-3, 65 Table VI-6, 67, 69 Table VI-8, 70 Table VI-9.

²⁹⁶ See Response to CHIR No. 11, questions 11.a., 12.a.; August 24, 2020 PMG Statement; Response to CIR No. 1, question 17.c.; Response to CHIR No. 16, question 3.a., 3.b.; OIG Report No. 21-014-R21, Appendix E at 26.

²⁹⁷ Docket No. ACR2019, Supplemental Response to CIR No. 3, Excel file "CIR.3.Oct.28.ServPerf.Attachmnt.xlsx," tab "FC Nation."

The gap between the Postal Service management's expectations and the actual impact on service performance results is concerning. The lack of advance study or analysis on the service performance impact likely contributed to this gap between the Postal Service management's expectations and the actual impact on service performance results in FY 2020. The late and extra trips policy was implemented based on the judgment of Postal Service management, without conducting a pilot or performing a service performance impact analysis in advance. *See* Response to CIR No. 1, question 17.b. Nor did the Postal Service management consider how such impact might differ from their expectations due to other coincident factors such as COVID-19 and the (then-impending) 2020 General Election. *See* Response to CIR No. 1, questions 17.b.-17.e. The Postal Service did not revisit the business judgments of its executives due to these coincident factors and implemented the changes at a particularly difficult time: with the pandemic causing widespread staffing shortages, stress on the transportation network, and surges in labor-intensive package volumes. Moreover, the late and extra trips policy was implemented at a time of increased public attention and focus on the Postal Service's multiple other cost-reduction initiatives, as well as its efforts to prioritize increasing amounts of Election Mail.

Although the Postal Service asserts that the decline caused by the late and extra trips policy was unintended and temporary, the Commission remains concerned that the gap between the expected and actual impact of management initiatives could potentially reoccur in FY 2021. As observed above, the Postal Service's network is interconnected and direct impacts on one aspect can compound impacts on other aspects. Further, because the Postal Service is still facing challenges resulting from the COVID-19 pandemic, the need for the Postal Service to engage in careful study before taking action is magnified with respect to restoring service performance in FY 2021. Indeed, service performance for FY 2021 Quarter 1 appears to have worsened for many categories. Notably in FY 2021 Quarter 1, national on-time results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards were 54.8 percent.²⁹⁸ FY 2021 Quarter 1, national on-time results for origin-entered Outside County Periodicals were 59.0 percent.²⁹⁹ FY 2021 Quarter 1, national on-time results for 3-5-Day First-Class Mail Flats were 55.9 percent.³⁰⁰

The Commission recognizes that extensive pre-implementation analysis may not be necessary for every routine isolated operational effort that is not reasonably foreseeable to impact service performances results. However, as FY 2020's late and extra trips policy demonstrated, it is highly problematic for the Postal Service to commence initiatives that are reasonably foreseeable to impact service performance results without undertaking any advance study or analysis of the service performance impact. *Because the Commission is concerned with reoccurrence, the Postal Service is directed to file with the Commission a*

²⁹⁸ United States Postal Service, FY 2021 Quarter 1 Service Performance Measurement Data, February 9, 2021, available at <https://www.prc.gov/dockets/quarterly-performance>, Excel file "SPFC LC 211 Scores Report.xlsx," tab "SPFC LC Quarter," cell E22 (Postal Service FY 2021 Q1 SPM Data).

²⁹⁹ Postal Service FY 2021 Q1 SPM Data, Excel file "Periodicals LC 211 Scores Report.xlsx," tab "Per Quarter," cell I12.

³⁰⁰ Postal Service FY 2021 Q1 SPM Data, Excel file "FC Flats 211 Scores Report.xlsx," tab "FCF Quarter," cell I22.

service performance impact analysis for initiatives that are planned for implementation on or before the issuance of the next ACD (March 29, 2022)³⁰¹ and are reasonably foreseeable to impact service performance results. The analysis shall be filed in Docket No. ACR2020 as soon as practicable, but at least 30 days prior to implementation.³⁰²

The keystone of this directive is reasonableness. It is intended to support rather than hinder the actions of Postal Service management to optimize efficiency, reduce costs, and restore service performance. The filing shall be made if the impact on service performance results is sufficiently likely to occur that a person of ordinary prudence would take it into account in reaching a decision to implement the initiative. At a minimum, the filing shall identify the relevant areas of concern related to service performance results and contain supporting quantitative and/or qualitative analysis (rather than mere conclusions) proportionate to areas of the concern. In circumstances that involve the aggregation of numerous small initiatives aimed at a common goal and are reasonably foreseeable to impact service performance results, such analysis may be provided in the aggregate rather than for each and every underlying initiative. The Commission views this directive as a remedy for a potentially systemic disconnect that has contributed to declining service performance results in FY 2020 and will reevaluate the necessity of continuing this directive no later than the next ACD, which will be issued by March 29, 2022.

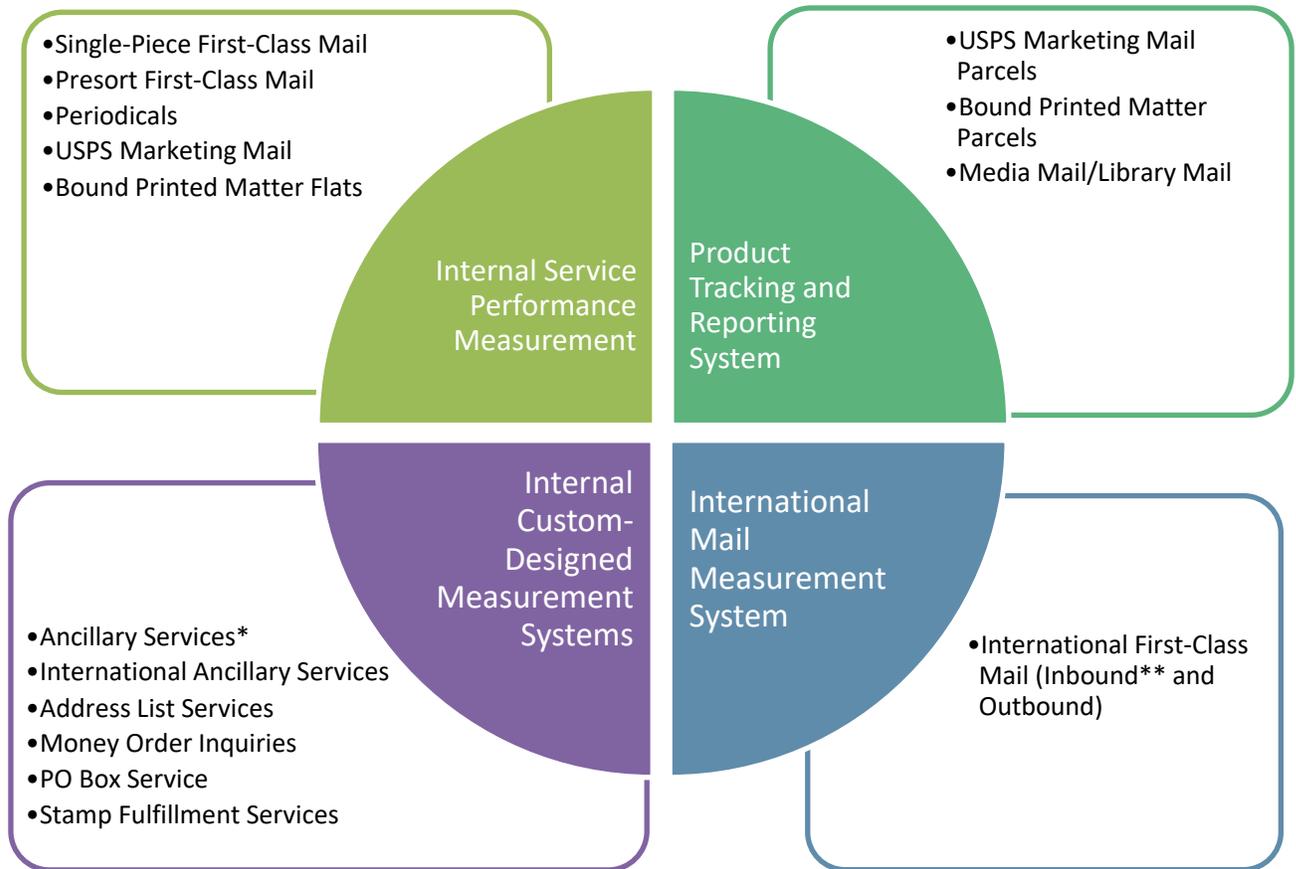
3. FY 2020 Service Performance Measurement Systems

The Postal Service began reporting service performance results for most Market Dominant products in the third quarter of FY 2011. Since then, the Postal Service's measurement systems have evolved. Below, Figure V-13 identifies the systems used by the Postal Service during FY 2020 to measure service performance for Market Dominant products. The Commission uses the following acronyms and abbreviations: IMb for "Intelligent Mail barcode," IMMS for "International Mail Measurement System," PTR for "Product Tracking and Reporting System," and Internal SPM for "Internal Service Performance Measurement System."

³⁰¹ The exact issuance date of the FY 2021 ACD may be a few days earlier, if the Postal Service opts to file its FY 2021 ACR earlier than the deadline. See 39 U.S.C. §§ 3652(a), 3653(b); 39 C.F.R. 3050.21(a).

³⁰² This directive is separate from the requirement that the Postal Service "submit a proposal [to change the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis], within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change." 39 U.S.C. § 3661(b). This directive complements rather than replaces the requirements of 39 U.S.C. § 3661 and 39 C.F.R. part 3020. This directive does not apply retroactively to the proposal pending before the Commission in Docket No. N2021-1; the Commission will pursue information related to this proposal through the discovery processes of 39 C.F.R. part 3020.

Figure V-13
Service Performance Measurement Systems, FY 2020



Notes:

* In FY 2020, the Postal Service used an external system similar to IMMS to measure the Green Card. FY 2020 Service Performance Report at 24. The Green Card refers to the hard copy option of Return Receipt, an Ancillary Service that provides evidence of delivery. Docket No. PI2019-1, Order Granting Request and Approving Use of Internal Service Performance Measurement System, July 1, 2020, at 2 n.7 (Order No. 5576). Effective in FY 2021, the Postal Service may use Internal SPM data to report results for the Green Card. Order No. 5576 at 10.

** The Commission approved the transfer of parcel-shaped Inbound Letter Post Small Packets and Bulky Letters (commonly referred to as “packets”) to the Competitive product list, effective January 1, 2020 (FY 2020 Quarter 2). Order No. 5372 at 16. Before the transfer, actual census data served as a proxy to measure service performance. Docket No. ACR2019, Library Reference USPS-FY19-29, PDF file “FY19-29 Service Performance Report.pdf,” at 6 (FY 2019 Service Performance Report).

Source: Library Reference USPS-FY20-29, PDF file “FY20-29 Methodologies Report.pdf” (FY 2020 Methodologies Report); FY 2020 Service Performance Report at 23-25; Docket No. PI2019-1, Library Reference USPS-LR-PI2019-1/1, May 21, 2019, PDF file “iSPM RevPlan RED-LINE 52119.pdf,” at 18, 116-19 (May 20, 2019 Postal Service SPM Plan).

a. Internal Service Performance Measurement System
(Internal SPM)

Effective in FY 2019 Quarter 1, the Postal Service began to use Internal SPM to generate data to report service performance results of products within domestic First-Class Mail, Periodicals, USPS Marketing Mail, and Package Services.³⁰³ Accordingly, service performance results for these mailpieces are comparable for FY 2019 and FY 2020.

Internal SPM divides measurement into the following three independent segments. First Mile, which applies only to single-piece First-Class Mail, measures the time between collection and the first processing operation. FY 2020 Methodologies Report at 1; Order No. 4697 at 17-19. Processing Duration measures the time between the first processing operation and the last processing operation.³⁰⁴ Last Mile measures the time between the last processing operation and final delivery. FY 2020 Methodologies Report at 1; Order No. 4697 at 17-19.

The Commission requires the Postal Service to continue its external auditing program and file quarterly audit reports regarding Internal SPM. *See* Order No. 4697 at 67. The Postal Service reports that COVID-19 affected only one of the 29 audit measures—Audit Measure 11—largely caused by the need to use imputed data in an increasing number of Districts to replace the declining volume observed for First-Class Mail Flats.³⁰⁵ The Postal Service acknowledges that Audit Measure 11 will remain difficult to achieve until sufficient First-Class Mail Flats volume is sent to each District and expects that as volume returns to pre-COVID-19 levels, fewer Districts will require imputed data. *See* FY 2020 Q3 Postal Service Audit Response at 4; FY 2020 Q4 Postal Service Audit Response at 4.

³⁰³ *See* Docket No. PI2015-1, Order Approving Use of Internal Measurements Systems, July 5, 2018, at 17-19, 21, 66-67 (Order No. 4697); Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771); FY 2020 Methodologies Report at 1; *see also* Docket No. PI2018-2, Order Conditionally Approving Modifications to Market Dominant Service Performance Measurement Systems, November 5, 2018 (Order No. 4872). The measurement systems used prior to FY 2019 are discussed in the FY 2019 ACD. FY 2019 ACD at 92-93.

³⁰⁴ FY 2020 Methodologies Report at 1. Mailpieces for which the first processing scan is the same event as the last processing scan may be included in measurement of Processing Duration. Order No. 4697 at 19 n.40.

³⁰⁵ *See* Response to CIR No. 1, question 8.a. When sampling targets are not met for a given sampling group on a given day, imputed data are used. *Id.* Imputed data are statistically valid data from a similar sampling group or a larger geographic region. *Id.* The auditor determines compliance with Audit Measure 11, which assesses the reliability of Last Mile data, by comparing the percentage of imputed data by District for each sampling group for Last Mile Measurement. United States Postal Service, Transmittal Letter for FY 2020 Q3 Audit Report, Audit Response, and Measured/Unmeasured Volumes Report, August 31, 2020, PDF file “FY20 Q3 Audit Validation.pdf,” at 22-23 (FY 2020 Q3 Audit Report); United States Postal Service, Transmittal Letter for FY 2020 Q4 Audit Report, Audit Response, and Measured/Unmeasured Volumes Report, November 30, 2020, PDF file “FY20 Q4 Audit Validation.pdf,” at 22-23 (FY 2020 Q4 Audit Report).

b. Product Tracking and Reporting System (PTR)

The Postal Service measures service performance for parcels using PTR, a system that records all scan events captured from USPS Marketing Mail Parcels, BPM Parcels, and Media Mail/Library Mail with a trackable service feature. FY 2020 Methodologies Report at 15. 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.³⁰⁶ PTR uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock). *See* Docket No. ACR2016, February 17 Response to CHIR No. 16, question 3. The Postal Service states that COVID-19 did not impact the accuracy, reliability, or representativeness of PTR, which is a census-based measurement system. Response to CIR No. 1, question 8.a.

c. International Mail Measurement System (IMMS)

IMMS measures the domestic leg of transit time for international First-Class Mail using test mailpieces. *See* FY 2020 Methodologies Report at 8. IMMS measures the time between the domestic collection or delivery point and the outbound or inbound International Service Center (ISC), whichever is applicable. *See id.* at 10-11; May 20, 2019 Postal Service SPM Plan at 30, 50. The Postal Service is not aware of any impact of COVID-19 to the accuracy, reliability, or representativeness of IMMS, which was designed and operated by an independent third-party vendor. Response to CIR No. 1, question 8.a.

FY 2020 was the final year for IMMS; Internal SPM will replace IMMS in FY 2021. *See* FY 2020 Methodologies Report at 8. From FY 2019 Quarter 3 through FY 2020 Quarter 4, the Postal Service used the external IMMS and Internal SPM systems in parallel, although IMMS remained the system used for reporting purposes for both of these fiscal years.³⁰⁷ After finding that the Postal Service had satisfied all relevant Commission directives, the Commission granted the Postal Service's request to report service performance for First-Class Mail Outbound Single-Piece International and Inbound Letter Post based on data generated from Internal SPM, beginning in FY 2021. *See* Order No. 5576 at 10. The FY 2021 ACR must explain any significant service performance discrepancies between the Internal SPM versus the legacy systems, and propose a method of comparing Internal SPM versus legacy service performance data, where appropriate. *See id.* at 11.

³⁰⁶ 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 (Docket No. ACR2016, February 17 Response to CHIR No. 16).

³⁰⁷ *See* Order No. 5576 at 5, 10; United States Postal Service, Transmittal Letter for FY 2020 Q3 Service Performance Measurement Data, August 10, 2020, at 2; United States Postal Service, Transmittal Letter for FY 2020 Q4 Service Performance Measurement Data, November 9, 2020, PDF file "USPS_CoverLetter_QuartPerf_FY20_Q4.pdf," at 2.

Observing that certain ISCs were not consistently using the correct sort plan for inbound mailpieces, the external auditor observed measureable increases in compliance from FY 2019 Quarter 3 to FY 2020 Quarter 2. *See id.* at 6. The Commission ordered the Postal Service to continue including these products in its external auditing program and include validation metrics and analysis specific to these products in its quarterly audit reports. *See id.* at 10-11. However, the external auditor observed that the non-compliance reoccurred during FY 2020 Quarters 3 and 4: only three of the five ISC processing facilities (60 percent) ran the sort plan on at least 70 percent of the days in the fiscal quarter (64 or more days).³⁰⁸ The Postal Service reported that it reissued Standard Work Instructions, continued to monitor compliance through headquarters and Area National Operations Control Centers, and was able to identify and address specific pinch points at two ISCs. *See* FY 2020 Q3 Postal Service Audit Response at 8; FY 2020 Q4 Postal Service Audit Response at 7.

d. Intelligent Mail Barcode (IMb)

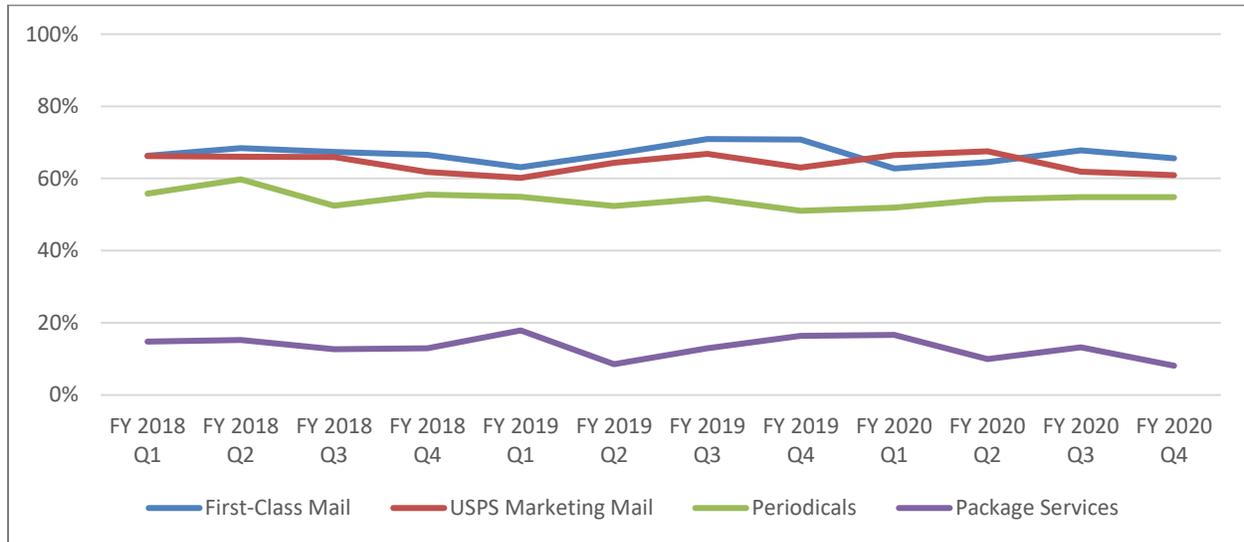
In Quarter 3 of FY 2011, the Postal Service began using IMbs to measure service performance for USPS Marketing Mail, Periodicals, BPM Flats, and some First-Class Mail products. Full-Service IMb generates Informed Visibility (IV) electronic scan data that can be used to track mailpieces as they pass through automated scan operations.³⁰⁹

Below, Figure V-14 displays the percentage of mailpieces measured by Full-Service IMb since FY 2018.

³⁰⁸ *See* FY 2020 Q3 Audit Report at 36 (discussing non-achievement of audit measure 27); FY 2020 Q4 Audit Report at 36-37 (same).

³⁰⁹ *See* United States Postal Service, Mailing Standards of the United States Postal Service, Domestic Mail Manual, January 24, 2021, § 507.10.0 (DMM).

**Figure V-14
 Nationwide Market Dominant Mail Measured by Full-Service IMb,
 by Percentage, by Quarter,
 FY 2018–FY 2020**



Note: BPM Flats is the only Package Services product measured using IMb; the remaining Package Services products are measured using PTR. FY 2020 Service Performance Report at 19-20.

Source: Response to CHIR No. 1, question 34; Docket No. ACR2019, Response to CHIR No. 3, question 21; Docket No. ACR2018, January 11 Response to CHIR No. 1, question 49; Docket No. ACR2018, Library Reference USPS-FY18-42, December 29, 2018; FY 2018 through FY 2020 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail, USPS Marketing Mail (formerly known as Standard Mail), Periodicals, and Package Service Scores Reports, available at <https://www.prc.gov/dockets/quarterly-performance>.

As illustrated by Figure V-14 above, the percentage of mailpieces measured by IMb has remained relatively consistent since FY 2018. The Commission observes a decrease in the percent of BPM Flats measured by IMb. In particular, the percent of BPM Flats measured by Full Service IMb was approximately 8 percent for FY 2020 Quarter 4, whereas it was approximately 16 percent for the same period in FY 2019. The Commission will continue to monitor trends in Full-Service IMb measurement.

Generally, the more mailpieces that are measured, the more representative, accurate, and reliable such measurements will be. The Commission continues to monitor mailpieces excluded from measurement.³¹⁰ Among other things, the Postal Service must provide regular, detailed information concerning mailpieces included and excluded from measurement, as well as the reasons for exclusion.³¹¹

³¹⁰ See, e.g., FY 2015 ACD at 99-102; FY 2016 ACD at 96-99; FY 2017 ACD at 103-06; FY 2018 ACD at 133-36; FY 2019 ACD at 98-101.

³¹¹ See Docket No. PI2016-1, Order Enhancing Service Performance Reporting Requirements and Closing Docket, August 26, 2016, at 28-35 (Order No. 3490).

Below, Table V-10 displays 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 since FY 2018.

Table V-10
Mail in Measurement and Excluded from Measurement, by Percentage,
FY 2018–FY 2020

Class/Product(s)	Percentage of Mail in Measurement			Percentage of Mail Entered at Full-Service IMb Prices and Included in Measurement			Percentage of Mail Entered as Full-Service IMb, but Excluded from Measurement		
	FY 2018	FY 2019	FY 2020	FY 2018	FY 2019	FY 2020	FY 2018	FY 2019	FY 2020
First-Class Mail									
Presorted Letters/Postcards*	67.19	67.83	65.05	74.00	73.75	71.95	26.00	26.25	28.05
Flats	56.05	58.14	56.00	69.02	70.51	66.50	30.98	29.49	33.50
USPS Marketing Mail*									
High Density and Saturation Letters	75.59	73.35	76.70	80.76	77.99	79.87	19.24	22.01	20.13
High Density and Saturation Flats/Parcels	37.68	37.42	38.82	68.09	65.64	63.92	31.91	34.36	36.08
Carrier Route Letters	73.21	71.19	72.78	76.86	74.70	75.41	23.14	25.30	24.59
Flats	75.98	73.90	75.93	82.81	80.12	81.83	17.19	19.88	18.17
Every Door Direct Mail—Retail	64.62	64.55	65.73	76.78	75.52	75.45	23.22	24.48	24.55
Parcels	63.89	62.78	60.57	Not Applicable					
Total USPS Marketing Mail	50.88	53.01	52.22	Data Not Available					
Total USPS Marketing Mail	69.23	67.44	69.09	81.20	78.63	80.00	18.80	21.37	20.00
Periodicals									
In-County	9.94	11.00	9.83	Data Not Available					
Outside County	62.02	59.68	61.03						
Package Services									
Bound Printed Matter Flats	13.96	13.59	12.43	45.53	49.37	48.05	54.47	50.63	51.95

Notes: The formula for the percentage of mail in measurement is mail that is measured / total mail. The formula for the percentage of mail entered 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 and excluded from measurement is Full-Service IMb mail excluded from measurement / total Full-Service IMb mail.

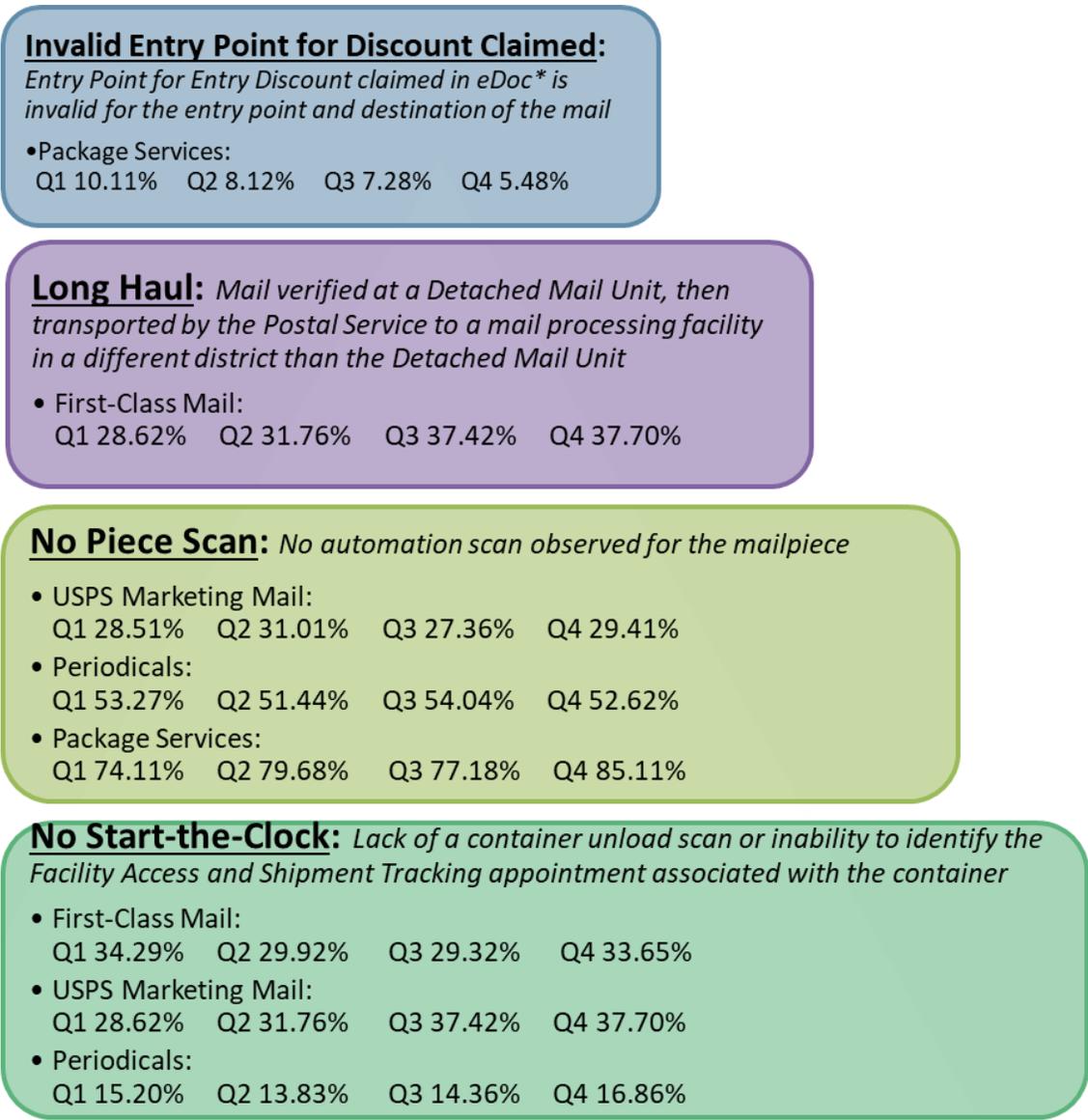
* Due to a software issue experienced by a large mailer, impacted volumes of First-Class Mail Presorted Letters/Postcards and USPS Marketing Mail entered at Full-Service IMb prices were excluded from measurement in FY 2019 Quarter 1. Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 13, February 19, 2020, question 2.a., 2.b.

Source: Response to CHIR No. 1, question 35; Docket No. ACR2019, Response to CHIR No. 3, question 22; Docket No. ACR2018, January 11 Response to CHIR No. 1, question 50.

As illustrated by Table V-10 above, for some products mail exclusions have slightly increased and percent of mail in measurement has slightly decreased when compared to FY 2019. The Commission will continue to monitor trends in measurement and the reasons for exclusions.

Below, Figure V-15 displays the top two reasons that a mailpiece was excluded from measurement in FY 2020 and the corresponding percentages, for each class of mail.

Figure V-15
Reasons for Mailpiece Exclusions, by Percentage, by Quarter, FY 2020



Notes: The reference point for the percentages is the subset of mailpieces excluded from measurement.

* "eDoc" refers to "Electronic Documentation," which contains the postage statement and qualification report that a mailer must submit in order to participate in Full-Service IMb. United States Postal Service, *Postal Pro: Electronic Documentation (eDoc)*, available at <https://postalpro.usps.com/mailing/edoc>.

Source: United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 9, 2020, Excel file "AttachA_ExclusionReasonBreakdown_FY20_Q4.xlsx," tab "Exclusions" (Postal Service Q4 Service Performance Report).

As illustrated by Figure V-15 above, the most common reason for mailpiece exclusion for USPS Marketing Mail was reported to be “No Start-the-Clock,” which 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.³¹² The Postal Service excludes these mailpieces from measurement because the Postal Service cannot determine when the measuring process should begin without an initial scan or an identified FAST appointment. *See* FY 2019 ACD at 100-01.

For First-Class Mail, the most common reported reason for exclusion shifted from “No Start-the-Clock” in FY 2020 Quarter 1 to “Long Haul” in FY 2020 Quarters 2, 3, and 4.³¹³ “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. *Id.* The Postal Service excludes these mailpieces from measurement because this type of operational failure results in a loss of visibility of the mailpiece. *See* FY 2015 ACD at 101-02.

This shift in the reported reason for exclusion may indicate that more First-Class mailpieces traveled greater distances via surface transportation for processing. The likely cause stems from the impact of COVID-19 on air travel. The Postal Service stated that COVID-19 effectively decreased the capacity for mail normally transported via air transportation. *See* Response to CIR No. 1, question 3.a. Due to reduced air capacity, mailpieces that would typically travel via air shifted to surface transportation to reach their next processing operation. *See id.*

For Periodicals and Package Services, the most common reason for mailpiece exclusion was reported to be “No Piece Scan,” which occurs when no automation scan is observed for the mailpiece.³¹⁴ The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2019 ACD at 101.

³¹² Postal Service Q4 Service Performance Report, Excel file “AttachA_ExclusionReasonBreakdown_FY20_Q4.xlsx,” tab “Exclusions.”

³¹³ Postal Service Q4 Service Performance Report, Excel file “AttachA_ExclusionReasonBreakdown_FY20_Q4.xlsx,” tab “Exclusions.”

³¹⁴ Postal Service Q4 Service Performance Report, Excel file “AttachA_ExclusionReasonBreakdown_FY20_Q4.xlsx,” tab “Exclusions.”

4. FY 2020 Service Performance Results by Class

a. First-Class Mail

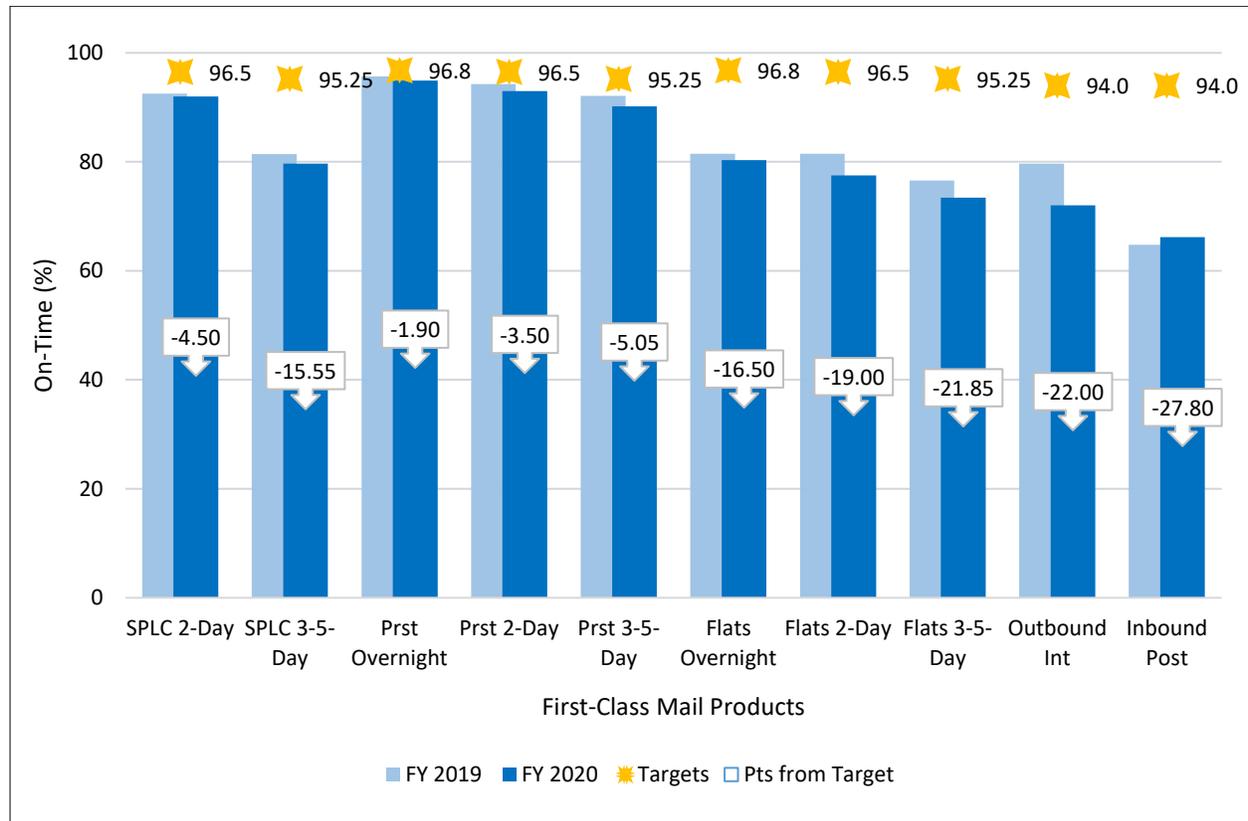
(1) FY 2019 Directives

Finding that all First-Class Mail products did not meet their FY 2019 service performance targets, the Commission directed the Postal Service to improve service performance. FY 2019 ACD at 119. Determining that Single-Piece Letters/Postcards remained out of compliance, the Commission issued three directives to monitor the progress and efficacy of the Postal Service's service performance improvement efforts. *See id.* First, to evaluate the Postal Service's nationwide efforts to improve transit and Last Mile performance, the Commission directed the Postal Service to report on its progress and plans for remedying these issues. *See id.* Second, to evaluate the Postal Service's progress in driving local facilities' adherence to its existing multi-year national data-driven strategies, the Commission directed the Postal Service to provide reports from each of the seven Postal Service administrative areas (Areas). *See id.* at 120. Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directed the Postal Service to provide certain data consistent with prior reports. *See id.* at 120-21.

(2) FY 2020 Results

Below, Figure V-16 shows service performance results compared to the annual targets for all First-Class Mail products for FY 2019 and FY 2020.

**Figure V-16
First-Class Mail
Service Performance Results, by Percent, FY 2019–FY 2020**



Note: The Postal Service reports its targets for its domestic products and service standard categories to two decimal places; whereas results are reported to one decimal place. The difference between the target and the result is rounded to two decimal places.

In the legend, “Pts from Target” means points from target, the difference between the Postal Service’s stated service performance target and the FY 2020 service performance result.

“Single-piece 2-day” and “single-piece 3-5-day” refer to the 2-Day and 3-5-Day service standards for the Single-Piece Letters/Postcards product, respectively. “Presort overnight,” presort 2-day,” and “presort 3-5-day” refer to the 1-Day, 2-Day, and 3-5-Day service standards for the Presorted Letters/Postcards product, respectively. “Flats overnight,” “flats 2-day,” and “flats 3-5-day” refer to the 1-Day, 2-Day, and 3-5-Day service standards for the Flats product, respectively. “Outbound int” refers to the combined result for the Outbound Single-Piece International product. “Inbound post” refers to the combined result for the Inbound Letter Post product.

Source: FY 2020 Service Performance Report at 4; FY 2019 Service Performance Report at 3-4.

(3) Postal Service Report

The Postal Service emphasizes that it improved on-time service performance for several categories of its domestic First-Class Mail products during the first two quarters of FY 2020 compared to the same period in FY 2019. *See* FY 2020 ACR at 37-38; FY 2020 Service Performance Report at 6. The Postal Service attributes these improvements to Headquarters and each Area using various tools to identify and correct root causes of service failures. *See* FY 2020 Service Performance Report at 6. The Postal Service asserts

that significant adverse impacts occurred due to the COVID-19 pandemic in the second half of FY 2020. *See* FY 2020 ACR at 37-38; FY 2020 Service Performance Report at 6. The Postal Service highlights its decision to realign its core business operations at the end of FY 2020 and expects that this will drive improvement in FY 2021. *See* FY 2020 ACR at 39; FY 2020 Service Performance Report at 6-9.

With respect to Inbound Letter Post and Outbound Single-Piece International, the Postal Service describes four on-going initiatives, which are summarized in Section 3.B.8.b.1. The Postal Service observes that these initiatives were first applied to international mail during FY 2020 Quarter 4 and FY 2021 Quarter 1 and that it intends to expand their implementation further in FY 2021. *See* Response to CHIR No. 5, questions 4-7. Thus, these initiatives were not active during the majority of FY 2020. The Postal Service delayed or cancelled service improvement projects for international mail due to the onset of the COVID-19 pandemic. *See* Response to CHIR No. 5, question 5.

(4) Comments and Related Commission Analysis

Comments concerning First-Class Mail service performance are organized by topic, summarized, and responded to below.

Domestic products: Reviewing certain service performance data for single-piece and presorted First-Class Mail, NAPM observes that the Postal Service's service performance issues have persisted for years. NAPM Comments at 11. Noting that the Postal Service's ACR filing does not set forth its planned FY 2021 steps to restore service performance for its domestic products at the same level of detail as its international products, NAPM emphasizes that the Postal Service must develop an action plan to restore First-Class Mail service performance to pre-pandemic levels. NAPM Comments at 8 (citing FY 2020 Service Performance Report at 9-12). The Public Representative observes that FY 2020 results for the domestic First-Class Mail categories remain below target and declined from the levels observed in FY 2019. PR Comments at 17-18. He notes that the Postal Service was able to improve results for these categories in Quarters 1 and 2 of FY 2020 from the levels observed in the same period in FY 2019. *See id.* at 20-21. He opines that effective implementation of changes the Postal Service made in the pre-pandemic period of FY 2020, as well as new initiatives to address the pandemic's impacts, will be required to reestablish service performance in FY 2021. *See id.* at 21. Focusing on presorted First-Class Mail, NPPC generally echoes the concerns expressed by NAPM and the Public Representative. *See* NPPC Reply Comments at 4-6. NPPC observes that "it now seems more predictable that the Postal Service will *fail* to meet its service standards for Presort Mail than . . . *achieve* them." NPPC Reply Comments at 5 (emphasis in original).

The data referenced by NAPM are not the product-level results used to measure compliance in the ACD. *Compare* NAPM Comments at 11, *with* Figure V-16, *supra*. The Commission acknowledges that the COVID-19 pandemic exacerbated existing service performance challenges for the Postal Service and has taken them into account in formulating its directives. The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service

performance for its domestic First-Class Mail products, which are detailed below in Section V.A.4.a.6., *infra*.

Flats: NAPM suggests that the Postal Service and the Commission separate the evaluation of Flats service performance into single-piece and presorted categories. NAPM Comments at 7.

With respect to NAPM's suggestion to separate the evaluation of Flats service performance into the single-piece and presorted categories, the ACD evaluation is at the product level and therefore includes both categories. Consistent with previous years, the Commission continues to evaluate sub-categories within products to determine the best practices for remedial action. For Flats, the Commission requests and receives point-impact data disaggregated by the single-piece and presorted categories. Generally, because single-piece Flats travel through the First Mile and origin processing stages of the Postal Service's network, they experience additional delays in connection with these stages that the presorted category of Flats usually avoids.³¹⁵ Further analysis on both categories of Flats appears below in Section V.A.4.a.5.b.iii., *infra*.

International products: The Public Representative observes "much remains to be done to bring this international service performance to acceptable levels." PR Comments at 25. He notes that the Postal Service's FY 2020 progress in improving these products from FY 2019 levels was largely limited to Quarter 1 of FY 2020 and that FY 2020 results for most categories declined from the levels observed in the same period in FY 2019. *See id.* at 22-25. He also emphasizes that over the last 5 fiscal years, results for these products have been generally declining and now are over 20 percentage points below their applicable targets. *See id.* at 22-25.

The Commission shares the Public Representative's concern regarding the service performance results for the Postal Service's international First-Class Mail products and has taken this into account in formulating its directives.

(5) Commission Analysis

(a) Overview

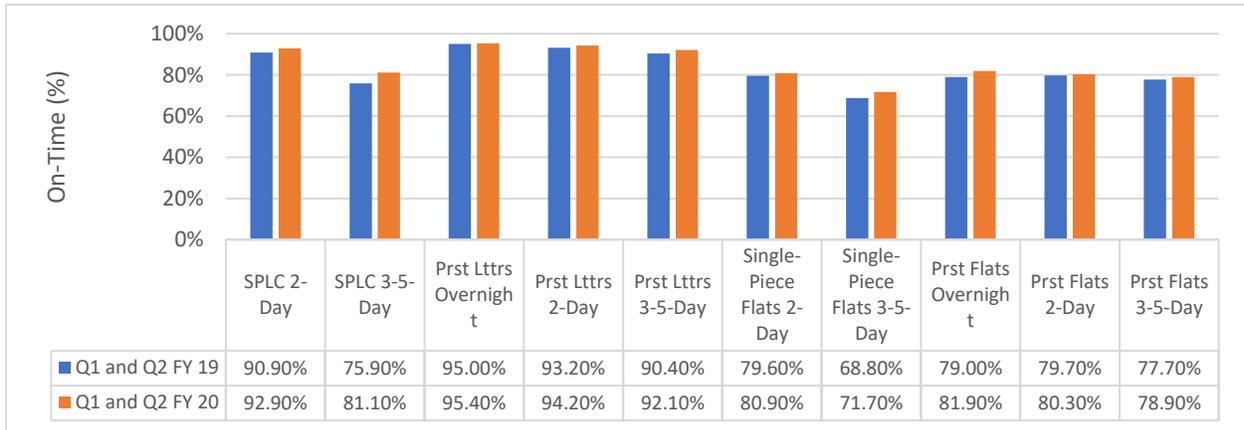
For the sixth consecutive year, no First-Class Mail product category achieved its service performance target. *See* Figure V-1, *supra*. The best indicator of improvement (or decline) in service performance is to compare service performance results from one period to the same period in the prior fiscal year. *See* FY 2019 ACD at 115, 118. Except for Inbound Letter Post, FY 2020 results for each product category declined compared to results for the prior fiscal year. Below the Commission provides further analysis for the three domestic and two international products.

³¹⁵ Compare Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," "tab "SPFC," with tab "PFCM;" *see* Response to CHIR No. 3, question 19, Excel file ""ChIR No. 3 Q19 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Flats Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

(b) Domestic Products

Below, Figures V-17 and V-18 display results for the first and second half of FY 2020 and FY 2019, disaggregated by shape, service standard, and whether the mailpiece was presorted or single-piece.

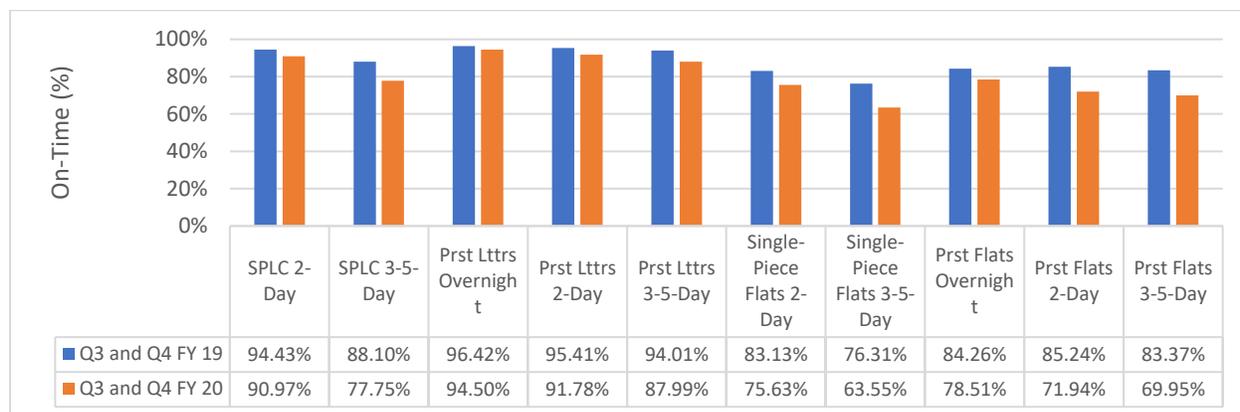
Figure V-17
Domestic First Class Mail
Service Performance Results, First Half, FY 2019–FY 2020



Note: The “First Half” refers to Quarters 1 and 2 of the applicable fiscal year. For FY 2020, this covered October 1, 2019 through March 31, 2020. For FY 2019, this covered October 1, 2018 through March 31, 2019. The Postal Service does not report these results for Flats at the product level; instead, the Postal Service disaggregates these results based on whether a mailpiece was single-piece or presorted.

Source: Docket No. ACR2019, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2019 Annual Compliance Determination, June 23, 2020, question 4.a.1. (Docket No. ACR2019, Second Response).

**Figure V-18
Domestic First Class Mail
Service Performance Results, Second Half, FY 2019–FY 2020**



Note: The “Second Half” refers to Quarters 3 and 4 of the applicable fiscal year. For FY 2020, this covered April 1, 2020 through September 30, 2020. For FY 2019, this covered April 1, 2019 through September 30, 2019. The Postal Service does not report these results for Flats at the product level; instead the Postal Service disaggregates these results based on whether a mailpiece was single-piece or presorted.

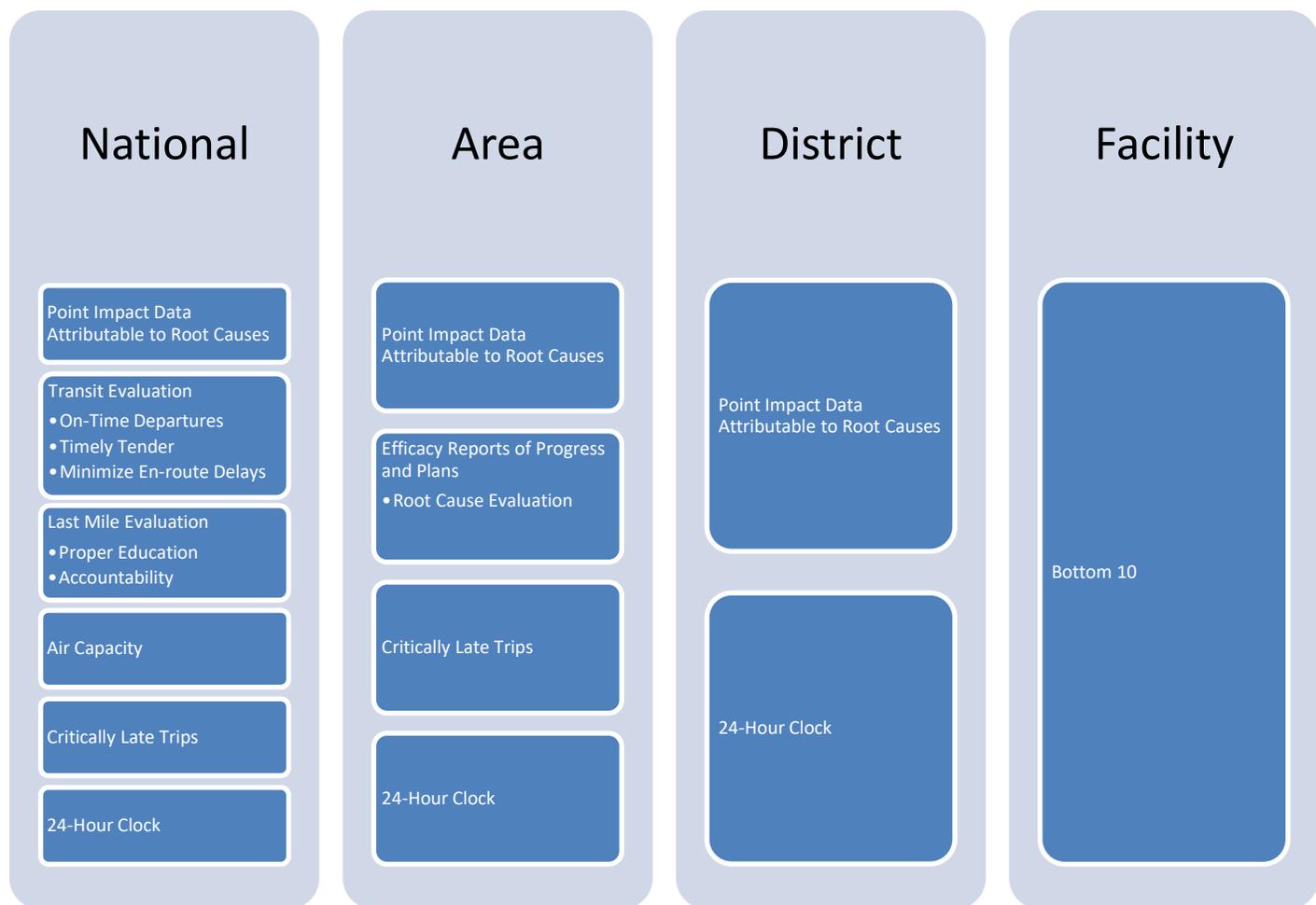
Source: Docket No. ACR2019, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2019 Annual Compliance Determination, June 23, 2020, question 4.a.1. (Docket No. ACR2019, Second Response); Response to CHIR No. 11, question 15, Excel file “CHIR.11.Q.15.2nd.Half.SP.Scores.xlsx,” tab “Data;” United States Postal Service, FY 2019 Quarter 2 Service Performance Measurement Data, May 8, 2019, Excel file “FC Flats 192 Scores Report.xlsx,” tab “Presort FCF 3-5-Day YTD Agg;” United States Postal Service, FY 2020 Quarter 2 Service Performance Measurement Data, May 11, 2020, Excel file “FC Flats 202 Scores Report.xlsx,” tab “Presort FCF 3-5-Day YTD Agg.”

As illustrated by Figure V-17 above, for the first half of FY 2020 (Quarters 1 and 2), results for each domestic product category increased compared to the results for the first half of FY 2019. The Commission commends the Postal Service for achieving demonstrable year-over-year improvement before the widespread onset of the COVID-19 pandemic. However, the Commission also notes that no First-Class Mail product, (or shape or service standard category) achieved its target levels in the FY 2020 Quarter 1 and 2 period. The Commission recognizes that the pandemic’s impact on Postal Service operations contributed to the inability to maintain this year-over-year improvement during the second half of FY 2020.

As shown in Figure V-18 above, for the second half of FY 2020 (Quarters 3 and 4), results for each domestic product category decreased compared to the results for the same period of FY 2019. Additionally, in previous fiscal years, results in the second half of the fiscal year tended to outperform the first half of the fiscal year, largely due to seasonal trends. *See, e.g.,* FY 2019 ACD at 105. However, FY 2020 bucked this trend—results in the second half of FY 2020 underperformed compared to the first half of FY 2020. This reversal of typical seasonal trends tends to confirm the Postal Service’s assertions that the COVID-19 pandemic significantly affected service performance, particularly with regard to mail processing and transportation. *See* FY 2020 ACR at 38.

Because the Postal Service reported that it planned to address service performance issues by driving local facilities' adherence to the Postal Service's existing multi-year national data-driven strategies, the Commission obtained data and information at and below the national level to monitor the connection between the Postal Service's national headquarters and the field. *See* FY 2019 ACD at 106, 118. Below, Figure V-19 displays the data and information obtained in response to the Commission's FY 2019 directives corresponding to the geographic levels of the Postal Service's processing and delivery network: facility,³¹⁶ District, Area, and national.

Figure V-19
FY 2019 Data and Information Directives



Source: FY 2019 ACD at 119-21.

³¹⁶ Data received at the facility-level are typically non-public but provide the Commission insight into how operations within a District impact District-level results.

The data and information referenced in Figure V-19 above, were obtained to increase transparency as to how the Postal Service sets operational targets for the local facilities, provides local facilities with resources and training to meet those targets, measures local facilities' performance in a meaningful and consistent manner, and holds local facilities accountable for gaps between the target and actual performance. Generally, the Area narrative reports focus on issues related to transit and the Last Mile as these have the most impact on delivering First-Class Mail on time.³¹⁷ The data confirm that failures in transit and the Last Mile are the known root causes that had the most impact on service performance results for First-Class Mail in FY 2020.³¹⁸ To address transit issues, the Postal Service reported working to ensure on-time departures, ensure timely tender to transit suppliers, and minimize en route delays. FY 2019 ACD at 110. To address Last Mile issues, the Postal Service reported working to ensure facilities have proper education and ensure facilities are held accountable. *Id.* at 113.

The narrative reports explain that field units continued their FY 2019 actions into the first half of FY 2020 and observed that the first half of FY 2020 experienced improvements compared to the same period in FY 2019.³¹⁹ However, as the impact of the COVID-19 pandemic worsened in the second half of FY 2020, the Postal Service's efforts were largely devoted to responding to the immediate crises it faced. As described above in Section V.A.2.b.2., *supra*, while quantification of the impact is not available, the COVID-19 pandemic has exacerbated existing challenges for service performance. In addition to renewing its pre-pandemic strategies, the Postal Service must refine its efforts to address any ongoing adverse impacts of the COVID-19 pandemic.

The Commission finds that narrative reporting and quantifiable data regarding the Postal Service's FY 2021 progress in addressing the issues it identified is needed to ensure transparency and accountability of the Postal Service's efforts to improve its service performance results and recover from the COVID-19 pandemic. The details of these directives are described below in Section V.A.4.a.6., *infra*.

³¹⁷ See generally Library Reference USPS-FY20-29, PDF files "CapMetro PRC FY 20 Svc Perf Report.pdf," "Eastern PRC FY 20 Svc Perf Report.pdf," "Great Lakes PRC FY 20 Svc Perf Report.pdf," "Northeast PRC FY 20 Svc Perf Report.pdf," "Southern PRC FY 20 Svc Perf Report.pdf," "Western PRC FY 20 Svc Perf Report.pdf," "Pacific PRC FY 20 Svc Perf Report.pdf."

³¹⁸ Response to CHIR No. 3, question 16, Excel files "CHIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," and "CHIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Area.xlsx;" Response to CHIR No. 3, question 19, Excel file "CHIR No. 3 Q19 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Flats Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

³¹⁹ See generally Library Reference USPS-FY20-29, PDF files "CapMetro PRC FY 20 Svc Perf Report.pdf," "Eastern PRC FY 20 Svc Perf Report.pdf," "Great Lakes PRC FY 20 Svc Perf Report.pdf," "Northeast PRC FY 20 Svc Perf Report.pdf," "Southern PRC FY 20 Svc Perf Report.pdf," "Western PRC FY 20 Svc Perf Report.pdf," "Pacific PRC FY 20 Svc Perf Report.pdf." The FY 2019 ACD describes the Postal Service's remediation plans in detail: set appropriate operational targets, educate local facility personnel and provide adequate resources, measure local facilities' performance (such as by using IV tools and the Grid), and hold sites accountable for low performance (such as by requiring after-action plans for specific failure points and performing follow-up through e-mail, telephone, and site visits). See FY 2019 ACD at 108-15; see also February 4 Response to CHIR No. 6, question 18.

i. Single-Piece Letters/Postcards

Single-Piece Letters/Postcards is a retail product made available to the general public and includes stamps and postage paid through meters. *See* MCS Section 1105. Since FY 2015, the Commission has determined that this product has been out of compliance and issued directives to monitor the Postal Service's remediation efforts. *See* FY 2019 ACD at 101-102, 119. There are two service standards for this product: 2-Day and 3-5-Day.³²⁰ The 2-Day service standard only applies to Single-Piece Letters/Postcards in the continental U.S.A. if the drive time between the origin processing and distribution center/facility (P&DC/F) and destination area distribution center (ADC) is 6 hours or less.³²¹ Generally, the Commission focuses its discussion on Single-Piece Letters/Postcards with the 3-5-Day service standard, which has experienced a more pronounced decline than 2-Day Single-Piece Letters/Postcards because 3-5-Day Single-Piece Letters/Postcards require transportation over longer distances and, therefore, experience more processing and transportation delays.³²² From FY 2019 to FY 2020, service performance results for 3-5-Day Single-Piece Letters/Postcards and 2-Day Single-Piece Letters/Postcards declined by 1.7 and 0.5 percentage points, respectively.³²³

Postal Service data illustrate that the top five root causes of failures to meet service standards for 3-5-Day Single-Piece Letters/Postcards remained similar in FY 2019 and FY 2020, although the exact point impacts differed.³²⁴ Below, Figure V-20 displays the top five root causes for the failure of 3-5-Day Single-Piece Letters/Postcards to be delivered on time in FY 2020, along with the corresponding change from FY 2019.

³²⁰ *See* 39 C.F.R. § 121.1(b)(2), (c), (d), (e). Effective February 1, 2015 (FY 2015 Quarter 2), the Postal Service generally eliminated the overnight service standard for this product; only certain presorted First-Class Mail pieces may now qualify for the overnight service standard. *See* Revised Service Standards for Market-Dominant Mail Products, 77 Fed. Reg. 31,190, 31,194 (May 25, 2012) (codified at 39 C.F.R. pt. 121); *see also* Docket No. N2012-1, Network Rationalization Advisory Opinion at 49.

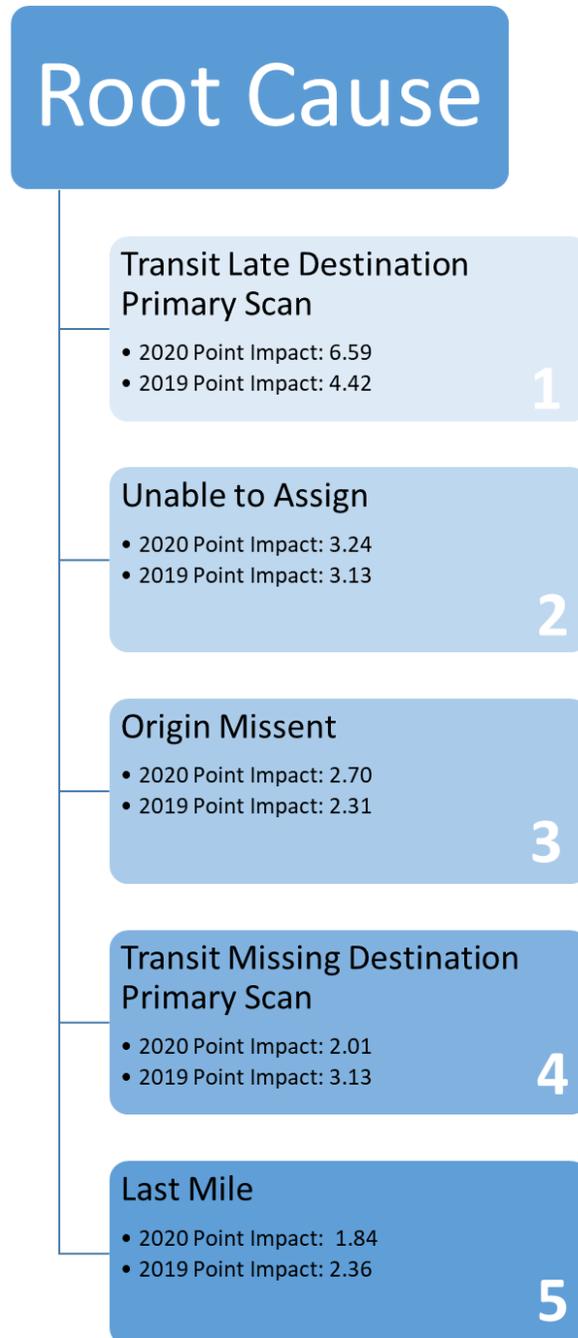
³²¹ *See* 39 C.F.R. § 121.1(b)(2); *see also* 77 Fed. Reg. 31,190, 31,194. With respect to the non-continental U.S.A., the 2-Day standard also applies to Single-Piece Letters/Postcards that originate and destinate within Puerto Rico, the U.S. Virgin Islands, American Samoa or specific 3-digit ZIP Code areas in Alaska. 39 C.F.R. § 121.1(b)(2).

³²² *See, e.g.*, FY 2019 ACD at 101; FY 2015 ACD at 132; FY 2016 ACD at 119.

³²³ *Compare* FY 2020 Service Performance Report at 4, *with* FY 2019 Service Performance Report at 4.

³²⁴ *Compare* Response to CHIR No. 3, question 16, Excel file "CHIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "SPFC," *with* Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1.

Figure V-20
3-5-Day First-Class Mail Single-Piece Letters/Postcards
FY 2020 National Top 5 Root Causes and Point Impact



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 20.a.

Source: Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "SPFC;" Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1.

As illustrated by Figure V-20 above, FY 2020 point impacts related to transportation and processing generally increased from the levels observed in FY 2019. These data show that root causes related to transportation and processing provided the top three point impacts in FY 2020.³²⁵ These data also show that the point impact related to Last Mile decreased from FY 2019 to FY 2020.³²⁶ The Postal Service attributes its relative improvements during the Last Mile phase to its efforts to educate personnel, measure performance, and identify sites with the highest opportunities for improvement. *See* February 4 Response to CHIR No. 6, question 18. The Postal Service highlights its biweekly meetings with the Area Managers of Delivery Programs Support during the pre-COVID-19 period, which provided instruction on better methods of managing delivery unit efficiency, ensuring operational clearance, and scanning and improving letter carrier departure times in support of the reduction of Last Mile failures. *See* February 4 Response to CHIR No. 6, question 18.

With respect to transportation and processing related challenges, the point impact for the top root cause reported for 3-5-Day Single-Piece Letters/Postcards in both fiscal years is “Transit Late Destination Primary Scan.”³²⁷ This indicator is assigned if the last outgoing scan of any type at an origin facility is on time and the First Incoming Primary Scan at the expected destination facility is late.³²⁸ Below, Figure V-21 compares the point impacts reported for this indicator annually and disaggregated by fiscal quarter for FY 2019 and FY 2020.

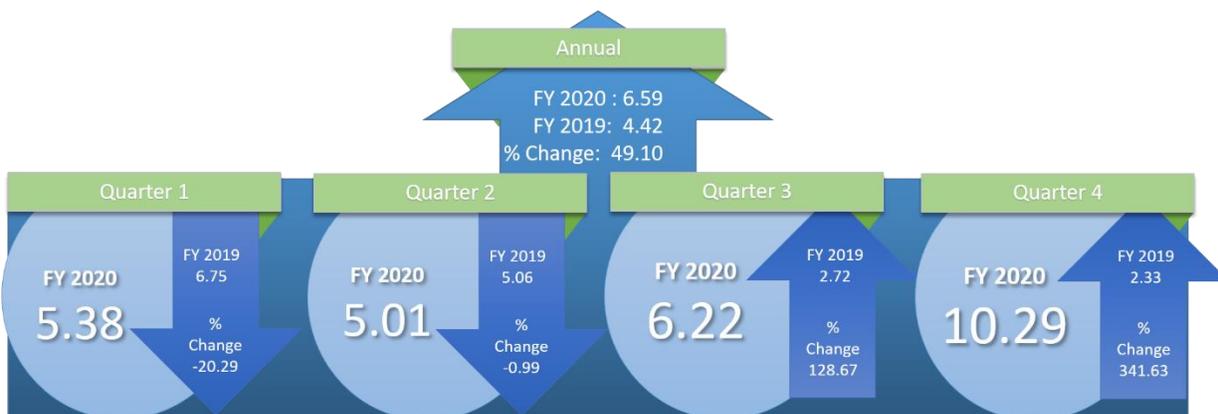
³²⁵ The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as “Origin Missent” if the last outgoing scan at any type of origin facility is on-time and the mailpiece is processed in an outgoing processing operation at an unexpected downstream facility (neither the origin facility nor the expected destination facility). Response to CHIR No. 1, question 20.c., Excel file “FY20.CHIR.1.RootCauseDefintnsHierarchy.xlsx.” Processing includes all automatic and manual processing during or within all phases of delivery operations.

³²⁶ *Compare* Response to CHIR No. 3, question 16, Excel file “CHIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx,” tab “SPFC,” with Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1.

³²⁷ *Compare* Response to CHIR No. 3, question 16, Excel file “CHIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx,” tab “SPFC,” with Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1.

³²⁸ Response to CHIR No. 1, question 20.c., Excel file “FY20.CHIR.1.RootCauseDefintnsHierarchy.xlsx.”

Figure V-21
3-5-Day First-Class Mail Single-Piece Letters/Postcards
FY 2020 Point Impact for Transit Late Destination Primary Scan



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 20.a.

Source: Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "SPFC;" Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q1_SPFC;" Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1.

As shown in Figure V-21 above, overall the point impact for this indicator increased year-over-year from FY 2019 to FY 2020. This year-over-year overall increase was largely driven by significant increases reported for Quarters 3 and 4 of FY 2020 compared to the corresponding periods in FY 2019. The Postal Service asserts that these increases are largely due to COVID-19 pandemic related impacts, reflecting both transportation issues and reduced employee availability issues that delayed timely processing of incoming mailpieces at destination facilities. *See* Response to CIR No. 1, question 7.a. These data corroborate that the COVID-19 pandemic exacerbated existing transportation- and processing-related challenges for the Postal Service. Further, during Quarter 4 of FY 2020 (July 1, 2020 through September 30, 2020), the point impact increased more than three-fold compared to the same Quarter in FY 2019, which also coincides with the implementation of the late and extra trips policy and the resulting declines in service performance that are discussed above in Section V.A.2.c.1., *supra*.

ii. Presorted Letters/Postcards

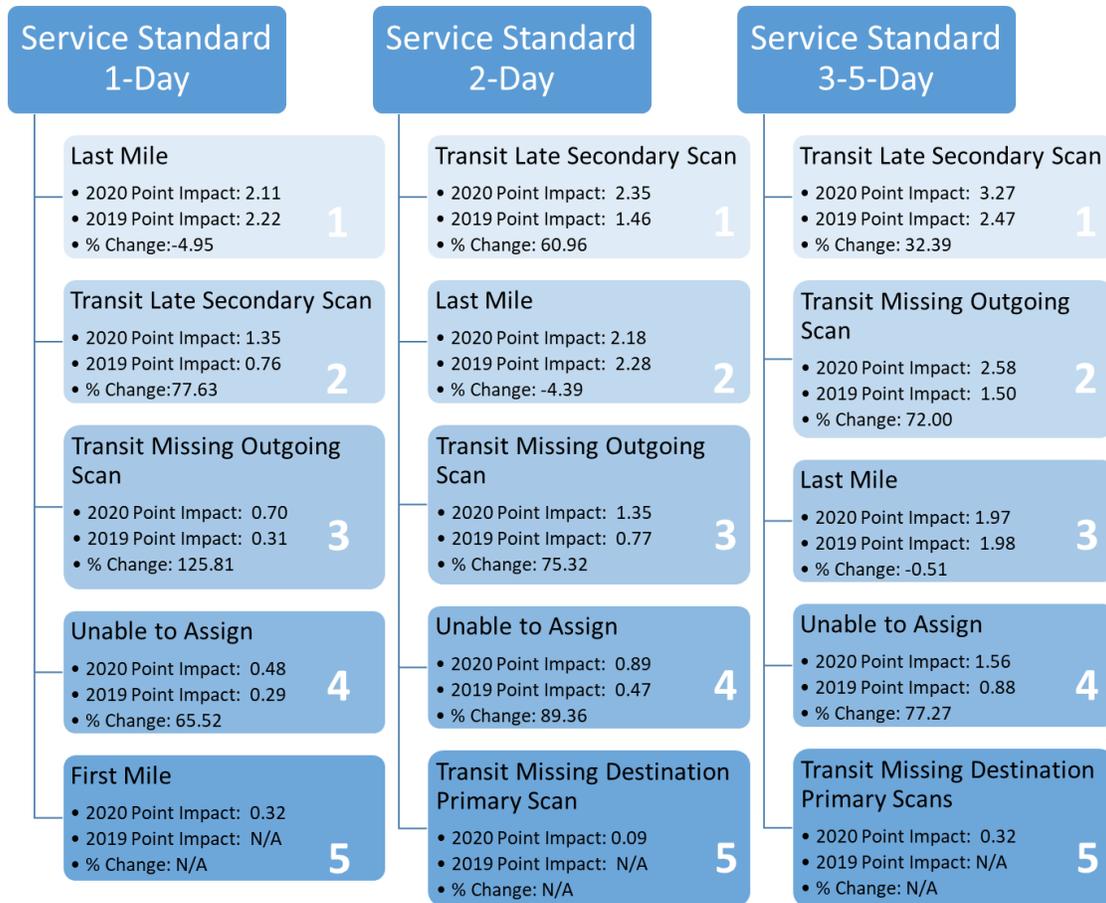
Presorted Letters/Postcards is a commercial product made available to mailers that adhere to volume, sortation, and/or drop-shipment requirements. *See* MCS Section 1110. There are three service standards for this product: overnight, 2-Day, and 3-5-Day.³²⁹

Generally, the Postal Service's data illustrates that the rankings for the top five root causes of failures to meet service standards for each service standard category of Presorted

³²⁹ *See* 39 C.F.R. § 121.1(a)(2), (b)(2), (c), (d), (e).

Letters/Postcards remained similar in FY 2019 and FY 2020, although the point impacts differed.³³⁰ Below, Figure V-22 displays the top five root causes for Presorted Letters/Postcards in FY 2020 nationwide, along with corresponding data for FY 2019.

Figure V-22
First-Class Mail Presorted Letters/Postcards
FY 2020 National Top 5 Root Causes and Point Impact



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 20.a.

Source: Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "PFCM;" Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1.

³³⁰ Compare Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "PFCM," with Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1.

Figure V-22 above illustrates that Presorted Letters/Postcards experienced similar trends to the point impact results for Single-Piece Letters/Postcards from FY 2019 to FY 2020. The FY 2020 point impacts related to transportation and processing increased from the levels observed in FY 2019 for Presorted Letters/Postcards. These data also show that the point impact related to Last Mile decreased from FY 2019 to FY 2020.

Generally, the transit-related failures increased more, on a percent basis, for shorter service standards from FY 2019 to FY 2020. Nonetheless, failures during the transit phase had a significant impact on all service standard levels. The Postal Service asserts that increases in the point impacts for transportation and mail processing root causes are likely caused by the same issues experienced for their single-piece analogs—COVID-19 pandemic-related transportation and employee availability constraints that delayed timely processing of incoming mailpieces at destination facilities. *See* Response to CIR No. 1, question 7.a. The Postal Service explains that the indicators assigned to presorted mailpieces differ from the indicators applied to single-piece mail flows because of differences in the scanning operations, but are ultimately indicative of similar underlying difficulties.³³¹ As described above in Section V.A.2.b.2., *supra*, these data corroborate that the COVID-19 pandemic exacerbated existing transportation- and processing-related challenges for the Postal Service.

The “Transit Late Secondary Scan” indicator for Presorted Letters/Postcards experienced similar trends to the corresponding “Transit Late Destination Primary Scan” indicator for Single-Piece Letters/Postcards³³²—large percent increases in Quarter 3 of FY 2020 compared to the same Quarter in FY 2019, and even larger percent increases in Quarter 4 of FY 2020 compared to the same Quarter in FY 2019.³³³ Specifically, comparing Presorted Letters/Postcards during Quarter 3 of FY 2020 (April 1, 2020 through June 30, 2020) to the same Quarter in FY 2019, the point impact for “Transit Late Secondary Scan” increased by 70 percent for the overnight service standard, 90 percent for the 2-Day service standard, and 60 percent for the 3-5-Day service standard.³³⁴ Further, comparing Presorted Letters/Postcards during Quarter 4 of FY 2020 (July 1, 2020 through September 30, 2020) to the same Quarter in FY 2019, the point impact for “Transit Late Secondary Scan”

³³¹ *See* Response to CIR No. 1, question 7.a. The Postal Service clarifies that “Transit Late Secondary Scan” applied to presorted mail flows corresponds closely with the “Transit Late Destination Primary Scan” indicator applied to single-piece mail flows, with the only difference being that presorted mailpieces are designed to flow to a secondary processing operation rather than a primary, but would have utilized the same transportation and experienced the same operational issues. *See id.* The Postal Service further explains that other top transit-related indicators assigned to presorted mailpieces such as “Transit Missing Outgoing Scan” and “Transit Missing Destination Primary Scan” reflect similar underlying transportation and operational issues, but are categorized differently due to expected processing event scans not occurring or not populating in piece level data. *See id.* The Postal Service opines that these indicators may have been assigned in instances where alternate processing flows were used as workarounds. *See id.*

³³² *See* n.331, *supra*.

³³³ *Compare* Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tab “Q1_PFCM,” with Response to CHIR No. 3, question 16, Excel file “ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx,” tab “PFCM.”

³³⁴ *Compare* Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tab “Q1_PFCM,” with Response to CHIR No. 3, question 16, Excel file “ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx,” tab “PFCM.”

increased by 311 percent for the overnight service standard, 234 percent for the 2-Day service standard, and 225 percent for the 3-5-Day service standard.³³⁵ These large increases observed in Quarter 4 of FY 2020 also coincide with the implementation of the late and extra trips policy and the resulting declines in service performance that are discussed above in Section V.A.2.c.1., *supra*.

iii. Flats

The Commission has previously observed the significant challenges in processing and delivering flat-shaped mailpieces across all Market Dominant classes. *See, e.g.*, FY 2015 ACD at 160-82. Thus, since FY 2015, the Commission has continued to separately evaluate the long-standing cost and service issues for flat-shaped mailpieces.³³⁶ In FY 2019, the Commission finalized rules to provide additional information to improve transparency into the cost and service performance issues, as well as increase the accountability of the Postal Service related to flats operational initiatives. *See* Order No. 5086. In the FY 2019 ACD, the Commission noted that these challenges have persisted despite numerous operational initiatives to improve cost and service for flat-shaped mailpieces. *See* FY 2019 ACD at 155.

The First-Class Mail Flats product includes both retail (single-piece) and commercial (presorted) mailpieces that are flat-shaped. *See* FY 2020 Service Performance Report at 2; *see also* MCS Section 1115. The Postal Service's data illustrate that point impact results increased for most root causes associated with both retail and commercial categories of First-Class Mail Flats. Below, Figures V-23 and V-24 display point impacts for the top five root causes of failures to meet service standards for Flats in FY 2020, along with corresponding data for FY 2019, disaggregated for single-piece and presorted mailpieces, respectively.

³³⁵ Compare Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q1_PFCM," with Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "PFCM."

³³⁶ *See* FY 2015 ACD at 160-182; FY 2016 ACD at 158-170; FY 2017 ACD at 174-182; FY 2018 ACD at 213-223; FY 2019 ACD at 155-175; Chapter 6, *infra*.

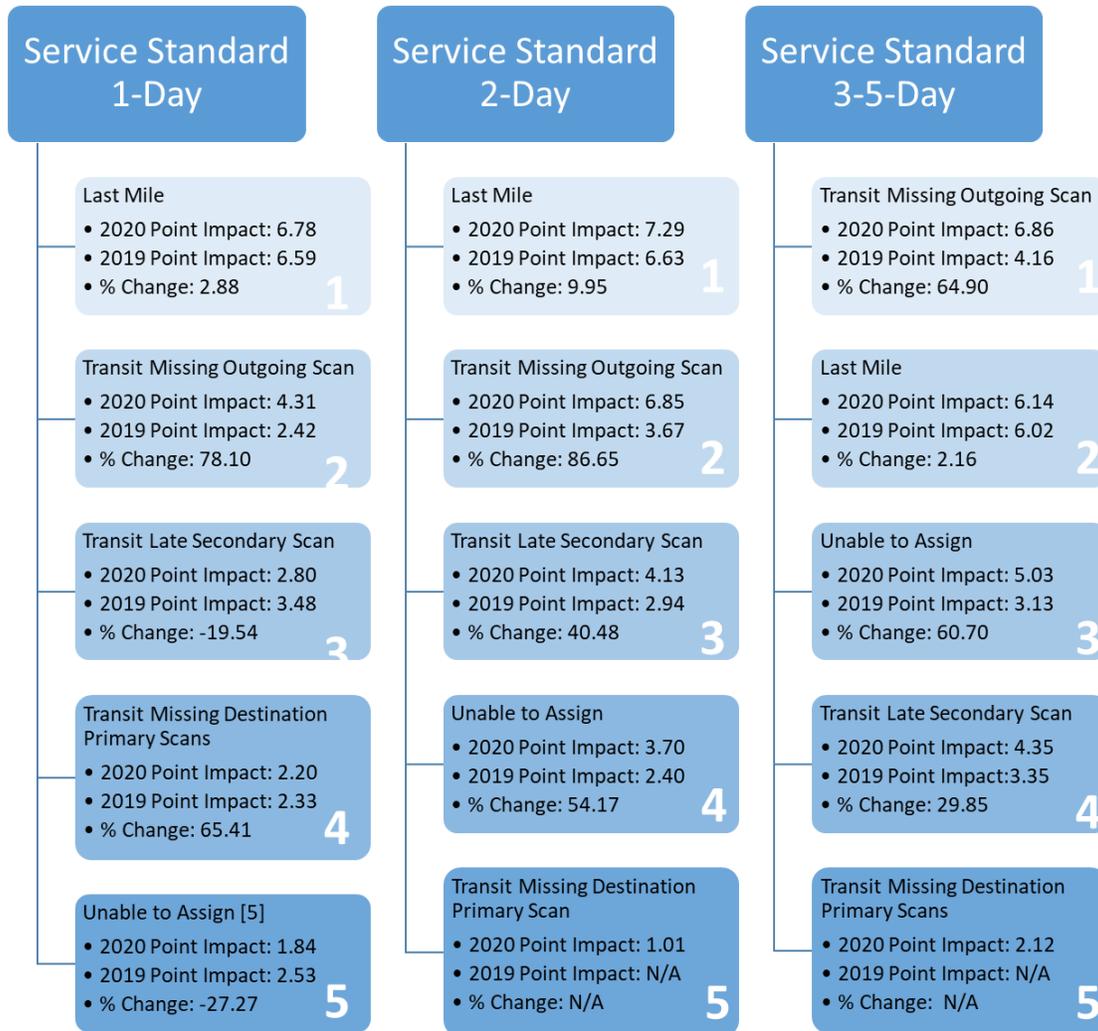
Figure V-23
First-Class Mail Single-Piece Flats
FY 2020 National Top 5 Root Causes and Point Impact



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 20.a.

Source: Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1. Library Reference USPS-FY20-29, Excel file "FY20 FCM Q1 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "SPFC."

**Figure V-24
First-Class Mail Presorted Flats
FY 2020 National Top 5 Root Causes and Point Impact**



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 20.a.

Source: See Docket No. ACR2019, February 19 Response to CHIR No. 13, question 1; Library Reference USPS-FY20-29, Excel file "FY20 FCM Q1 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "PFCM."

As illustrated by Figures V-23 and V-24 above and consistent with the Commission’s observations in FY 2019, Last Mile remains the root cause with the greatest overall point impact for both single-piece and presorted Flats products. Figures V-23 and V-24 show that Last Mile is the top root cause for all single-piece Flats as well as Overnight and 2-Day presorted Flats, and the second highest root cause for 3-5-Day presorted Flats. Whereas the point impacts for Last Mile decreased year-over-year for all categories of letter-shaped products (Single-Piece Letters/Postcards and Presorted Letters/Postcards) as described in

Sections V.A.4.a.5.b.i.-ii., *supra*, the Last Mile point impacts increased year-over-year for nearly all categories of Flats.

The Commission observes that the point impacts caused by transit issues increased for all categories of Flats from FY 2019 to FY 2020—especially, for the second half of the fiscal year (Quarters 3 and 4).³³⁷ These results are consistent with the results for the letter-shaped products and likely illustrate the impact of surface transportation constraints due to the COVID-19 pandemic. For single-piece 3-5-Day Flats, “Transit Late Destination Primary Scan” is the most prevalent transit-related indicator. This root cause is assigned if the last outgoing scan of any type at an origin facility is on time and the First Incoming Primary scan at the expected destination facility is late.³³⁸ For presorted 3-5-Day Flats, “Transit Missing Outgoing Scan” is the most prevalent transit-related indicator. This root cause is assigned if there is no outgoing scan of any type at an origin facility and First Incoming Primary scan at the expected destination facility is late.³³⁹

Below, Table V-11 shows the point impacts reported for each top transit-related indicator, disaggregated by Quarter for FY 2019 and FY 2020, for 3-5-Day presorted and single-piece Flats.

Table V-11
3-5-Day First-Class Mail Flats
Top Transit Root Cause Point Impact,
by Quarter, FY 2019–FY 2020

	Single Piece 3-5-days Transit Late Destination Primary Scan		Percent Change	Presorted 3-5-days Transit Missing Outgoing Scan		Percent Change
	FY 2019	FY 2020		FY 2019	FY 2020	
Quarter 1	3.81	3.51	-7.87%	5.25	5.61	6.86%
Quarter 2	3.54	3.29	-7.06%	4.68	5.15	10.04%
Quarter 3	2.48	4.55	83.47%	3.36	7.28	116.67%
Quarter 4	2.31	6.63	187.01%	3.29	9.64	193.01%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 20.a.

Source: Response to CHIR No. 3, question 16, Excel file “CHIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx,” tabs “SPFC” and “PFCM;” Response to CHIR No. 3, question 19, Excel file “CHIR No. 3 Q19 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Flats Root Cause Point Impact Ranking by Quarter for Nation.xlsx;” Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tabs “Q1_PFCM” and “Q1_SPFC.”

³³⁷ See Response to CHIR No. 3, question 16, Excel file “CHIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx,” tabs “SPFC” and “PFCM;” Response to CHIR No. 3, question 19, Excel file “CHIR No. 3 Q19 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Flats Root Cause Point Impact Ranking by Quarter for Nation.xlsx;” Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tabs “Q1_PFCM” and “Q1_SPFC.”

³³⁸ Response to CHIR No. 1, question 20.c., Excel file “FY20.CHIR.1.RootCauseDefintnsHierarchy.xlsx.”

³³⁹ Response to CHIR No. 1, question 20.c., Excel file “FY20.CHIR.1.RootCauseDefintnsHierarchy.xlsx.”

As illustrated by Table V-11 above, overall the point impact for these transit-related indicators increased year-over-year from FY 2019 to FY 2020. This year-over-year overall increase was largely driven by significant increases reported for Quarters 3 and 4 of FY 2020, compared to the corresponding periods in FY 2019. As described above in Section V.A.2.b., *supra*, these data corroborate that the COVID-19 pandemic exacerbated existing transit-related challenges for the Postal Service. Further, Table V-11 illustrates that during Quarter 4 of FY 2020 (July 1, 2020 through September 30, 2020), the point impacts for these top transit-related indicators nearly tripled compared to the same Quarter in FY 2019. This also coincides with the implementation of the late and extra trips policy and the resulting declines in service performance that are discussed above in Section V.A.2.c.1., *supra*.

(c) International Products

Outbound Single-Piece International is a retail product made available to the general public to send postcard-, letter-, and flat-shaped mailpieces to addressees outside of the U.S.A. See MCS Section 1125. Inbound Letter Post includes postcards, aerograms, and letter-shaped mailpieces, which originate outside of the U.S.A., contain only documents, and are intended for delivery inside of the U.S.A.³⁴⁰

Annual results for Inbound Letter Post and Outbound Single-Piece International have remained below their applicable 94.0 percent targets since FY 2009.³⁴¹ For each quarter of FY 2020, results for Outbound Single-Piece International remained below target and declined from the level reported in FY 2019. FY 2020 Outbound Single-Piece International results are 22.0 percentage points below target and decreased 9.66 percent from FY 2019 results. In FY 2020, Inbound Letter Post results remain 27.8 percentage points below target (slightly closer to the target than in FY 2019).

Generally, the Postal Service's handling of both international products is similar to its handling of their domestic analogs; however, service performance for both international products underperformed compared to their domestic analogs.³⁴² The Postal Service explains that the main differences in handling international mailpieces are related to ISC

³⁴⁰ See MCS Section 1130. This definition took effect January 1, 2020, which occurred at the beginning of FY 2020 Quarter 3. See Order No. 5372 at 2, 18.

³⁴¹ Prior to FY 2009, the Postal Service provided an aggregate on-time percent result for both products without a target. See Docket No. ACR2008, *Annual Compliance Determination*, March 30, 2009, at 42 (FY 2008 ACD) (displaying an on-time percent result, aggregated for both products, for FY 2007 and FY 2008). For FY 2009 and FY 2010, the Postal Service set a target for the aggregate annual result of both products across all service standard categories. See FY 2010 ACD at 61 (comparing an aggregate result for both products to the 94.0 percent target); FY 2009 ACD at 52 (same). Since FY 2011, the Postal Service set separate (but equal to 94.0 percent on-time) targets for Inbound Letter Post across all service standards as well as for Outbound Single-Piece International across all service standards. See, e.g., FY 2011 ACD at 71 (comparing FY 2011 Combined Inbound Letter Post result to the 94.0 percent target and FY 2011 Combined Outbound Single-Piece International result to the 94.0 percent target); FY 2012 ACD at 54 (same for FY 2012); FY 2018 ACD at 164 (same for FY 2013-FY 2018); FY 2019 ACD at 116 (same for FY 2019); FY 2020 Service Performance Report at 4 (same for FY 2020).

³⁴² See FY 2020 Service Report at 8; Docket No. ACR2019, Third Response at 3; May 20, 2019 Postal Service SPM Plan at 30, 50. Therefore, the Postal Service's domestic transit improvement efforts described above generally apply to its service performance for international mailpieces. Similarly, First Mile and Last Mile improvement efforts apply to outbound and inbound international mailpieces, respectively.

processing and handoffs.³⁴³ In an effort to address these issues, the Postal Service has multiple on-going initiatives, started in Quarter 4 of FY 2020, to monitor the operational discipline at the ISCs. *See* FY 2020 Service Performance Report at 9-12. The Postal Service explains that the ISCs are responsible for dispatching Inbound Letter Post to the Processing and Distribution Centers (P&DCs), where they join the domestic process and mail flow.³⁴⁴ The Postal Service states that the ISC at John F. Kennedy International Airport in Queens, New York processes virtually all Outbound Single-Piece International and that a relatively small number are processed at a facility located in Honolulu, Hawaii.³⁴⁵

As the effects of the COVID-19 pandemic became more pronounced in FY 2020 Quarters 3 and 4, the Postal Service redoubled its efforts to emphasize that each ISC adhere to the correct sort plan for Inbound Letter Post (rather than combine Inbound Letter Post with their domestic analogs) and was able to identify and correct specific pinch points at particular ISCs.³⁴⁶ Beginning in FY 2020 Quarter 4 and FY 2021 Quarter 1, international mail flows were subjected to the types of data leveraging initiatives used for their domestic analogs. *See* Response to CHIR No. 5, questions 4-6. The Postal Service intends to expand these initiatives through the remainder of FY 2021. *See id.* question 7. However, the Postal Service does not identify specific metrics to measure the impact of initiatives and instead generally references use of IV tools, RPG analysis, and Grid analysis. *See id.* Accordingly, the Commission's directives related to these international mailpieces aim to monitor the efficacy of these efforts.

Additionally for Inbound Letter Post, the Postal Service indicated that some foreign posts, facing international air restrictions due to the COVID-19 pandemic, may have routed international mailpieces to fewer ISCs than expected (rather than spreading volume over multiple ISCs), thereby complicating the Postal Service's efforts to match its resources with the actual volumes.³⁴⁷ Discussion specific to Inbound Letter Post and the QLMS appears in Section III.B.8.b., *supra*.

³⁴³ *See* FY 2020 Service Performance Report at 9-12; Docket No. ACR2019, Third Response at 3.

³⁴⁴ *See* FY 2020 Service Performance Report at 8. The Postal Service reports that it has five ISCs located in New York City, New York; Miami, Florida; Chicago, Illinois; San Francisco, California, and Los Angeles, California. *See* Mailing Standards of the United States Postal Service, International Mail Manual § 292.483, issued Jan. 24, 2021 (IMM); *see also* FY 2020 Q3 Audit Report at 36 (measuring achievement of audit measure 27 for 5 ISCs); FY 2020 Q4 Audit Report at 36-37 (same).

³⁴⁵ *See* May 20, 2019 Postal Service SPM Plan at 51 n.31; Docket No. PI2019-1, United States Postal Service Reply Comments, June 21, 2019, at 2 (Docket No. PI2019-1, Postal Service Reply Comments). This Honolulu, Hawaii facility is referred to as an ISC in some documents and classified as a P&DC in others. *Compare* Docket No. PI2019-1, Postal Service Reply Comments at 2, *with* IMM § 292.483.

³⁴⁶ *See* FY 2020 Q3 Postal Service Audit Response at 8; FY 2020 Q4 Postal Service Audit Response at 7; Section V.A.3.c., *supra*.

³⁴⁷ *See* Docket No. ACR2019, Response of the United States Postal Service to Commission Information Request No. 4, September 23, 2020, question 1 (Docket No. ACR2019, Response to CIR No. 4).

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2020 and directs the Postal Service to improve service performance results for its First-Class Mail products in FY 2021. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's difficulty in achieving its service performance targets and takes that into account in formulating its directives.

The Commission is concerned that FY 2020 service performance results for Single-Piece Letters/Postcards declined from FY 2019 and remain substantially below target. Accordingly, the Commission determines that Single-Piece Letters/Postcards remains out of compliance for the sixth year in a row. Additionally, the Commission is very concerned that results for Outbound Single-Piece International, which have remained below target since FY 2009, declined significantly from the previously-observed levels and are substantially below target in FY 2020. Therefore, the Commission determines that Outbound Single-Piece International is not in compliance for FY 2020.

The Commission directs the Postal Service to provide information on the following six matters. 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 explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be reached. The Postal Service is encouraged to file a motion for clarification in Docket No. ACR2020, if necessary. Where appropriate, the Postal Service shall explain the reasons for any differences in the calculation of data in FY 2021 versus FY 2020, and shall propose a method for comparing the FY 2021 data to the FY 2020 data.

(a) FY 2021 Nationwide Transit and Last Mile Improvement Efforts and Plans

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2021 nationwide efforts to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.

- 1. The transit evaluation shall explain how the progress made in FY 2021 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2021. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

2. *The Last Mile evaluation shall explain how the progress made in FY 2021 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2021. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2021 Quarter 1 to FY 2020 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2021. Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally,³⁴⁸ the Commission will continue to allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated evaluation and plan shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(b) FY 2021 Division Improvement Efforts and Plans

Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement efforts are led by personnel in the new Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.

1. *For each Division, the Postal Service shall evaluate the efficacy of its FY 2021 efforts to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2021. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2021 Quarter 1 to FY 2020 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2021.*

³⁴⁸ See, e.g., Docket No. ACR2018, January 11 Response to CHIR No. 1, question 22.

2. *For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will continue to allow the Postal Service to describe its progress and plans at a class level.³⁴⁹ However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization.³⁵⁰ The report for each Division shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated report from each Division shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(c) Consistent Data

Third, to facilitate the consistent monitoring of First-Class Mail service performance (particularly for Single-Piece Letters/Postcards), the Commission directs the Postal Service to provide the following data, described in items 1 through 5. Data shall be provided for FY 2021 Quarter 1, Quarter 2, and "mid-year"³⁵¹ within 90 days of the issuance of this ACD (by June 28, 2021). Data shall be provided for FY 2021 Quarter 3, Quarter 4, "second-half"³⁵² and annualized for the fiscal year, in the FY 2021 ACR (by December 29, 2021). The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.

³⁴⁹ See generally Library Reference USPS-FY20-29, PDF files "CapMetro PRC FY 20 Svc Perf Report.pdf," "Eastern PRC FY 20 Svc Perf Report.pdf," "Great Lakes PRC FY 20 Svc Perf Report.pdf," "Northeast PRC FY 20 Svc Perf Report.pdf," "Southern PRC FY 20 Svc Perf Report.pdf," "Western PRC FY 20 Svc Perf Report.pdf," "Pacific PRC FY 20 Svc Perf Report.pdf."

³⁵⁰ It appears that the Postal Service plans additional changes. See United States Postal Service, Postal News, U.S. Postal Service Announces Next Phase of Organizational Changes Begun in August 2020, March 3, 2021, available at <https://about.usps.com/newsroom/national-releases/2021/0303-usps-announces-next-phase-of-organizational-changes-begun-in-august-2020.pdf>.

³⁵¹ Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2021.

³⁵² Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2021. Annualized refers to the aggregation of the data for all four quarters of FY 2021.

1. *The top five root cause point impacts for First-Class Mail, disaggregated by shape/product and service standard, presented for the nation and each Area.³⁵³ Please present results for Flats at the product level and disaggregated by the single-piece and presorted categories.³⁵⁴*
2. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.³⁵⁵*
3. *The number of CLTs (any HCR that is late by more than 4 hours), presented for the nation, each Area, and each District.³⁵⁶*
4. *The performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals), presented for the nation, each Area, and each District.³⁵⁷*
5. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2021. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2021, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2020.³⁵⁸*

(d) FY 2021 ISC Improvement Efforts and Plans

To monitor the Postal Service's efforts to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility responsible for processing Outbound Single-Piece International) on the following matters, described in items 1 and 2.

1. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2021 efforts to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International by describing the facility's progress made toward addressing the identified deficiencies related to each facility's adherence to processing requirements and explaining how the facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2021.*

³⁵³ Response to CHIR No. 3, question 16, Excel files "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," and "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Area.xlsx."

³⁵⁴ Response to CHIR No. 3, question 16, Excel files "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," and "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Area.xlsx;" Response to CHIR No. 3, question 19, Excel file "ChIR No. 3 Q19 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Flats Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

³⁵⁵ Library Reference USPS-FY20-29, Excel file "NONPUBLIC FCM Q2 - Air Capacity.xlsx."

³⁵⁶ Library Reference USPS-FY20-29, Excel file "FY20 FCM Q3 CLT Natl Area Dist.xlsx," tab "4.c.3. CLT."

³⁵⁷ Library Reference USPS-FY20-29, Excel file "FY20 FCM Q4 EOY - 24 hr clock.xlsx."

³⁵⁸ Library Reference USPS-FY20-NP30, Excel file "NONPUBLIC FCM Q5 - Facility Failures.xlsx."

2. *For each facility, the Postal Service shall provide a detailed plan to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International that describes each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

The evaluations shall include quantitative analysis that identifies the metric(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece International volume it processed each Quarter and provide corresponding quantification for the same period during FY 2020. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated report from each facility shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

These facility-specific reporting requirements are in addition to the Inbound Letter Post specific status updates required by Section III.B.8.b.3., above.

(e) Evaluation of Feasibility and Status of Developing Point Impact Data for International Mail

For its domestic First-Class Mail products, the Postal Service has developed point impact data, which quantifies the number of percentage points by which on-time results decreased due to each specific root cause indicator. See Response to CHIR No. 1, question 20.a. Since FY 2019 Quarter 3, the Postal Service has generated national-level data for its international products using internal SPM.³⁵⁹ The Commission encourages the Postal Service to use the experience it has obtained in developing point impact data for its domestic products and in generating internal SPM data for international products to quantitatively link decreases in international service performance results to root causes of failure. Therefore, the Commission directs the Postal Service to evaluate the feasibility and status of its efforts to develop point impact data for Inbound Letter Post and Outbound Single-Piece International. The Postal Service shall file this evaluation within 90 days of the issuance of this ACD (by June 28, 2021). An updated evaluation shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(f) National Monthly Service Performance Results

To monitor the Postal Service's efforts to remediate the decline from FY 2019 to FY 2020, the Commission directs the Postal Service to provide national service performance results, disaggregated by month, for Single-Piece Letters/Postcards and Outbound Single-Piece

³⁵⁹ For FY 2019 and FY 2020, the Postal Service provided internal SPM data in addition to IMMS data. See Order No. 5576 at 5. Data generated by IMMS was used for reporting in FY 2019 and FY 2020. See Section V.A.3.c., *supra*. Beginning in FY 2021 Quarter 1, internal SPM data is used for reporting and the Postal Service retired IMMS. See Order No. 5576 at 10; FY 2020 Methodologies Report at 8.

*International (all service standards and combined).*³⁶⁰ *These monthly results shall be due on the following schedule: May 10, 2021 (monthly results for October 2019 through March 2021), August 9, 2021 (monthly results for April 2021 through June 2021), November 9, 2021 (monthly results for July 2021 through September 2021), February 9, 2022 (monthly results for October 2021 through December 2021), and May 10, 2022 (monthly results for January 2022 through March 2022).*³⁶¹

b. USPS Marketing Mail

(1) FY 2019 Directives

Finding that five USPS Marketing Mail products did not meet their FY 2019 service performance targets (Letters, Carrier Route, Flats, High Density and Saturation Flats/Parcels, and Every Door Direct Mail—Retail), the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance. FY 2019 ACD at 127. The Commission directed the Postal Service to provide point impact data, evaluate the efficacy of its FY 2020 efforts to improve service performance, and provide a detailed plan to improve performance for any product that did not achieve its FY 2020 target. *Id.*

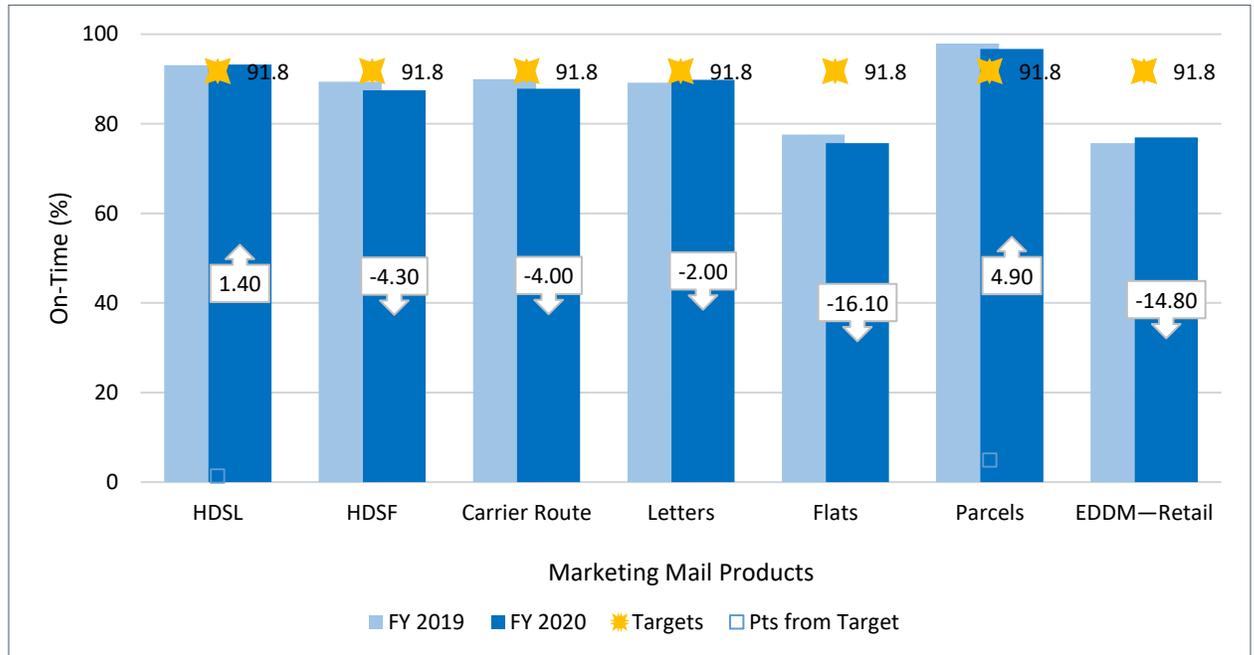
(2) FY 2020 Results

Below, Figure V-25 shows the service performance results compared to the annual target of 91.8 percent on-time for USPS Marketing Mail products for FY 2019 and FY 2020.

³⁶⁰ This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements, rather than replaces, the requirements of 39 C.F.R. part 3055.

³⁶¹ By the issuance of next ACD in March 2022, the Commission will evaluate whether or not monthly results will continue to be necessary beyond this schedule.

Figure V-25
USPS Marketing Mail
Service Performance Results, by Percent, FY 2019–2020



Note: The Postal Service reports its targets and results to one place past the decimal point. The difference between the target and the result is rounded to two places past the decimal point on this figure. “HDSL” refers to High Density and Saturation Letters. “HDSF” refers to High Density and Saturation Flats/Parcels. “EDDM-Retail” refers to Every Door Direct Mail—Retail.

Source: FY 2020 Service Performance Report at 14; FY 2019 Service Performance Report at 11.

(3) Postal Service Report

The Postal Service emphasizes that it improved on-time service performance for several categories of its USPS Marketing Mail products during the first two quarters of FY 2020 compared to the same period in FY 2019. *See* FY 2020 ACR at 37-38; FY 2020 Service Performance Report at 16. The Postal Service describes significant adverse impacts that occurred due to the COVID-19 pandemic in the second half of FY 2020. *See id.* The Postal Service explains that in response to declining USPS Marketing Mail volume along with rapidly increasing package volume, “Postal Service field units prioritized the processing and dispatch of mail with limited resources of employees and transportation. Our field units focused on processing and moving mail and packages as they were able.” *See* Response to CHIR No. 3, question 22.a. The Postal Service asserts that “[e]mployee unavailability and mail inventory, coupled with limited transportation impeded their ability to deliver all types of mail within determined service standards.” *Id.* Finally, the Postal Service suggests that its efforts to prioritize the delivery of Election Mail³⁶² (some of

³⁶² Election Mail is not a separate product and may be entered as First-Class Mail or USPS Marketing Mail at the discretion of state and local election officials. *See* United States Postal Service, *Publication 632: State and Local Election Mail – User’s Guide*, Jan. 2020, at 5, available at <https://about.usps.com/publications/pub632.pdf>. Although USPS Marketing Mail has slower service standards compared to First-Class Mail, the

which was entered as USPS Marketing Mail) may have resulted in delayed delivery of some USPS Marketing Mail that was not Election Mail. *See* Response to CHIR No. 3, question 22.c. The Postal Service states that quantifying the degree to which that may have occurred is not feasible. *See id.*

As part of its plan to improve service performance for USPS Marketing Mail in FY 2020, the Postal Service stated that headquarters would monitor if local facilities adhered to operational requirements: processing USPS Marketing Mail in First-In-First-Out (FIFO) order, operating at daily processing capacity, complying with the RPG, staging and scanning mailpieces correctly, and using visualization and analytical tools. *See* FY 2019 Service Performance Report at 14. CHIRs were issued to monitor the Postal Service's adherence to its plans during FY 2020. *See* CHIR No. 3, questions 14, 20. The Postal Service indicates that execution of these plans was interrupted by the COVID-19 pandemic and that the Postal Service intends to renew these efforts in FY 2021. *See id.*

(4) Comments and Related Commission Analysis

Reviewing certain service performance data for two categories of USPS Marketing Mail, NAPM observes that the Postal Service's service performance issues have persisted for years. NAPM Comments at 11. The Public Representative observes that FY 2020 results for five USPS Marketing Mail products remain below target: High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail. PR Comments at 26-27. He further notes that FY 2020 results declined from the levels observed in FY 2019 for four products: High Density and Saturation Flats/Parcels, Carrier Route, Flats, and Parcels. *See id.* He states that the Postal Service was able to improve results for multiple categories of USPS Marketing Mail in Quarters 1 and 2 of FY 2020 from the levels observed in the same period in FY 2019. *See id.* at 27-29. He opines that the COVID-19 pandemic negatively impacted the Postal Service's ability to sustain this improvement through the remainder of FY 2020. *See id.* at 29. Finally, he opines that the effective implementation of changes the Postal Service made in the pre-pandemic period of FY 2020, as well as new initiatives to address the pandemic's impacts, will be required to reestablish service performance for these products in FY 2021. *See id.* at 30.

The data referenced by NAPM are not the product-level results used to measure compliance in the ACD. *Compare* NAPM Comments at 11, *with* Figure V-25, *supra*. However, NAPM is correct that service performance results for many USPS Marketing Mail products have persistently been below target. The Commission acknowledges that the COVID-19 pandemic exacerbated existing service performance challenges for the Postal Service and has taken them into account in formulating directives. The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service performance for its USPS Marketing Mail products, which are detailed below in Section V.A.4.b.6., *infra*.

Postal Service strives to prioritize delivery of all Election Mail, regardless of the product selected by the sender. *See* United States Postal Service, 2020 U.S. Postal Service Election Mail Fact Sheet, October 21, 2021, at 1, available at <https://about.usps.com/newsroom/statements/1021-usps-election-mail-fact-sheet.pdf> ("We will continue to prioritize Election Mail that is entered as Marketing Mail regardless of the paid class.").

(5) Commission Analysis

USPS Marketing Mail is designed for bulk mailings of items that are not required to be mailed as First-Class Mail or authorized for mailing as Periodicals. *See* MCS Section 1200.1; *see also* DMM §§ 243.1.1, 243.2.1. FY 2020 service performance results for two USPS Marketing Mail products (Parcels and High Density and Saturation Letters) exceeded the targets set by the Postal Service. Five of the seven USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail) did not achieve their service performance targets.

Of the five products that did not achieve their FY 2020 service performance targets, FY 2020 on-time results for three products (High Density and Saturation Flats/Parcels, Carrier Route, and Flats) declined compared to FY 2019. While FY 2020 on-time results for Letters and Every Door Direct Mail—Retail remain below target, the Commission is somewhat encouraged that the Postal Service was able to increase results from FY 2019, although that was largely driven by improved pre-pandemic performance during Quarters 1 and 2.³⁶³

Most USPS Marketing Mail results increased during the first half of FY 2020 (Quarters 1 and 2) and decreased during the second half of FY 2020 (Quarters 3 and 4) compared to corresponding periods of FY 2019.³⁶⁴ Specifically, in FY 2020 Quarter 1 all seven products posted results higher than the same Quarter in FY 2019; in FY 2020 Quarter 2 six products posted results higher than the same Quarter in FY 2019.³⁶⁵ However, that trend reversed in Quarters 3 and 4. In FY 2020 Quarter 3 six products posted results lower than the same Quarter in FY 2019; in FY 2020 Quarter 4 all seven products posted results lower than the same Quarter in FY 2019.³⁶⁶

The Commission commends the Postal Service for achieving demonstrable year-over-year improvement before the widespread onset of the COVID-19 pandemic. The Commission recognizes that the COVID-19 pandemic exacerbated existing challenges for service performance and the pandemic's impact on Postal Service operations contributed to the inability to maintain this year-over-year improvement during the second half of FY 2020. In addition to renewing its pre-pandemic strategies, the Postal Service must refine its efforts to address any ongoing adverse impacts of the pandemic. The Commission also takes into account that the Postal Service has indicated that prioritizing Election Mail may have led to delayed delivery of some USPS Marketing Mail that was not Election Mail. *See* Response to CHIR No. 3, question 22.c.

³⁶³ Compare Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx," tab "Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Marketing Mail.xlsx," tab "Aggregation."

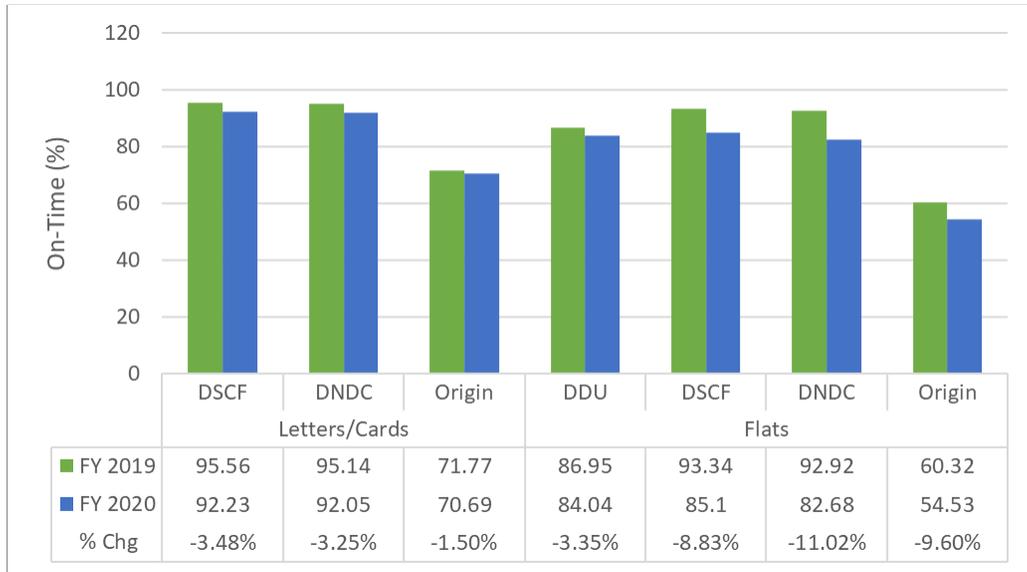
³⁶⁴ Compare Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation."

³⁶⁵ Compare Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation."

³⁶⁶ Compare Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation."

Below, Figure V-26 compares service performance results for USPS Marketing Mail by shape and entry level for the second half of FY 2020, along with corresponding data for the second half of FY 2019.

**Figure V-26
USPS Marketing Mail Service Performance Results,
by Shape, by Entry Type, Second Half (Quarters 3 and 4), FY 2019–FY 2020**



Note: The “Second Half” refers to Quarters 3 and 4 of the applicable fiscal year. For FY 2020, this covered April 1, 2020 through September 30, 2020. For FY 2019, this covered April 1, 2019 through September 30, 2019. DNDC refers to mailpieces inducted at the destination network distribution center. DSCF refers to mailpieces inducted at the destination sectional center facility. DDU refers to mailpieces inducted at the designated Destination Delivery Unit (DDU) for delivery within the DDU area. Origin refers to mailpieces that are not inducted at a destination processing facility, and therefore are transported from an origin processing facility to a destination processing facility (also referred to as “End-to-End”).

Source: Responses to CHIR No. 11, question 15, Excel file “2nd. Half.SP.Scores.xlsx,” tab “Data.”

As illustrated by Figure V-26 above, for Quarters 3 and 4 of FY 2020, all USPS Marketing Mail results by shape and entry decreased from the results for the same period of FY 2019.

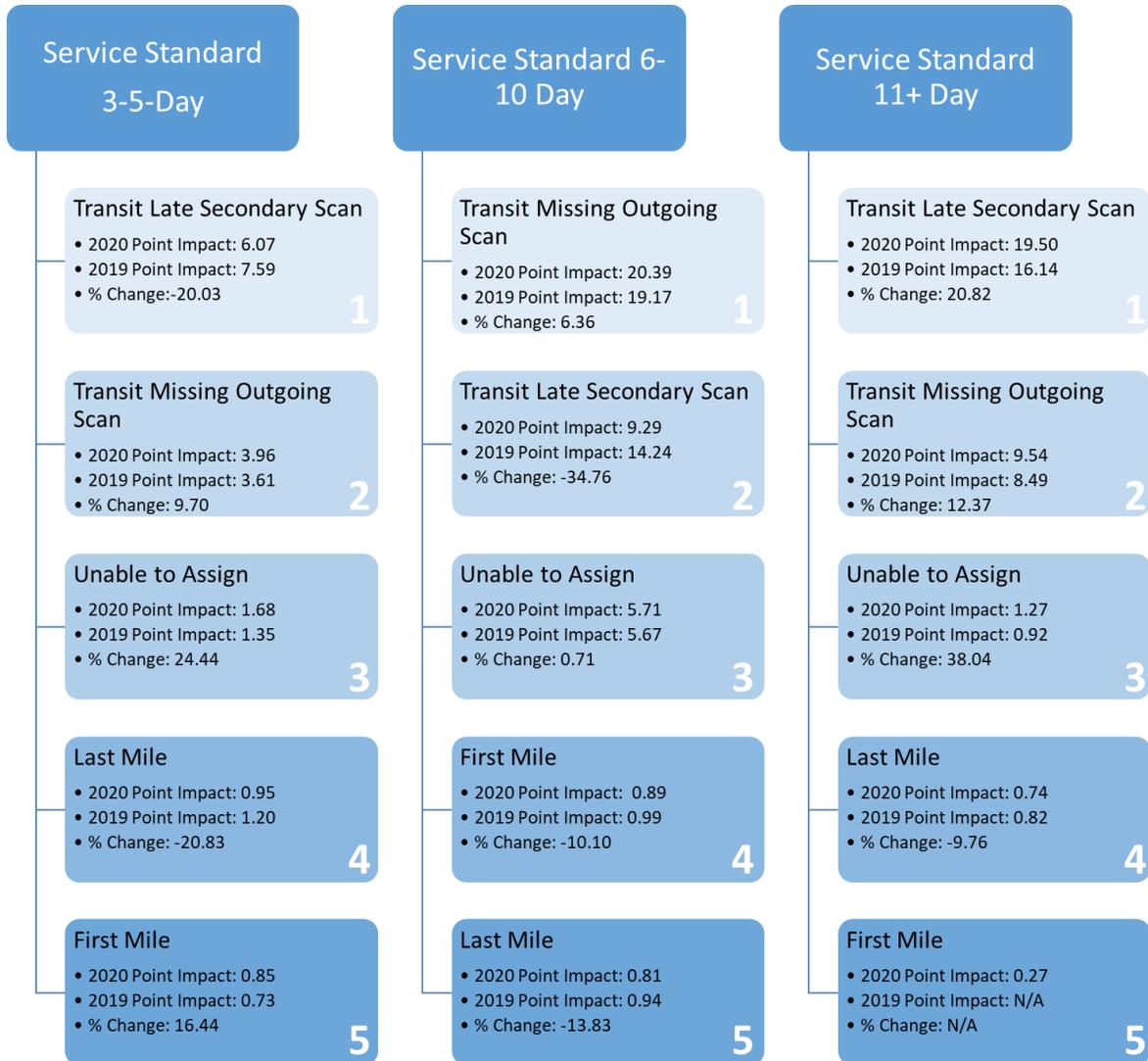
To promote transparency and accountability for USPS Marketing Mail service performance and to evaluate the relative significance of the Postal Service's improvement efforts, the Commission obtained point impact data representing the amount (number of percentage points) by which on-time results for this class decreased due to each specific root cause of failure.³⁶⁷ The Postal Service provides point impact data for USPS Marketing Mail that are differentiated by shape (letter-shaped and flat-shaped mailpieces) rather than product.³⁶⁸

The Commission focuses its analysis on those letter-shaped and flat-shaped USPS Marketing Mail products that were entered at the origin due to the increased likelihood of more processing and greater transit duration compared to destination entered mailpieces. Below, Figures V-27 and V-28 show the FY 2020 top root causes and corresponding point impacts for letter- and flat-shaped USPS Marketing Mail entered at origin.

³⁶⁷ Library Reference USPS-FY20-29, Excel file "FY20 Marketing Mail Root Cause.xlsx."

³⁶⁸ Library Reference USPS-FY20-29, PDF file "USPS-FY20-29.Preface.pdf," at 2.

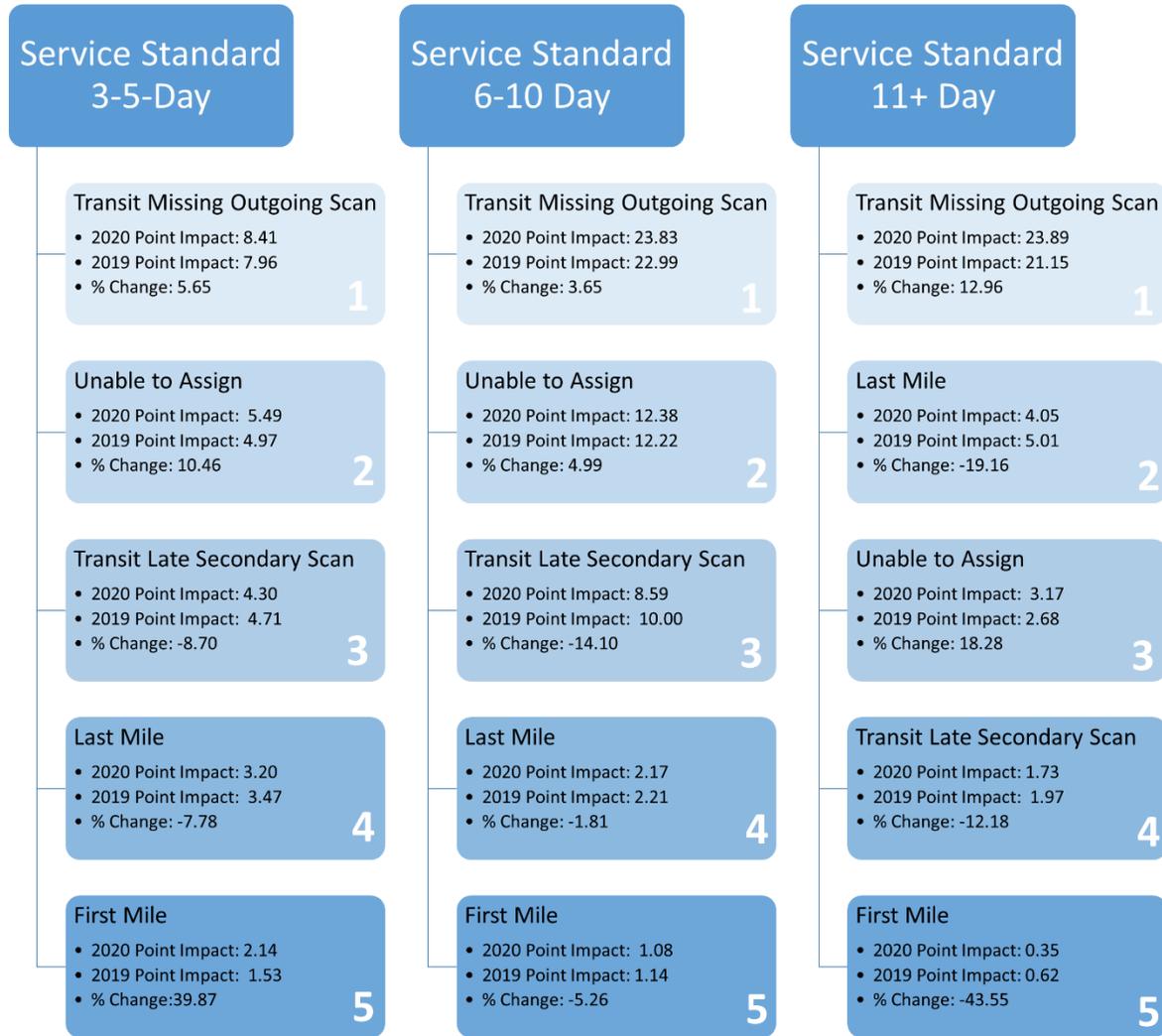
Figure V-27
USPS Marketing Mail Origin-Entered Letter/Cards
FY 2020 National Top 5 Root Causes and Point Impact



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 22.a.

Source: Library Reference USPS-FY20-29, Excel file "FY 20 Marketing Mail Root Cause.xlsx;" Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY 19 Marketing Mail Root Cause.xlsx."

**Figure V-28
USPS Marketing Mail Origin-Entered Flats
FY 2020 National Top 5 Root Causes and Point Impact**



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 1, question 22.a.

Source: Library Reference USPS-FY20-29, Excel file "FY 20 Marketing Mail Root Cause.xlsx;" Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY 19 Marketing Mail Root Cause.xlsx."

As illustrated by Figures V-27 and V-28 above, the top root causes of failure in FY 2019 continue to persist in FY 2020. Similar to First-Class Mail, the majority of the top five root causes for origin-entered USPS Marketing Mail are related to transit and Last Mile. Similar to presorted First-Class Mail, many transit-related indicators assigned to origin-entered USPS Marketing Mail appear to be indicative of the same types of difficulties experienced

by single-piece First-Class Mail flows.³⁶⁹ Generally for both letter- and flat-shaped USPS Marketing Mail mailpieces, Last Mile failures were reported to be less problematic than their First-Class analogs. The Commission encourages the Postal Service to refine and apply its data leveraging techniques to improve service performance for all USPS Marketing Mail products that did not achieve their targets.

The Commission finds that narrative reporting and quantifiable data regarding the Postal Service's FY 2021 progress in addressing the issues identified by the Postal Service is needed to ensure transparency and accountability of the Postal Service's efforts to improve its service performance results.

(6) Commission Directives

The Commission expects that the service performance results for the USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail) that did not achieve their FY 2020 service performance targets will improve in FY 2021. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for these products. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.

If the service performance results for any USPS Marketing Mail product do not achieve the applicable annual service performance target in FY 2021, then the FY 2021 ACR shall include: (1) the top five root cause point impacts for the product for each quarter and annually for FY 2021, disaggregated by shape/product and entry level/service standard;³⁷⁰ (2) an evaluation of the efficacy of the Postal Service's FY 2021 efforts to improve this product's service performance (including any progress toward addressing the recurring operational efficiency issues identified by the Postal Service); and (3) a detailed plan explaining how this product's results will be improved. 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 explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be provided. Where appropriate, the Postal Service shall specifically address how the evaluation and plan apply to mailpieces entered at origin versus mailpieces entered further into the mail stream.

³⁶⁹ See Response to CIR No. 1, question 7.a. The Postal Service clarifies that "Transit Late Secondary Scan" applied to presorted mail flows corresponds closely with the "Transit Late Destination Primary Scan" indicator applied to single-piece mail flows, with the only difference being that presorted mailpieces are designed to flow to a secondary processing operation rather than a primary, but would have flowed on the same transportation and experienced the same operational issues. See *id.* The Postal Service further explains that other top transit-related indicators assigned to presorted mailpieces such as "Transit Missing Outgoing Scan" and "Transit Missing Destination Primary Scan" reflect similar underlying transportation and operational issues, but are categorized differently due to expected processing event scans not occurring or not populating in piece-level data. See *id.* The Postal Service opines that these indicators may have been assigned in instances where alternate processing flows were used as workarounds. See *id.*

³⁷⁰ Library Reference USPS-FY19-29, Excel file "FY19 Marketing Mail Root Cause.xlsx," tab "Marketing – Root Causes" (disaggregating data by destination entry versus origin entry); Docket No. ACR2019, Response to CHIR No. 4, question 35, Library Reference USPS-FY19-46, Excel file "FY19 Marketing Mail Root Cause Entry Type.xlsx" (disaggregating data by induction types of "DEST," "DNDC," "DSCF," and "ORIG").

c. Periodicals

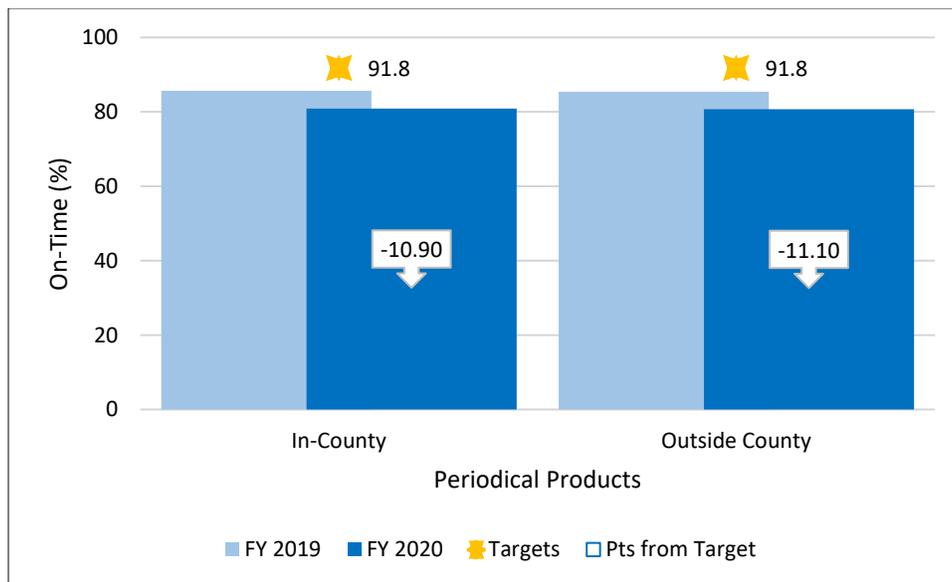
(1) FY 2019 Directives

Finding that both Periodicals products did not meet their FY 2019 service performance targets, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. FY 2019 ACD at 129. The Commission directed the Postal Service to evaluate the efficacy of its FY 2020 efforts to improve service performance and provide a detailed plan to improve performance. *Id.*

(2) FY 2020 Results

Below, Figure V-29 shows the service performance results compared to the annual target of 91.8 percent on-time for Periodicals products for FY 2019 and FY 2020.

Figure V-29
Periodicals Service Performance Results, by Percent, FY 2019–FY 2020



Note: The Postal Service reports its targets and results to one place past the decimal point. The difference between the target and the result is rounded to two places past the decimal point on this figure.

Source: FY 2020 Service Performance Report at 17; FY 2019 Service Performance Report at 16.

(3) Postal Service Report

The Postal Service did not identify the top root causes for Periodicals not meeting service performance targets in FY 2020. Response to CHIR No. 1, question 24.a. The Postal Service emphasizes the significant adverse effects that the COVID-19 pandemic had on service performance for these products in FY 2020. FY 2020 Service Performance Report at 18-19.

As part of its plan to improve service performance for Periodicals in FY 2020, the Postal Service stated that headquarters would monitor if local facilities adhered to operational

requirements: processing Periodicals in FIFO order, operating at daily processing capacity, complying with the RPG, using visualization and analytical tools such as the Grid, and minimizing Work in Process (WIP) cycle time.³⁷¹

CHIRs were issued to monitor the Postal Service's adherence to its plans during FY 2020. *See* CHIR No. 3, questions 14, 24. The Postal Service indicates that execution of these plans was interrupted by the COVID-19 pandemic and that the Postal Service intends to renew these efforts in FY 2021. *See* Response to CHIR No. 3, questions 14, 24. Additionally, the Postal Service explains that it began its initiative to provide industry mail preparers with actionable data to correct preparation and/or quality issues in August 2020, and is therefore unable to assess the impact of this initiative on results. *See id.* question 25. Further, the Postal Service reports that it improved its Bundle Visibility tool in FY 2020 Quarter 1, but that the COVID-19 pandemic has limited the tool's effectiveness and the Postal Service's ability to assess the impact of this initiative on results. *See id.* question 26.

(4) Comments and Related Commission Analysis

The Public Representative observes that FY 2020 results for Periodicals declined from the levels observed in FY 2019, and remain below target. PR Comments at 31. He notes that the Postal Service was able to improve results for Periodicals in Quarters 1 and 2 of FY 2020 from the levels observed in the same period in FY 2019. *See id.* at 31-32. He opines that the COVID-19 pandemic negatively impacted the Postal Service's ability to sustain this improvement through the remainder of FY 2020. *See id.* at 33. He further notes that the Postal Service is evaluating strategies to improve performance for flat-shaped mail, which he hopes will improve results for these products in FY 2021. *See id.* at 32-33.

The Commission acknowledges that the COVID-19 pandemic exacerbated existing service performance challenges for the Postal Service and has taken them into account in formulating directives. The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service performance for Periodicals, which are detailed below in Section V.A.4.c.6., *infra*.

(5) Commission Analysis

Periodicals includes newspapers or other publications that meet applicable criteria for regular issuance, editorial and advertising content, circulation levels, and sortation/preparation requirements. *See* MCS Section 1300.1. Neither Periodicals product met its applicable 91.8 percent on-time target in FY 2020. FY 2020 results are 10.9 percentage points and 11.1 percentage points below target for In-County and Outside County, respectively. Overall, on-time performance for Periodicals decreased from FY 2019 to FY 2020. Specifically, FY 2020 results decreased 5.6 percent and 5.5 percent from

³⁷¹ Docket No. ACR2019, Library Reference USPS-FY19-29, PDF file "FY19-29 Service Performance Report.pdf," at 18. WIP cycle time measures the time between a mailpiece's arrival at the plant and bundle-to-piece distribution. Docket No. ACR2017, United States Postal Service FY 2017 Annual Compliance Report, December 29, 2017, at 28.

FY 2019 results for In-County and Outside County, respectively. Periodicals have remained below their applicable targets since FY 2009.³⁷²

Both Periodicals products experienced similar trends from FY 2019 to FY 2020. For both products, in the first half of FY 2020 (Quarters 1 and 2) results increased compared to the results for the same period in FY 2019; however, that trend reversed in the second half of FY 2020 (Quarters 3 and 4), as results decreased compared to the results for the same period in FY 2019.³⁷³ The Commission commends the Postal Service for achieving demonstrable year-over-year improvement before the widespread onset of the pandemic. The Commission recognizes that the COVID-19 pandemic exacerbated existing challenges for service performance and the pandemic's impact on Postal Service operations contributed to the inability to maintain this year-over-year improvement during the second half of FY 2020.

The double-digit percent decreases in service performance results observed in the second half of FY 2020 (Quarters 3 and 4) significantly outpaced the single-digit percent increases observed in the first half of FY 2020 (Quarters 1 and 2).³⁷⁴ Comparing FY 2020 Quarter 3 to the same Quarter in FY 2019, In-County Periodicals results decreased by 12.5 percent and Outside County Periodicals results decreased by 12.6 percent.³⁷⁵ Further, in FY 2020 Quarter 4, both products' results decreased by 15.5 percent compared to the same Quarter in FY 2019.³⁷⁶

The Commission acknowledges that the COVID-19 pandemic interrupted the Postal Service's ability to pursue its improvement efforts to their fullest extent, particularly in Quarters 3 and 4 of FY 2020. *See* Response to CHIR No. 3, questions 14.b., 24.a., 26.a. The Postal Service states that it intends to renew these efforts in FY 2021, under the direction of the new headquarters group dedicated to stabilizing service performance for letter- and flat-shaped mailpieces. *See* Response to CHIR No. 3, question 14.a., 24.b. In addition to renewing its pre-pandemic strategies, the Postal Service must refine its efforts to address any ongoing adverse impacts of the COVID-19 pandemic. Because both Periodicals products performed below their targets for many years prior to the pandemic, the

³⁷² Prior to FY 2009, the Postal Service provided service performance data that were limited to certain categories of First-Class Mail and Package Services. *See* FY 2008 ACD at 41. For FY 2009 through FY 2011, the Postal Service applied a 91.0 percent on-time target to an aggregate Periodicals result. *See* FY 2011 ACD at 74-67 (comparing an aggregate result for both Periodicals products to the 91.0 percent target); FY 2010 ACD at 67 (same); FY 2009 ACD at 55 (same). Since FY 2012, the Postal Service has set separate (but equal) targets for each Periodicals product across all service standards. *See, e.g.,* FY 2012 ACD at 57 (comparing FY 2012 result to the 91.0 percent target for each product); FY 2018 ACD at 185 (comparing results for FY 2013 through FY 2017 to the 91.0 percent target for each product and FY 2018 results to the 91.8 percent target for each product); FY 2019 ACD at 128 (comparing FY 2019 result to the 91.8 percent target for each product); FY 2020 Service Performance Report at 17 (comparing FY 2020 result to the 91.8 percent target for each product).

³⁷³ *Compare* Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Periodicals.xlsx," tab "Aggregation."

³⁷⁴ *Compare* Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Periodicals.xlsx," tab "Aggregation."

³⁷⁵ *Compare* Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Periodicals.xlsx," tab "Aggregation."

³⁷⁶ *Compare* Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Periodicals.xlsx," tab "Aggregation."

Commission suggests that the Postal Service carefully evaluate which of its long-standing efforts are the most impactful on service performance results. The Postal Service should make efforts to develop quantitative analysis linking its root cause assessments with the impact on service performance results for Periodicals mailpieces, similar to the data leveraging techniques developed for First-Class Mail and USPS Marketing Mail.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for both Periodicals products in FY 2020 and directs the Postal Service to improve service performance results for these products in FY 2021. The Commission is very concerned that on-time results for these products, which have remained below target since FY 2009, declined significantly from the levels observed in FY 2019 and are substantially below their targets in FY 2020. Therefore, the Commission determines that In-County and Outside County Periodicals are not in compliance for FY 2020. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.

(a) FY 2021 Improvement Efforts and Plans

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2021 nationwide efforts to improve In-County and Outside County Periodicals service performance and to provide specific detailed plans to improve Periodicals service performance, as described in items 1 and 2.

- 1. The Postal Service shall evaluate the efficacy of its FY 2021 efforts to improve on-time results for Periodicals by describing the progress made (including how the Postal Service adapted its efforts in light of the pandemic's impacts and the status of efforts identified in Docket Nos. ACR2019 and ACR2020) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2021. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2021 Quarter 1 to FY 2020 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2021.*
- 2. The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated report shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(b) Evaluation of Feasibility and Status of
Developing Point Impact Data for Periodicals

The Postal Service has developed point impact data for other classes of mail (First-Class Mail and USPS Marketing Mail), which quantifies the number of percentage points by which on-time service performance decreased due to each specific root cause indicator. See Response to CHIR No. 1, questions 20.a., 22.a. The Commission encourages the Postal Service to use this experience to quantitatively link decreases in Periodicals service performance results to root causes of failure. Therefore, the Commission directs the Postal Service to evaluate the feasibility and status of its efforts to develop point impact data for Periodicals. The Postal Service shall file this evaluation within 90 days of the issuance of this ACD (by June 28, 2021). An updated evaluation shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(c) National Monthly Service Performance Results

To monitor the Postal Service's efforts to remediate the decline from FY 2019 to FY 2020, the Commission directs the Postal Service to provide national on-time percent results, disaggregated by month, for In-County and Outside County Periodicals.³⁷⁷ These monthly results shall be due on the following schedule: May 10, 2021 (monthly results for October 2019 through March 2021), August 9, 2021 (monthly results for April 2021 through June 2021), November 9, 2021 (monthly results for July 2021 through September 2021), February 9, 2022 (monthly results for October 2021 through December 2021), and May 10, 2022 (monthly results for January 2022 through March 2022).³⁷⁸

d. Package Services

(1) FY 2019 Directives

The Commission found that FY 2019 was the eighth consecutive year that the service performance result for BPM Flats was below its target. FY 2019 ACD at 133. The Commission also found that service performance results for Media Mail/Library Mail fell below target for the second year in a row. *Id.* For these two products, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance, evaluate the efficacy of its FY 2020 efforts to improve service performance, and provide a detailed plan to improve performance. *Id.*

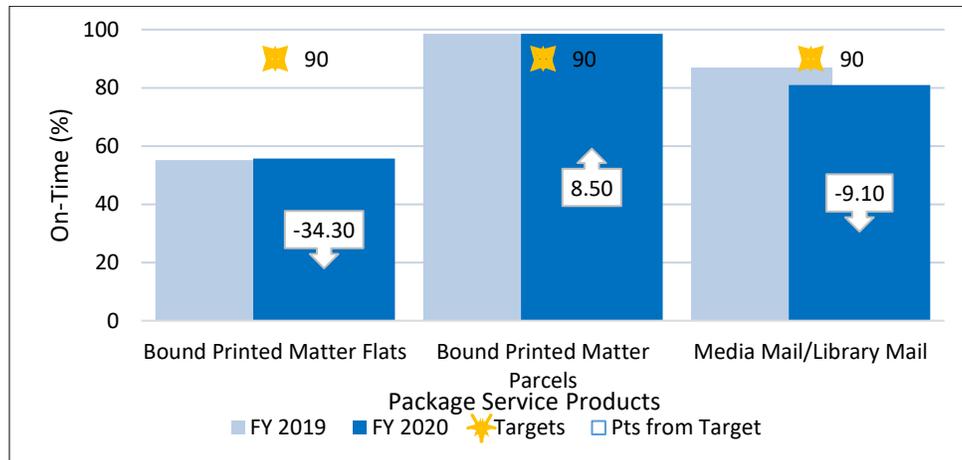
(2) FY 2020 Results

Below, Figure V-30 shows the service performance results compared to the annual target of 90.0 percent on-time for Package Services products for FY 2019 and FY 2020.

³⁷⁷ This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements rather than replaces the requirements of 39 C.F.R. part 3055.

³⁷⁸ By the issuance of next ACD in March 2022, the Commission will evaluate whether or not monthly results will continue to be necessary beyond this schedule.

Figure V-30
Package Services
Service Performance Results, by Percent, FY 2019–FY 2020



Note: The Postal Service reports its targets and results to one place past the decimal point. The difference between the target and the result is rounded to two places past the decimal point on this figure. The Commission approved a semi-permanent exception for service measurement of Alaska Bypass Service. 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 2020 Service Performance Report at 20; FY 2019 Service Performance Report at 23.

(3) Postal Service Report

The Postal Service was unable to identify the top root causes for BPM Flats and Media Mail/Library Mail not meeting service targets in FY 2020. Response to CHIR No. 1, question 26. The Postal Service highlights three of its FY 2021 plans focused on flat-shaped mailpieces that the Postal Service expects should improve service performance results for these products: creating a new Headquarters In-Plant Support Letter and Flat, Planning and Implementation group, continuing Flat Mailer industry team work, and renewing prior initiatives aimed to optimize operations for flat-shaped mailpieces.³⁷⁹

First, the Postal Service explains that the new headquarters group dedicated to stabilizing service performance for letter- and flat-shaped mailpieces became fully operational in FY 2021 Quarter 2. Response to CIR No. 1, question 11.a. The Postal Service states that this group will move away from the Postal Service's past focus on adherence to an unachievable, universal operating plan to creating achievable and site-specific operating plans. *See id.*; Response to CHIR No. 1, question 17.e. Second, the Postal Service reports that the Flat Mailer industry team focused on strategic development in FY 2020 and will pilot operational changes aimed at streamlining handling during FY 2021. Response to CHIR No. 1, question 18. Third, the Postal Service reports that its prior initiatives related to optimizing service performance for flat-shaped mailpieces had limited benefit in FY 2020

³⁷⁹ FY 2020 Service Performance Report at 22-23; Response to CIR No. 1, question 11; Response to CHIR No. 1, questions 17, 18.

due to the impacts of the COVID-19 pandemic. *Id.* question 17. The Postal Service plans for the new Headquarters In-Plant Support Letter and Flat, Planning and Implementation group to monitor these initiatives using tools within the IV application. *Id.* question 17.e.

(4) Comments and Related Commission Analysis

Reviewing certain service performance data for Package Services, NAPM observes that the Postal Service's service performance issues have persisted for years. NAPM Comments at 11. The Public Representative observes that FY 2020 results for BPM Flats improved slightly from the levels observed in FY 2019, but remain far below target. PR Comments at 34. He also observes that Media Mail/Library Mail declined to the lowest level observed in five years. *See id.* He notes that the Postal Service was able to improve results for these products in Quarters 1 and 2 of FY 2020 from the levels observed in the same period in FY 2019. *See id.* at 35-36. He opines that the COVID-19 pandemic negatively impacted the Postal Service's ability to sustain this improvement through the remainder of FY 2020. *See id.* at 36. He further notes that the Postal Service is evaluating strategies to improve performance for flat-shaped mail, which would include these products. *See id.* at 36-37.

The data referenced by NAPM are not the product-level results used to measure compliance in the ACD. *Compare* NAPM Comments at 11, *with* Figure V-30, *supra*. However, NAPM is correct that service performance results for two Package Services products have persistently been below target. The Commission acknowledges that the COVID-19 pandemic exacerbated existing service performance challenges for the Postal Service and has taken them into account in formulating directives. The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service performance for BPM Flats and Media Mail/Library Mail, which are detailed below in Section V.A.4.d.6., *infra*.

(5) Commission Analysis

Package Services are advertised as a cost effective option, which may receive deferred service, for items that are not required to be mailed as First-Class Mail or Periodicals. *See* MCS Section 1400.1. Service performance results for BPM Parcels exceeded the applicable service performance target in FY 2020. BPM Flats and Media Mail/Library Mail did not meet their service performance targets for FY 2020.

The two products that did not achieve their FY 2020 service performance targets, BPM Flats and Media Mail/Library Mail, experienced service performance challenges prior to the pandemic. FY 2020 is the ninth consecutive year that BPM Flats has been below target and the third consecutive year that Media Mail/Library Mail has been below target.

Both BPM Flats and Media Mail/Library Mail experienced similar trends from FY 2019 to FY 2020. For both products, in the first half of FY 2020 (Quarters 1 and 2) results increased compared to the results for the same period of FY 2019; however, that trend reversed in the second half of FY 2020 (Quarters 3 and 4) as results decreased compared to the results

for the same period of FY 2019.³⁸⁰ The Commission commends the Postal Service for achieving demonstrable year-over-year improvement before the widespread onset of the pandemic. The Commission recognizes that the COVID-19 pandemic exacerbated existing challenges for service performance and the pandemic's impact on Postal Service operations contributed to the inability to maintain this year-over-year improvement during the second half of FY 2020.

Overall, FY 2020 on-time results for Media Mail/Library Mail declined compared to FY 2019 and remain 9.1 percentage points below target.³⁸¹ For BPM Flats, results increased by 0.5 percentage points from FY 2019 to FY 2020; however, this product remains 34.3 percentage points below target. Given the history of these products and the extent of the gap between the results and the target, in addition to renewing its pre-pandemic strategies, the Postal Service must refine its efforts to stabilize these products and address any ongoing adverse impacts of the pandemic.

The Commission acknowledges the unique characteristics of BPM Flats, which are offered as a cost-effective option for business mailers,³⁸² and are advertised as potentially receiving deferred service. *See* DMM § 263.3.1. The Postal Service explains that "Bound Printed Matter Flats is a commercial product that is used by businesses to send large catalogs and similar flat-shaped flexible items that are too heavy to be sent via USPS Marketing Mail," but less rigid and thick than BPM Parcels. FY 2020 Service Performance Report at 20.

The Commission also recognizes that the Postal Service faces difficulties in monitoring its service performance improvement efforts for both BPM Flats that are machine-compatible and those that are not machine-compatible (referred to as "nonmachinable"), and thereby require manual processing.

First, with respect to machine-compatible mailpieces, the Postal Service planned to reduce the time between each scan event. *See* Response to CHIR No. 1, question 29.a. Beginning in FY 2019 Quarter 3, the Postal Service developed a metric, referred to as WIP cycle time, to track this operational issue for BPM Flats.³⁸³ For Quarters 3 and 4 of FY 2020, WIP cycle time for BPM Flats increased compared to the results for the same period of FY 2019.³⁸⁴ In

³⁸⁰ Compare Library Reference USPS-FY20-29, Excel file "FY20 ACR Package Services.xlsx," tab "Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Package Services.xlsx," tab "Aggregation."

³⁸¹ Compare Library Reference USPS-FY20-29, Excel file "FY20 ACR Package Services.xlsx," tab "Aggregation," with Docket No. ACR2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR Package Services.xlsx," tab "Aggregation."

³⁸² See United States Postal Service, *What is Bound Printed Matter Service?*, September 6, 2019, available at <https://faq.usps.com/s/article/What-is-Bound-Printed-Matter-Service>; see also MCS Section 1415.1(c); DMM § 604.5.1.11. This product is not available at the retail counter; instead, business mailers must follow the preparation, deposit, and permit requirements to use this product. See United States Postal Service, *What is Bound Printed Matter Service?*; see also DMM § 604.5.1.11.

³⁸³ Docket No. ACR2019, Library Reference USPS-FY19-45, December 27, 2019, Excel file "E4_Public_New_WIP_FY19.Q3.4.xlsx."

³⁸⁴ Library Reference USPS-FY20-45, December 29, 2020, Excel file "E4_Public_New_WIP_FY19Q3-FY20.xlsx." WIP cycle time for FY 2020 Quarters 1 and 2 are not comparable to the corresponding period during FY 2019 due to a methodological change.

response to questions as to how these efforts impacted FY 2020 on-time performance, the Postal Service was unable to quantify the impact of cycle time on FY 2020 service performance results but acknowledged that “[t]hese efforts showed limited benefit during FY 2020; due to COVID-19, service performance was negatively impacted this fiscal year.” Response to CHIR No. 1, question 29.a. The Commission encourages the Postal Service to continue to collect quarterly WIP cycle time metrics for BPM Flats using a consistent methodology and to identify the best practices to decrease cycle time compared to the same period in the last fiscal year. In FY 2020, the Postal Service advanced processing to day zero³⁸⁵ for 13.48 percent of measured BPM Flats, a slight increase over the 12.97 percent reported as advanced in FY 2019. *Compare* Response to CHIR No. 1, question 28, with Docket No. ACR2019, Response to CHIR No. 3, question 19.

Second, with respect to nonmachinable mailpieces, the Postal Service does not track the volume or percentage of BPM Flats that are processed manually. Response to CHIR No. 1, question 27. The Postal Service summarizes the revenue, pieces, and weight data relating to the mail characteristics of BPM Flats that require manual handling (piece weight, entry, and presort level). *Id.* As the Postal Service has previously explained, BPM Flats undergo manual handling due to incompatibility with flat or package sorting equipment and comingling of non-automated and automated BPM Flats. FY 2018 Service Performance Report at 20. The Postal Service explains that this results in a lack of visibility into manually-processed BPM Flats and that “[headquarters] continues to work with the Area coordinators to develop processes that will enable increased visibility for BPM [Flats] when it is manually sorted.” FY 2020 Q4 Postal Service Audit Response at 6. The Commission acknowledges the difficulty in tracking mailpieces that require manual processing. The Commission encourages the Postal Service to focus its tracking on any data that would demonstrate which (if any) of the Postal Service’s multi-year efforts to improve this product’s performance have been successful. The Postal Service should make efforts to develop quantitative analysis linking its root cause assessments with the impact on service performance results for BPM Flats, similar to the data leveraging techniques developed for USPS Marketing Mail.

In the absence of adequate data to conduct a quantitative analysis, the Commission encourages the Postal Service to focus its new Headquarters In-Plant Support Letter and Flat, Planning and Implementation group on a meaningful qualitative analysis of its multi-year efforts and identification of best practices. Given that this product serves a limited subset of commercial users, the operational challenges are recurring (albeit exacerbated by the COVID-19 pandemic), and the Postal Service’s proposed remediation strategy has remained substantially similar year-to-year, the Commission encourages the Postal Service to engage in a dialogue with the product’s users regarding expectations and actual performance concerning this unique offering.

³⁸⁵ Day zero refers to the start-the-clock date. Docket No. ACR2018, January 11 Response to CHIR No. 1, question 44. If the first automation scan occurs on the same day as the start-the-clock date, then those mailpieces are counted as being processed on day zero. *Id.*

With respect to Media Mail/Library Mail, on-time performance results have remained below target and declined year-over-year since FY 2018. The Postal Service states that “[t]hough Media Mail/Library Mail is not a separate category in IV reports, it follows the same mail flow as USPS Marketing Mail Flats and can therefore be improved by utilizing similar IV reports.” FY 2020 Service Performance Report at 23. Similarly, the Postal Service asserts that its efforts to optimize flat-shaped mail (such as its newly dedicated Headquarters group) will include Media Mail/Library Mail. *See id.* at 22. However, the Postal Service reports that only 7.33 percent of Media Mail/Library Mail pieces were flat-shaped in FY 2020; instead, the vast majority of FY 2020 Media Mail/Library Mail pieces were parcel-shaped. *See* Response to CHIR No. 1, question 27. For parcel-shaped Media Mail/Library Mail, the Postal Service uses parcel sorting equipment or manual processing. *See id.* However, the Postal Service does not track the volume or percentage of Media Mail/Library Mail pieces that are processed manually. *Id.* The Commission encourages the Postal Service to track Media Mail/Library Mail volumes that are processed manually to create an action plan to process these volumes on-time.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for BPM Flats and Media Mail/Library Mail in FY 2020 and directs the Postal Service to apply its data leveraging techniques to improve service performance results for these products in FY 2021. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service’s challenges in achieving its service performance targets and takes that into account in formulating its directives.

While the on-time performance result for BPM Flats increased from FY 2019 to FY 2020 by 0.5 percentage points (largely driven by improved pre-pandemic performance during Quarters 1 and 2), the Commission remains concerned that this product is substantially below its target. Moreover, FY 2020 marks the ninth consecutive year that BPM Flats has remained below its target. The Commission is also concerned that the FY 2020 on-time performance result for Media Mail/Library Mail remains below target and declined again for the third consecutive year. The Commission acknowledges that the Postal Service has repeatedly asserted that both of these products have significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is slower and costlier.

To monitor the Postal Service’s efforts to remediate these ongoing issues related to its flat- and parcel-shaped mail products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide the following information in the FY 2021 ACR for BPM Flats and Media Mail/Library Mail. First, the Postal Service shall evaluate the efficacy of the Postal Service’s FY 2021 efforts (including how the Postal Service adapted its efforts in light of the pandemic’s impacts and the status of efforts identified in Docket Nos. ACR2019 and ACR2020) to improve on-time service performance for each product. Second, the Postal Service shall provide a detailed plan for how each product’s results will be improved, describing: each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.

e. Special Services
(1) FY 2019 Directives

Finding that “[t]he 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” in FY 2019, the Commission stated its expectation that service performance for Post Office Box Service would improve in FY 2020. FY 2019 ACD at 135-36. The Commission directed the Postal Service to evaluate the efficacy of the six planned actions identified in its FY 2019 ACR and provide a detailed plan to improve performance if the product’s results did not meet the target in FY 2020. *Id.* at 136.

(2) FY 2020 Results

Below, Table V-12 shows the service performance results compared to the annual target of 90.0 percent on-time for Special Services products for FY 2019 and FY 2020.

Table V-12
Special Services
Service Performance Results, by Percent, FY 2019–FY 2020

Special Services	Annual		
	FY 2019 % On-Time	FY 2020 % On-Time	Target
Ancillary Services	90.9	89.6	90.0
International Ancillary Services	99.8	99.8	90.0
Money Orders	99.4	93.1	90.0
Post Office™ Box Service	88.3	88.2	90.0
Stamp Fulfillment Services	99.7	79.1	90.0

Notes: The Postal Service reports its targets and results to one place past the decimal point. Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

The Postal Service sets a 90.0 percent on-time target for Address List Services; however, there were no orders for Address List Services in FY 2020. FY 2020 Service Performance Report at 25.

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 2020 Service Performance Report at 25; FY 2019 Service Performance Report at 27.

(3) Postal Service Report

With respect to Post Office Box Service, the Postal Service discusses five planned steps to improve this product's performance in FY 2021. FY 2020 Service Performance Report at 28-29. First, the Postal Service reports that it updated its Integrated Operating Plans (IOPs) and e1994 scheduling tool in FY 2020 Quarter 4. *Id.* The Postal Service asserts that this annual process performed at the end of each fiscal year should contribute to improved service performance for this product by aligning staffing with workload for the next fiscal year; however, the Postal Service is unable to quantify the specific impact of this annual process on performance. Response to CHIR No. 1, questions 32.b., 33.a.-c.

Second, the Postal Service plans to update two of its computer programs, Mail Arrival Quality (MAQ) and Plant Arrival Quality (PAQ), which store IOP agreements, as well as track issues and resolutions. FY 2020 Service Performance Report at 28. Third, the Postal Service reports that the field began using a new dashboard to display key Post Office Box Service metrics in January 2020. *Id.*; Response to CHIR No. 1, question 31.a. Fourth, the Postal Service plans to develop a Delivery Point Sequence (DPS) Gap Analysis dashboard to identify opportunities to increase automation and reduce manual processing. FY 2020 Service Performance Report at 28.

Fifth, to the extent permitted by the CDC guidelines for social distancing, the Postal Service plans to resume its on-site Function 4³⁸⁶ level two and three reviews, which include review of Post Office Box operations. FY 2020 Service Performance Report at 29; FY 2019 Service Performance Report at 31. Although in-person reviews were discontinued in March 2020 due to the COVID-19 pandemic, the Postal Service completed numerous virtual reviews: 8,319 virtual Level 2 reviews in Small Office Variance offices (Level 20 and below) and 194 virtual Level 3 reviews in Customer Service Variance offices (Level 21 and above). FY 2020 Service Performance Report at 29. Additionally, due to the COVID-19 pandemic, the Postal Service discontinued its planned Lean Six Sigma³⁸⁷ projects during FY 2020, four of which were expected to specifically include review of the publicly-posted time of day when customers can expect to collect the mail from their Post Office Boxes.³⁸⁸

³⁸⁶ "Function 4" includes customer service activities of employees at post offices, stations, and branches involved in distribution of mail to carriers and to Post Office Boxes, retail window services, and miscellaneous administrative and Computerized Forwarding System operations. Postal Service *Glossary of Postal Terms*.

³⁸⁷ The Postal Service has reported applying Lean Six Sigma tools and methodologies for several years to this product. See Docket No. ACR2017, Library Reference USPS-FY17-29, December 29, 2017, PDF file "FY17-29 Service Performance Report.pdf," at 27; Docket No. ACR2018, Library Reference USPS-FY18-29, December 28, 2018, PDF file "FY18-29 Service Performance Report.pdf," at 25-26 (FY 2018 Service Performance Report); FY 2019 Service Performance Report at 29-31.

"Lean Six Sigma" refers to tools and methodologies that were initially developed for manufacturing and production processes and are now used in other industries, including logistics. See Lean Six Sigma Institute, Frequently Asked Questions, available at <https://leansixsigma.institute.org/about-us>. Lean Six Sigma combines the "Lean" philosophy developed by Toyota with the "Six Sigma" customer-focused business management system developed by Motorola. See *id.* "Lean" refers to a philosophy to operate more productively by systematically reducing non-value-adding waste and including everyone in the continuous improvement process. See *id.* "Six Sigma" refer to efforts to identify and eliminate the causes of variability and minimize failures. See *id.*

³⁸⁸ Compare Response to CHIR No. 1, question 30.a., with FY 2019 Service Performance Report at 31, and FY 2018 Service Performance Report at 26. The Postal Service uses "up-time," "uptime," and "Up time" interchangeably to refer to the publicly-posted time of day when customers can expect to collect the mail from their Post Office Boxes. See FY 2020 Service Performance Report at 25; United States Postal Service, Quarter

With respect to Stamp Fulfillment Services, the Postal Service reports needing to correct application coding errors and change its staffing to address the service performance challenges in FY 2020. *See* Response to CHIR No. 11, question 16.a. By way of background, Stamp Fulfillment Services refers to the centralized order fulfillment facility for orders received from customers of the Postal Store, USA Philatelic catalog, the USPS eBay store, phone, and brochures. *See id.* The Postal Service asserts that “[i]n FY 2020, the total volume of orders nearly doubled from FY 2019,” and “[i]n FY 2020 Q3 alone, SFS [Stamp Fulfillment Services] saw over four times the number of orders come into systems for fulfillment over previous years.” *Id.* The Postal Service attributes these increases primarily to customers using these remote ordering options during the COVID-19 pandemic and also references the influence of grassroots initiatives supporting the Postal Service. *See id.* The Postal Service asserts that the increased volume, along with unexpected errors in the application code, contributed to the decline in service performance. *See id.* The Postal Service reports that during FY 2020 it corrected the application coding errors, realigned its procedures to assign a second shift of personnel to meet peak volumes, and hired non-career workers to support the increased volume. *See id.* The Postal Service also reports that in FY 2021 it installed new equipment to increase productivity and used its Lean Six Sigma methods and teams to investigate how to re-engineer the fulfillment system and methodologies. *See id.*

The Postal Service reports that Ancillary Services service performance was impacted by increased mail volume and reduced employee availability due to COVID-19. *See id.* question 16.b. The Postal Service states that it will focus on improving service performance for this product, with special attention to certified mail/return receipt and insurance. *See id.* The Postal Service states that management will conduct service talks, issue Standard Work Instructions, train, develop improvement plans, and share best practices to improve performance. *See id.*

(4) Comments and Related Commission Analysis

The Public Representative observes that only two Special Services products achieved their targets for FY 2020: International Ancillary Services and Money Orders. PR Comments at 38. He observes that the Postal Service has addressed the Commission’s directives concerning Post Office Box Service, which remains below target. *See id.* at 39-40. He urges the Postal Service to take steps to improve the service performance of Stamp Fulfillment Services and Ancillary Services, which declined below their applicable targets in FY 2020. *See id.*

The Commission acknowledges that the COVID-19 pandemic exacerbated existing service performance challenges for the Postal Service and has taken that into account in formulating directives. The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service

⁴ Service Performance Measurement Data, November 9, 2020, PDF file “fy2020-q4-special-services-delivery-information-post-office-box-services.pdf,” at 1; FY 2019 Service Performance Report at 31.

performance for Post Office Box Service, Stamp Fulfillment Services, and Ancillary Services, which are detailed below in Section V.A.4.e.6., *infra*.

(5) Commission Analysis

Special Services are offerings related to the delivery of mailpieces, including acceptance, collection, sorting, transportation, or other functions. *See* MCS Section 1500.1. Many of these offerings are coupled with underlying mail matter (such as the services within the Ancillary Services and the International Ancillary Services products), whereas, others are stand-alone services (such as Post Office Box Service, Money Orders, and Stamp Fulfillment Services). *See id.*

Service performance results for International Ancillary Services and Money Orders exceeded the applicable targets for FY 2020. Three products did not achieve their respective FY 2020 targets: Post Office Box Service, Stamp Fulfillment Services, and Ancillary Services.

Service performance results for Post Office Box Service have remained slightly below the target since FY 2015. For FY 2020, service performance results for Post Office Box Service were 1.8 percentage points below target and decreased 0.1 percentage points from the level reported in FY 2019. Notably, for the first half of FY 2020 (Quarters 1 and 2), Post Office Box Service results increased compared to the results for the first half of FY 2019. The Commission commends the Postal Service for achieving demonstrable year-over-year improvement before the widespread onset of the pandemic. The Commission recognizes that the pandemic's impact on Postal Service operations contributed to the inability to maintain this year-over-year improvement during the second half of FY 2020. For Quarters 3 and 4 of FY 2020, Post Office Box Service results decreased compared to the results for the same period of FY 2019. Due to reduced employee availability and the social distancing guidelines put into place due to the COVID-19 pandemic, the Postal Service was unable to complete aspects of its existing multi-year improvement efforts as planned, such as completing Lean Six Sigma projects and realigning staff. In addition to renewing these pre-pandemic strategies, the Postal Service must refine its efforts to address any ongoing adverse impacts of the COVID-19 pandemic.

For the first time, the Postal Service did not achieve the targets for Stamp Fulfillment Services and Ancillary Services. FY 2020 on-time performance results for both products declined from the levels observed in FY 2019. The decline in results for Stamp Fulfillment Services, which is large, appears to be largely attributable to application coding errors and unprecedented surges in volume. *See* Response to CHIR No. 11, question 16.a. Based on the Postal Service's robust explanation of how it corrected the application coding errors and has implemented plans and processes to ensure timely handling of surges in volume, the Commission expects that the Postal Service will improve Stamp Fulfillment Service results in FY 2021. *See id.* Results for Ancillary Service remain near the target in FY 2020. The Commission expects that the Postal Service will improve results for this product as it recovers from the COVID-19 pandemic.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for Post Office Box Service, Stamp Fulfillment Services, and Ancillary Services in FY 2020 and directs the Postal Service to apply its data leveraging techniques to improve service performance results for these products in FY 2021. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.

Post Office Box Service results continued to fall short of its performance target in FY 2020. The Commission expects the service performance results for Post Office Box Service will improve in FY 2021 as the Postal Service realigns its staffing to correspond with the pandemic's impacts on volume and employee availability. If the results for Post Office Box Service do not achieve the service performance target in FY 2021, then the FY 2021 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2021 efforts (including how the Postal Service adapted its efforts in light of the pandemic's impacts and the status of efforts identified in Docket Nos. ACR2019 and ACR2020) to improve on-time service performance for this product; and (2) a detailed plan explaining how this product's results will be improved.

The Commission expects that the Postal Service will improve results for Stamp Fulfillment Services and Ancillary Services in FY 2021. If the results for Stamp Fulfillment Services or Ancillary Services do not achieve the service performance target in FY 2021, then the FY 2021 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2021 efforts (including how the Postal Service adapted its efforts in light of the pandemic's impacts and the status of efforts identified in Docket No. ACR2020) to improve on-time service performance for this product; and (2) a detailed plan explaining how this product's results will be improved.

B. Consumer Access

1. Introduction

The PAEA requires the Postal Service to report in the ACR “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.”³⁸⁹ 39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to four aspects of consumer access: post offices (including closings and emergency suspensions), residential and business delivery points, collection boxes, and wait time in line. The FY 2020 ACR and Library Reference USPS-FY20-33³⁹⁰ contain consumer access information responsive to the

³⁸⁹ 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90.

³⁹⁰ FY 2020 ACR at 60-63; Library Reference USPS-FY20-33, December 29, 2020.

requirements of Title 39 and the Commission's regulations. The Postal Service provides additional information in responses to CHIRs.³⁹¹

The Postal Service also reports the number of retail facilities and delivery points in its *Annual Report to Congress*.³⁹² In the FY 2019 ACD, the Commission reiterated the importance of reporting consistent information among the *Annual Report to Congress*, ACR, and CHIR responses. FY 2019 ACD at 138. It directed the Postal Service to ensure that information provided for both retail facilities and delivery points in its FY 2020 filings is consistent among these sources. *Id.* at 138-39. The Commission stated, "[i]f there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2020 ACR." *Id.* at 139 (emphasis omitted).

The number of delivery points is consistent between the *FY 2020 Annual Report* and the FY 2020 ACR.³⁹³ However, the number of retail facilities listed in the *FY 2020 Annual Report* and FY 2020 ACR differ from Library Reference USPS-FY20-33 and CHIR responses.³⁹⁴ In a CHIR response, the Postal Service explains that since FY 2018, the number of retail facilities in the *Annual Report to Congress* were obtained using the Postal Service's Address Management System, which relies on field staff to classify and close contractor-operated retail facilities. Response to CHIR No. 1, question 8. By contrast, the numbers provided in Response to CHIR No. 1 were obtained using the Contact Post Unit Technology (CPUT) system, which records all contracts and reflects up-to-date information. *Id.* questions 6-8. The Postal Service asserts that numbers obtained from the CPUT system are more reliable, and it will use CPUT data in future ACRs. *Id.*

The Commission reiterates the importance of providing consistent information among the Annual Report to Congress, ACR, and CHIR responses. For its FY 2021 filings, the Postal Service must obtain data from the same system to ensure that information provided for both retail facilities and delivery points is consistent among the FY 2021 Annual Report to Congress, FY 2021 ACR, and CHIR responses. If there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2021 ACR instead of in CHIR responses.

³⁹¹ See Response to CHIR No. 1, questions 1-9; Responses of the United States Postal Service to Questions 1-26 of Chairman's Information Request No. 3, January 22, 2021, questions 6-13 (Response to CHIR No. 3); Response to CHIR No. 9, questions 6-21; Response to CHIR No. 13, questions 1-6; Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 19, February 23, 2021 (Response to CHIR No. 19).

³⁹² *FY 2020 Annual Report* at 26. Retail facilities are physical locations where the Postal Service offers products and services such as stamps and PO Boxes. See Section V.B.2., *infra*.

³⁹³ Compare *FY 2020 Annual Report* at 26, with Library Reference USPS-FY20-33, Excel file "Delivery Points FY2020.xlsx," tabs "Beginning FY," and "End FY."

³⁹⁴ Compare *FY 2020 Annual Report* at 26 and FY 2020 ACR at 60, with Library Reference USPS-FY20-33, Excel file "PostOfficesFY2020.xlsx," tab "Post Offices," and Response to CHIR No. 1, questions 5-8.

2. Retail Facilities

The Postal Service offers products and services such as stamps and Post Office Boxes at retail facilities, which are operated either by the Postal Service (Postal Service-operated retail facilities) or third party contractors (contractor-operated retail facilities). *See* 39 C.F.R. § 241.3(a)(2)(i), (ii). Postal Service-operated retail facilities consist of post offices, classified stations and branches, and carrier annexes. Classified stations and branches are managed by a post office located in a city that provides complete postal services to a geographic area and is generally where the postmaster is located.³⁹⁵ A classified station is located within the corporate limits or city carrier delivery area of the city or town where a post office is located.³⁹⁶ In general, the name of the classified station does not contain the city name used in delivery addresses. *Id.* By contrast, a classified branch is located outside the corporate limits or city carrier delivery area of the city or town where a post office is located.³⁹⁷ In general, the name of the classified branch contains the city name used in delivery addresses. *Id.* A carrier annex is a facility that in general provides only carrier operations.³⁹⁸

Contractor-operated retail facilities consist of contract postal units (CPUs), community post offices (CPOs), and Village Post Offices (VPOs). CPUs are located at supplier-owned or supplier-leased facilities that provide postal services to the public at Postal Service prices. Response to CHIR No. 1, question 4. CPOs are CPUs that provide postal services in small communities, generally in areas where post offices have been discontinued, and usually bear their community's name and ZIP Code. *Id.* VPOs are similar to CPUs and CPOs, but offer limited services such as Forever Stamps and Priority Mail Flat Rate packages. *Id.* Although VPOs may contain Post Office Boxes, the Postal Service is required to provide carrier service to Post Office Box holders. *Id.*

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 as the number of retail facility closings during the fiscal year. 39 C.F.R. § 3055.91(a)(1)-(3). This information must be disaggregated by type of retail facility and provided at the national and area levels. 39 C.F.R. § 3055.91(a). The Postal Service provides this information for FY 2020 in the *FY 2020 Annual Report*, FY 2020 ACR, Library Reference USPS-FY20-33, and CHIR responses.³⁹⁹ This information is included in Table V-13.

³⁹⁵ "Main Post Office," *Postal Service Glossary of Postal Terms*.

³⁹⁶ *Id.* "Post Office station," "Classified Station," United States Postal Service, *Postal Service-Operated Retail Facilities Discontinuance Guide*, Handbook PO-101, October 2012, Appendix A at 53 (Handbook PO-101).

³⁹⁷ "Post Office branch," *Postal Service Glossary of Postal Terms*; "Classified Branch," Handbook PO-101, Appendix A at 53.

³⁹⁸ "Carrier annex," *Postal Service Glossary of Postal Terms*.

³⁹⁹ *FY 2020 Annual Report* at 26; FY 2020 ACR at 60; Library Reference USPS-FY20-33, Excel file "PostOfficesFY2020.xlsx," tab "Post Offices;" Response to CHIR No. 1, questions 5-8; Response to CHIR No. 9, questions 8-10; Response to CHIR No. 13, question 6.

Table V-13
Number of Retail Facilities, FY 2018–FY 2020⁴⁰⁰

Postal Facility Type	FY 2018	FY 2019	FY 2020	FY 2020 Change from FY 2019	FY 2020 Change from FY 2018
Post Offices	26,365	26,362	26,362	0	-3
Classified Stations & Branches and Carrier Annexes	4,959	4,960	4,968	8	9
Total Postal-Service Operated Retail Facilities	31,324	31,322	31,330	8	6
Contract Postal Units	2,119	2,034	1,914	-120	-205
Village Post Offices	626	542	442 ^a	-100	-184
Community Post Offices	476	457	441 ^a	-16	-35
Total Contractor-Operated Retail Facilities	3,221	3,033	2,797	-236	-424
Total Retail Facilities	34,545	34,355	34,127	-228	-418

^a FY 2020 number was obtained from Response to CHIR No. 13, question 6.

Source: Response to CHIR No. 1, question 8; Response to CHIR No. 9, question 6.a.

The total number of retail facilities in FY 2020 was 34,127, which was 228 fewer than FY 2019. Between FY 2019 and FY 2020, the number of Postal Service-operated retail facilities increased slightly, but the number of contractor-operated retail facilities declined for each facility type (CPU, VPO, and CPO). The largest decrease between FY 2019 and FY 2020 was in the number of CPUs, which decreased by 120.

The Public Representative commends the Postal Service for slightly increasing the number of Postal Service-operated retail facilities, especially during the pandemic, because they offer more products and services compared to contractor-operated retail facilities. PR Comments at 45. However, he expresses concern about the decline in the number of contractor-operated retail facilities. *Id.* He comments that this decline will likely have a disproportionate effect on rural or remote areas because residents in these areas have to spend more time traveling to access retail facilities during the pandemic. *Id.* He asserts that “[e]xpanding access to [contractor-operated retail] facilities remains an important source of customer access while the current pandemic persists and for unforeseen emergencies in the future.” *Id.* The Public Representative recommends that the Commission ask the Postal Service about its commitment to expanding retail access to hard-to-serve communities and request that the Postal Service submit a plan to expand this type of access. *Id.* He states that

⁴⁰⁰ As previously discussed, the number of retail facilities differs among the Postal Service’s data systems, in part depending on the time of the query. Consequently, some numbers provided in Table V-13 differ from previously reported figures. Several CHIRs were issued asking for the most up-to-date number of retail facilities for FY 2018, FY 2019, and FY 2020, which the Postal Service provided. Response to CHIR No. 1, question 8; Response to CHIR No. 13, question 6. In its responses, the Postal Service clarifies that the information provided in the response reflects the best available data. *See id.*

this report should discuss specific methods for retaining and improving retail access in hard-to-serve communities if the pandemic continues. *Id.* at 45-46.

In a CHIR response, the Postal Service states that it is sustaining retail access and responding to the effects of the pandemic by designating 12,393 retail facilities as rural post offices and leveraging the use of alternative access channels such as CPUs, VPOs, and Stamps by Mail to maintain the Postal Service's presence in communities. Response to CHIR No. 13, question 2. The Postal Service describes other actions it has taken to maintain consumer access to postal services in rural or remote areas, which include establishing temporary delivery points and alternate delivery locations, hiring postal support employees and temporary carrier assistants, extending carrier street times, adjusting clerk start times, and redirecting mail to temporary receptacles for some businesses and nursing homes. *Id.*

In FY 2020, the Postal Service did not close any post offices and slightly increased the number of classified stations, branches, and carrier annexes. Although the number of contractor-operated retail facilities declined in FY 2020, the total number of retail facilities has remained more than 34,000 nationwide. The Postal Service continues to provide access to products and services through alternative access channels in addition to providing products and services over-the-counter at retail facilities. *See* Section V.B.7., *infra*. For example, the Postal Service reports that there were 2,728 Self Service Kiosks (SSKs) at the end of FY 2020 and states that it is considering purchasing additional SSKs to increase retail access. Response to CHIR No. 1, question 1. The decline in retail facilities is mitigated by the availability of products and services through alternative access channels. The Commission will continue to monitor the number of retail facilities in the FY 2021 ACD.

3. Post Office Suspensions

For each fiscal year, the Postal Service must provide information on the number of suspended post offices⁴⁰¹ 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)-(6). Section V.B.3.a. discusses post office suspension activity during FY 2020. Section V.B.3.b. discusses the status of the post offices suspended at the end of FY 2016, an issue the Commission has been concerned about and required quarterly reporting on for the last several fiscal years. FY 2016 ACD at 151.

⁴⁰¹ A post office is suspended when the Postal Service stops operations at a post office because an emergency or other condition requires such action. "Emergency Suspension," Handbook PO-101, Appendix A at 54. Circumstances that may justify suspending a post office include natural disasters, termination of a lease or rental agreement when suitable alternate quarters are not available, lack of qualified personnel to operate the retail facility, irreparable or severe damage to the retail facility, challenge to the sanctity of the mail, and lack of adequate measures to safeguard the retail facility or its revenues. Handbook PO-101 at 39.

a. Post Office Suspension Activity during FY 2020

The Postal Service filed data on the number of suspended post offices in Library Reference USPS-FY20-33.⁴⁰² This library reference also includes data on post offices reopened and closed during FY 2020. Table V-14 shows post office suspension activity during FY 2020 by facility type. It lists the number of suspended post offices at the beginning and end of FY 2020, as well as the number of post offices suspended, reopened, and closed during FY 2020. The number of suspended post offices at the end of FY 2020 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-14 shows that the total number of suspended post offices increased by 37 in FY 2020. At the end of FY 2020, there were a total of 436 suspended post offices.

Table V-14
Post Office Suspension Activity during FY 2020

Retail Facility Type	Under Suspension at the Start of FY 2020	Suspended During FY 2020	Reopened During FY 2020	Closed During FY 2020	Under Suspension at the End of FY 2020
Post Offices	325	109	95	0	339
Stations/Branches	73	91	68	0	96
Carrier Annexes	1	0	0	0	1
Total	399^a	200	163	0	436

^a In Docket No. ACR2019, the Postal Service reported that the total number of post offices suspended at the end of FY 2019 was 401. Docket No. ACR2019, Library Reference USPS-FY19-33, December 27, 2019, Excel file "PostOfficesFY2019.xlsx," tab "Suspension Summary," cell H26. In a CHIR response, the Postal Service confirms that the total number of post offices suspended at the beginning of FY 2020 is 399 and that the difference was due to suspended post offices that were reopened at the beginning of FY 2020. Response to CHIR No. 9, question 6.b.

Source: Library Reference USPS-FY20-33, Excel file "PostOfficesFY2020.xlsx," tab "Suspension Summary."

b. Status of Post Offices Suspended at the end of FY 2016

(1) Background

In the FY 2015 ACD, the Commission expressed concerns about the large number of unresolved suspended post offices, which had nearly tripled since FY 2012. FY 2015 ACD at 150. At the end of FY 2016, there were 662 suspended post offices. FY 2019 ACD at 140. In the FY 2016 ACD, the Commission stated that it expected the Postal Service to significantly reduce the number of suspended post offices. FY 2016 ACD at 151. It directed the Postal Service to file quarterly reports on the status of the 662 post offices suspended at the end of FY 2016. *Id.* Beginning in FY 2017, the Postal Service has filed quarterly reports on the status of the 662 suspended post offices and included year-end information in the ACR. These reports did not include the status of post offices suspended after FY 2016.

⁴⁰² Library Reference USPS-FY20-33, Excel file "PostOfficesFY2020.xlsx," tab "Suspension Summary."

In FY 2017 and FY 2018, the Postal Service resolved 343 and 69 suspended post offices, respectively.⁴⁰³ In FY 2019, the Postal Service only resolved 22 suspended post offices. *Id.* at 141. Of the 662 post offices suspended at the end of FY 2016, 228 remained suspended at the end of FY 2019. *Id.* In the FY 2019 ACR, the Postal Service stated that it expected to resolve the remaining suspended post offices by September 2020. FY 2019 ACR at 61.

In the FY 2019 ACD, the Commission observed that the Postal Service's progress in resolving the remaining suspended post offices slowed considerably in FY 2018 and FY 2019. FY 2019 ACD at 143. It stated that it expected the Postal Service to resolve all remaining suspended post offices by the end of FY 2020 by either reopening them or closing them consistent with the post office discontinuance process. *Id.* at 144. Given the substantial number of remaining suspended post offices, the Commission found that individual reporting on each suspended post office was necessary to hold the Postal Service accountable for resolving the remaining 228 suspended post offices by the end of FY 2020. *Id.* The Commission directed the Postal Service to continue filing quarterly reports on the status of the remaining suspended post offices and actions taken to resolve them within 40 days after the end of each quarter in FY 2020. *Id.* For each remaining suspended post office, the Commission directed the Postal Service to identify specific steps taken to resolve that suspended post office during the quarter, describe anticipated next steps for that suspended post office, and explain how the Postal Service will resolve the remaining suspended post offices by the end of FY 2020. *Id.*

If the Postal Service failed to resolve the remaining suspended post offices by the end of FY 2020, the Commission directed the Postal Service to explain in detail in the FY 2020 ACR why it was unable to do so. *Id.* The Commission also required the FY 2020 ACR to provide a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended between FY 2017 and FY 2020. *Id.*

(2) FY 2020 Post Office Suspension Activity

In FY 2020, the Postal Service filed quarterly updates on the status of the 228 post offices suspended at the end of FY 2019.⁴⁰⁴ The Postal Service filed the FY 2020 Quarter 1 report on February 10, 2020, before the FY 2019 ACD was issued.⁴⁰⁵ In the FY 2020 Quarter 2 report, the Postal Service stated that it estimated it would be able to resolve the remaining suspended post offices by December 31, 2020.⁴⁰⁶ This date differed from the targeted September 2020 completion date the Postal Service provided in the FY 2019 ACR. *See* FY 2019 ACR at 61. Also, the Quarter 2 report did not comply with the Commission's directives

⁴⁰³ FY 2019 ACD at 140. The Postal Service resolves suspended post offices by reopening or closing them according to the procedures outlined in Handbook PO-101.

⁴⁰⁴ This number does not include post offices suspended after FY 2016.

⁴⁰⁵ Docket No. ACR2018, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY20 Quarter 1, February 10, 2020 (Quarter 1 Post Office Suspension Report).

⁴⁰⁶ Docket No. ACR2018, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY20 Quarter 2, May 11, 2020, at 4 (Quarter 2 Post Office Suspension Report).

to describe specific steps taken to resolve each suspended post office during that quarter and anticipated next steps for that suspended post office.

CIR No. 1 was issued on May 27, 2020, asking the Postal Service to explain why it did not expect to resolve the remaining suspended post offices by September 2020.⁴⁰⁷ Docket No. ACR2019, CIR No. 1 also asked the Postal Service to file an updated spreadsheet providing information for each individual suspended post office as the Commission required in the FY 2019 ACD. Docket No. ACR2019, CIR No. 1, question 1. In its response, the Postal Service filed an updated spreadsheet containing the required information.⁴⁰⁸ The Postal Service explained that because of pandemic-related delays and scheduling complications, it determined that resolving all remaining post offices suspended at the end of FY 2016 could not realistically occur before December 31, 2020. Docket No. ACR2019, Response to CIR No. 1, question 2.

In early August 2020, the Postal Service announced an organizational restructuring that affected the group coordinating the resolution of suspended post offices.⁴⁰⁹ On August 10, 2020, the Postal Service filed the FY 2020 Quarter 3 post office suspension report, which stated that the Postal Service had only resolved 15 suspended post offices during the first three quarters of FY 2020.⁴¹⁰ To meet the targeted completion date of December 31, 2020, the Postal Service would therefore have to resolve 213 suspended post offices between July 2020 and December 2020. Quarter 3 Post Office Suspension Report at 3. A CIR was issued in Docket No. ACR2019 asking the Postal Service to explain how it plans to resolve the remaining suspended post offices by the targeted date given the pace of resolving suspended post offices in FY 2020.⁴¹¹

On August 24, 2020, the Postal Service announced its decision to pause all activities related to resolving suspended post offices. Quarter 4 Post Office Suspension Report at 3. In response to Docket No. ACR2019, CIR No. 2, the Postal Service clarified that it filed the FY 2020 Quarter 3 post office suspension report before this announcement was made.⁴¹² It stated that it would provide an updated completion date for resolving the remaining suspended post offices in the FY 2020 Quarter 4 report, which the Postal Service filed on November 9, 2020.

⁴⁰⁷ Docket No. ACR2019, Commission Information Request No. 1, May 27, 2020, question 2 (Docket No. ACR2019, CIR No. 1).

⁴⁰⁸ Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-2 of Commission Information Request No. 1, June 10, 2020, question 1 (Docket No. ACR2019, Response to CIR No. 1).

⁴⁰⁹ Docket No. ACR2019, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY20 Quarter 4, November 9, 2020, at 3 (Quarter 4 Post Office Suspension Report).

⁴¹⁰ See Docket No. ACR2019, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY20 Quarter 3, August 10, 2020, at 1-2 (Quarter 3 Post Office Suspension Report).

⁴¹¹ Docket No. ACR2019, Commission Information Request No. 2, August 17, 2020 (Docket No. ACR2019, CIR No. 2).

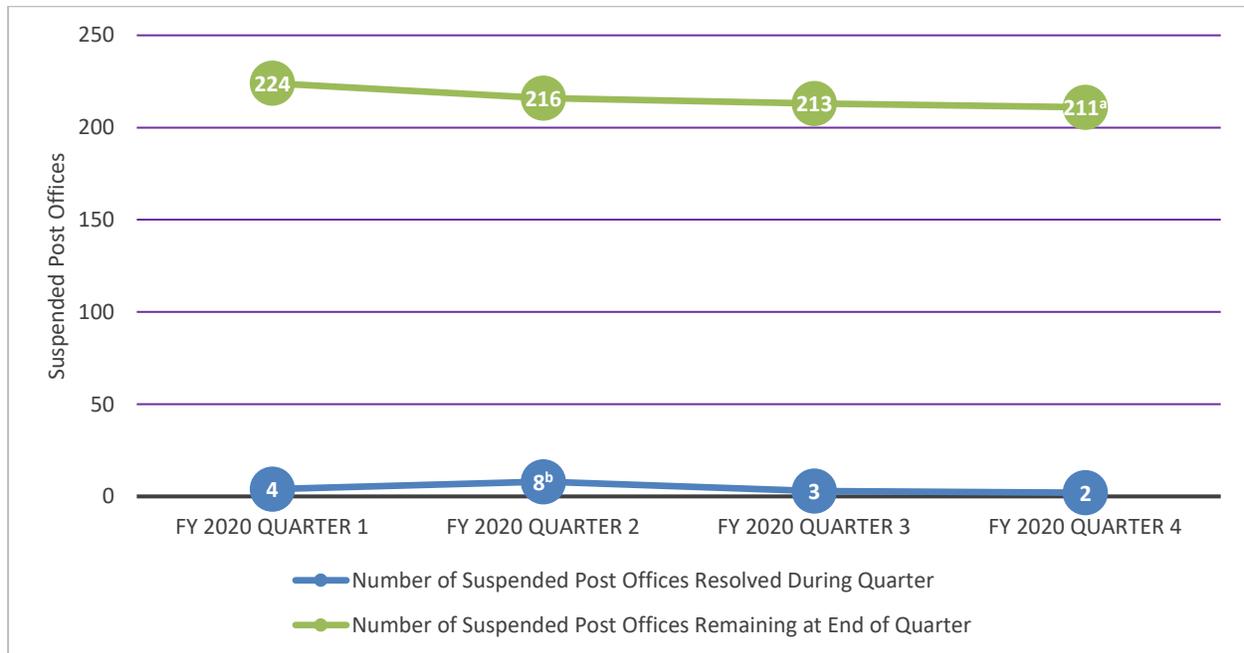
⁴¹² Docket No. ACR2019, Response of the United States Postal Service to Question 1 of Commission Information Request No. 2, August 25, 2020.

In the FY 2020 Quarter 4 post office suspension report, the Postal Service stated that it resolved 2 suspended post offices during that quarter. Quarter 4 Post Office Suspension Report at 2. Of the 662 post offices suspended at the end of FY 2016, 211 of those post offices remained suspended at the end of FY 2020. *Id.* The Postal Service explained that because of its decision to pause all activities related to resolving suspended post offices, it will need to reevaluate the status of each one beginning in January 2021 “to determine the proper course of action for each of them.” *Id.* at 3. The Postal Service stated that if it decides not to reopen a suspended post office, it will then need to evaluate the status of the discontinuance process for that suspended post office. *Id.* It noted, “[w]here appropriate, the Postal Service will prepare to restart these [discontinuance] processes in January 2021.” *Id.* It explained that suspended post offices that already posted notices to complete due diligence in 2020 will have to repost, conduct new community meetings, and repeat other steps outlined in Handbook PO-101, which contains the procedures for closing post offices. *See id.* at 3-4.

The Postal Service also confirmed that it did not resolve the 211 remaining suspended post offices by the end of FY 2020 because of the ongoing restructuring process and the need to reevaluate the status of each remaining suspended post office. *Id.* at 4. The Postal Service explained that it could not provide the Commission with an updated timeline for resolving the remaining suspended post offices until the Postal Service reevaluates the status of each one in 2021. *Id.* It noted that it “will continue to make this endeavor a priority, and fully expects to provide to the Commission a new timeline and project plan with its FY2021 Quarter 2 filing.” *Id.*

Figure V-31 shows the number of suspended post offices resolved during each quarter of FY 2020, as well as the number of suspended post offices remaining at the end of each quarter of FY 2020.

Figure V-31
Number of Suspended Post Offices Resolved by FY 2020 Quarter
For 228 Post Offices Suspended at the End of FY 2019^a



^a This number does not include post offices suspended from FY 2017 through FY 2020.

^b This number includes one United Nations post office in New York, NY deemed outside of the Postal Service's control and removed from the list of suspended post offices.

Source: Quarter 1 Post Office Suspension Report; Quarter 2 Post Office Suspension Report; Quarter 3 Post Office Suspension Report; Quarter 4 Post Office Suspension Report.

In FY 2020, the Postal Service only resolved a total of 17 suspended post offices. FY 2020 ACR at 62. Of the 662 post offices suspended at the end of FY 2016, 211 remained suspended at the end of FY 2020. *Id.*

(3) FY 2020 ACR

In the FY 2019 ACD, the Commission directed the Postal Service to explain in detail in the FY 2020 ACR why it was unable to resolve the remaining suspended post offices if it did not complete the resolution process by the end of FY 2020. FY 2019 ACD at 144. The Commission also directed that the FY 2020 ACR provide a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended between FY 2017 and FY 2020. *Id.*

In the FY 2020 ACR, the Postal Service explains that it was unable to resolve the remaining 211 suspended post offices because of the ongoing organizational restructuring and the future need to reevaluate each remaining suspended post office. FY 2020 ACR at 63. It notes that the pandemic and Postal Service policies pausing retail facility changes disrupted the processes that it had implemented to resolve the remaining suspended post

offices. *Id.* at 62. The Postal Service reiterates information provided in the FY 2020 Quarter 4 report and states that where appropriate, it will begin to reevaluate the status of each remaining suspended post office in 2021. *Id.* The Postal Service confirms that it cannot provide an updated timeline for resolving the 211 remaining suspended post offices until it reevaluates the status of each one in 2021. *Id.* at 63.

CHIR No. 3 asked the Postal Service to explain why it paused any action to resolve the remaining suspended post offices until January 2021 and how the organizational restructuring impacted its efforts and ability to resolve suspended post offices. CHIR No. 3, questions 6, 8. The Postal Service responds that it paused the process for resolving suspended post offices “[d]ue to the combined effects of COVID and the desire to avoid even the appearance of any impact on election mail[.]” Response to CHIR No. 3, question 8. It explains that the large turnover in upper-level management, the realignment of postal areas from seven to four zones, and the pandemic temporarily impacted the group responsible for resolving suspended post offices. *Id.* question 6.a. It notes that this group should be better able to resolve the remaining suspended post offices once the Postal Service absorbs recent changes and management acclimates to new roles. *Id.*

CHIR No. 3 also asked the Postal Service to explain why it was only able to resolve 15 suspended post offices by the end of FY 2020 Quarter 3. CHIR No. 3, question 7. The Postal Service responds that the pandemic created issues that, among other things, prevented the Postal Service from holding in-person community meetings. Response to CHIR No. 3, question 7. It notes that in the middle of July 2020, “employees who would otherwise have worked to resolve the remaining suspended post offices were assigned to other projects.” *Id.*

As of February 2021, the Postal Service states that it has not taken any action or made efforts to resolve the remaining suspended post offices in FY 2021 because the process for resolving suspended post offices “is contingent on the relaunch of customer-facing activities, which the Postal Service has yet to approve.”⁴¹³ The Postal Service clarifies that “customer-facing activities” refer to certain steps the Postal Service must take to close a post office as outlined in Handbook PO-101. Response to CHIR No. 13, question 4.a. Customer-facing activities are steps in Handbook PO-101 that are directed toward customers, such as posting notices to the affected community, sending response letters to completed customer questionnaires, restarting community meetings, and posting proposals to close. *Id.* question 4.a., 4.b.; Response to CHIR No. 3, question 9.a.

Because the Postal Service has not yet approved the relaunch of customer-facing activities, the Postal Service states that it cannot provide estimated dates for starting and completing the processes for reevaluating and discontinuing suspended post offices, as well as an estimated date for submitting a new timeline for resolving all remaining suspended post offices, including post offices suspended between FY 2017 and FY 2020. Response to CHIR No. 3, questions 9.c., 10.a., 12.

⁴¹³ Response to CHIR No. 3, questions 9.c., 10.a., 12; see Response to CHIR No. 13, question 4.b.

(4) Comments

The Public Representative states that he is pleased the Postal Service paused the suspension resolution process until 2021 and held post office closings in abeyance in areas affected by the pandemic. PR Comments at 47. However, he is concerned that pausing the suspension resolution process was not accompanied by reopening post offices during the pandemic. *Id.* at 47-48. The Public Representative maintains that the pandemic has likely increased the need for more extensive and rapid access to customer-facing post offices and recommends that the Postal Service quickly develop new criteria to evaluate the pandemic's impact on consumer access. *Id.* at 48. The Public Representative suggests that once these criteria are developed, the Postal Service should then restart the suspension resolution process using these new criteria as soon as possible. *Id.*

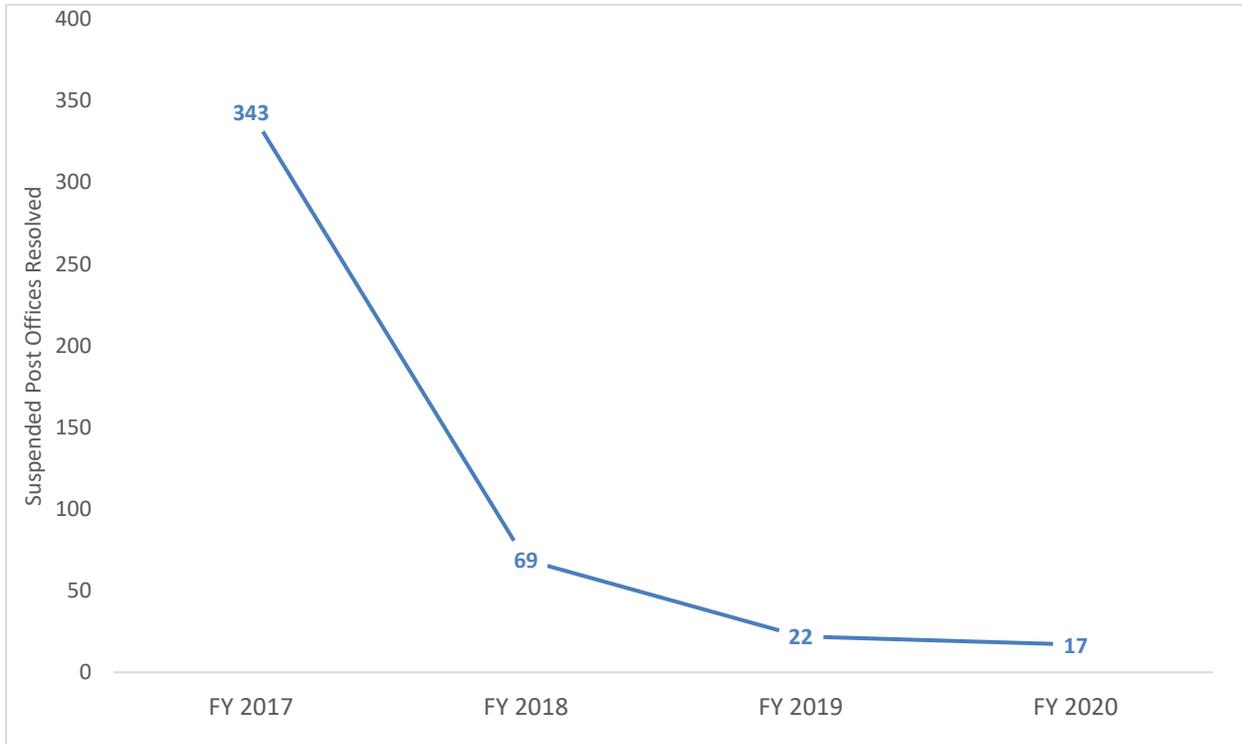
The Public Representative recommends that the Commission require the Postal Service to report how the pandemic impacted the need for retail access to post offices in areas served by suspended post offices. *Id.* He states that this report should examine several issues, including the criteria the Postal Service previously used to determine whether to open, close, or retain suspension status for currently suspended post offices, as well as the new criteria the Postal Service will apply to suspended post offices while the pandemic continues to affect areas served by suspended post offices. *Id.* He also suggests that the Postal Service explain how it determined the new criteria and that the Commission ask the Postal Service to discuss other issues associated with the universal service obligation. *Id.* at 48-49.

In its reply comments, the Postal Service states that although it did not reopen any suspended post offices, it has continued to sustain retail access and has proactively responded to the effect of the pandemic on consumer access. Postal Service Reply Comments at 17. These actions include establishing temporary delivery points and alternate delivery locations, hiring postal support employees and temporary carrier assistants, extending carrier street times, adjusting clerk start times, and redirecting mail to temporary receptacles for some businesses and nursing homes. *Id.* It notes that it will continue to evaluate and address the continuing effects of the pandemic on consumer access and address them accordingly. *Id.*

(5) Commission Analysis

Figure V-32 shows the number of suspended post offices resolved by fiscal year for the 662 post offices suspended at the end of FY 2016.

Figure V-32
Number of Suspended Post Offices Resolved by Fiscal Year
For 662 Post Offices Suspended at the End of FY 2016



Source: FY 2019 ACD at 143; see Quarter 4 Post Office Suspension Report at 2.

Figure V-32 shows that in FY 2017, the Postal Service made significant progress by resolving 343 of the 662 post offices suspended at the end of FY 2016. However, this progress slowed considerably in FY 2018 and FY 2019, when the Postal Service resolved only 69 and 22 suspended post offices, respectively. In FY 2020, the Postal Service resolved even fewer—only 17 of these suspended post offices.

In the FY 2018 ACD, the Commission emphasized the importance of resolving the remaining suspended post offices as soon as possible and stated that it expected the Postal Service to accomplish this by the end of FY 2020. FY 2018 ACD at 201. Because of the lack of progress during FY 2019, the Commission in the FY 2019 ACD directed the Postal Service to report quarterly information on each remaining suspended post office, including the status, specific steps taken to resolve the suspended post office during each quarter, and anticipated next steps. Despite enhanced reporting requirements, the Postal Service again made minimal progress during FY 2020 in reducing the number of remaining suspended post offices. The Postal Service also did not comply with the Commission's directive in the FY 2019 ACD to provide a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended between FY 2017 and FY 2020. These post offices add another 225 suspended post offices to the 211 remaining of those suspended at

the end of FY 2016, for a total of 436 total unresolved suspended post offices existing at the end of FY 2020.

The Commission acknowledges that FY 2020 presented unique challenges that impeded the Postal Service's progress in resolving suspended post offices, such as the pandemic, organizational restructuring, and the Postal Service's decision to pause the process for resolving suspended post offices until 2021. However, the number of suspended post offices has been an ongoing issue since at least FY 2016, and the Postal Service made minimal progress in FY 2018, FY 2019, or before the challenges that occurred in FY 2020. Also, the organizational restructuring and the Postal Service's decision to pause the process for resolving suspended post offices were factors within the Postal Service's control.

The Commission is also concerned that the Postal Service has not taken further action or made other efforts to resolve the remaining suspended post offices in FY 2021. The Postal Service explains that it will not begin to reevaluate the status of each suspended post office until it "approves the relaunch of customer-facing activities." Response to CHIR No. 13, question 4.a., 4.b. However, it also states that it cannot provide estimated dates for approving the relaunch of these customer-facing activities until "it restarts the full Handbook PO-101 process." *Id.* question 4.a.

It is unclear why the Postal Service has not yet resumed the process for resolving suspended post offices, and the Postal Service did not provide an estimated date or timeline for doing so. The Commission is concerned that after the Postal Service appeared to aggressively begin to tackle the backlog of suspended post offices during FY 2017, the Postal Service has addressed fewer and fewer of the remaining suspended post offices from FY 2016 in subsequent years. Since FY 2018, the Postal Service has made little progress on this long standing issue despite the continuing and enhanced reporting requirements that have been required by the Commission in recent ACDs. In the meantime, the number of post offices suspended between FY 2017 and FY 2020 has grown with the number of unresolved suspended post offices totaling 436 at the end of FY 2020. Given the appearance of a lack of commitment by the Postal Service to addressing and resolving suspended post offices in recent years, the Commission will initiate a public inquiry docket to identify and address issues impeding the Postal Service's progress in resolving suspended post offices. This public inquiry docket will provide interested persons the opportunity to explore issues similar to those raised by the Public Representative, such as the criteria the Postal Service will apply when resolving suspended post offices, as well to explore why the Postal Service was able to resolve a large number of suspended post offices in FY 2017 and has been unable to do so in subsequent FYs.

The Commission directs the Postal Service to continue filing quarterly reports on the status of the 211 remaining 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 2021 and in FY 2022 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing the information provided in the FY 2020 Quarter 4 update.⁴¹⁴ For each remaining suspended post office, quarterly reports must describe the suspended post office's status, specific steps taken to resolve that suspended post office during that quarter, and anticipated next steps. If the Postal Service does not take steps to resolve a suspended post office during the quarter, it must explain why in the quarterly report.

The FY 2021 Quarter 2 report must include data disaggregated for FY 2021 Quarters 1 and 2 and contain the information required by the Commission as described above. The FY 2021 Quarter 2 report must also include a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended from FY 2017 through FY 2021. If the Postal Service fails to resolve suspended post offices in accordance with its plan and timeline, the FY 2021 ACR must explain why and include a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended from FY 2017 through FY 2022.

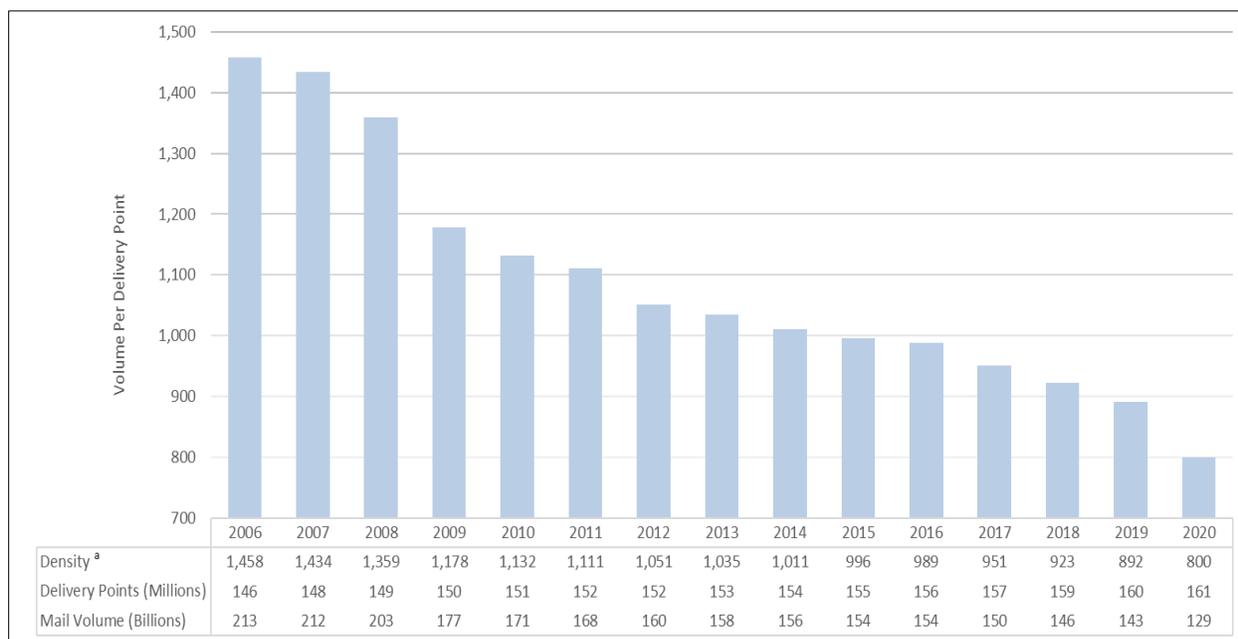
4. Delivery Points

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 2020 in Library Reference USPS-FY20-33 and in the *FY 2020 Annual Report*.⁴¹⁵ The total number of delivery points in FY 2020 was 161,374,152, an increase of 1,472,840 from FY 2019. *FY 2020 Annual Report* at 26. Figure V-33 shows the volume per delivery point between FY 2006 and FY 2020.

⁴¹⁴ Quarter 4 Post Office Suspension Report, Excel file "FY20_Q4_Suspensions_Update.xlsx."

⁴¹⁵ Library Reference USPS-FY20-33, Excel file "Delivery Points FY2020.xlsx;" *FY 2020 Annual Report* at 26.

Figure V-33
Volume per Delivery Point, FY 2006–FY 2020



^a Density is the Market Dominant and Competitive volumes divided by the number of delivery points.

Source: FY 2019 ACD at 145; Commission Calculation Based on *FY 2020 Annual Report* at 24, 26.

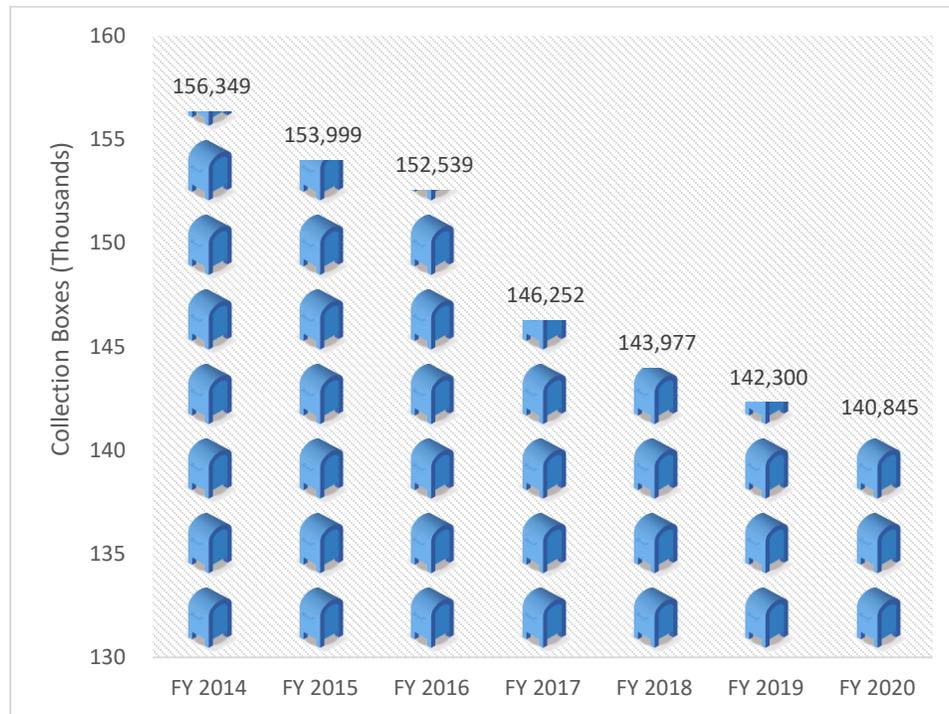
For the period FY 2006 through FY 2020, volume per delivery point was at its highest level of 1,458 mailpieces per delivery point in FY 2006. Volume per delivery point declined to 800 in FY 2020, a 45 percent decrease since FY 2006.

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 2020 in Library Reference USPS-FY20-33.⁴¹⁶ Nationally, there were 140,845 collection boxes at the end of FY 2020, 1,455 fewer than in FY 2019. *Id.* cells C12 and G12. Figure V-34 shows historical data on the number of collection boxes between FY 2014 and FY 2020.

⁴¹⁶ Library Reference USPS-FY20-33, Excel file "CollectionBoxesFY2020.xlsx."

Figure V-34
Number of Collection Boxes
FY 2014 through FY 2020



In a CHIR response, the Postal Service describes the process for determining which collection boxes to remove each year. It explains that it follows procedures specified in the Postal Operations Manual (POM) by conducting an annual density test and review of the daily volumes received over a continuous two week period, as well as relocating or removing collection boxes with density less than the required 25 pieces per day.⁴¹⁷ It notes that the area manager must authorize all collection box removals. Response to CHIR No. 9, question 12.b.; POM § 313.33. The Postal Service states that it will continue to follow procedures specified in the POM when removing collection boxes in FY 2021 and future years. Response to CHIR No. 9, question 15.

The Public Representative comments that the number of collection boxes decreased by 1.18 percent in FY 2019 and 1.02 percent in FY 2020. PR Comments at 50. He assumes that the Postal Service has continued conducting annual density testing of collection boxes as the Commission directed in the FY 2019 ACD to ensure that the network is both cost-effective and meeting the needs of customers now and in the future. *Id.* He maintains that while access to collection boxes remains an important aspect of consumer access, the 1.02

⁴¹⁷ Response to CHIR No. 9, question 12.a., 12.b.; United States Postal Service, Postal Operations Manual §§ 314.3, 315.3, July 2002 (updated with revisions through July 31, 2020), available at [https://homes.cs.washington.edu/~thx/USPS_Postal_Operations_Manual_\(POM\)_2020.pdf](https://homes.cs.washington.edu/~thx/USPS_Postal_Operations_Manual_(POM)_2020.pdf) (POM). The POM sets forth the Postal Service's policies, regulations, and procedures governing retail, philatelic, collection, mail processing, transportation, delivery, and vehicle operations. POM Cover Letter.

percent decline in the number of collection boxes between FY 2019 and FY 2020 is minor. *Id.* He concludes that the Commission will mitigate potential concerns about the decline in the number of collection boxes by continuing to monitor them as part of the ACR review. *Id.* at 50-51.

The Commission will continue to monitor the number of collection boxes in Docket No. ACR2021. The Commission recommends that the Postal Service continue conducting annual density testing of collection boxes in FY 2021 to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission also recommends that the Postal Service describe in the FY 2021 ACR any plans or initiatives to remove collection boxes beyond the procedures specified in the POM.

6. Wait Time in Line

The Postal Service must report the average customer wait time in line for retail service at the beginning of the fiscal year and at 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 2020 in Library Reference USPS-FY20-33.⁴¹⁸ The national average wait time in line increased from 2 minutes 8 seconds in FY 2019 to 2 minutes 26 seconds in FY 2020. FY 2020 ACR at 61. Table V-15 shows the quarterly national average customer wait time in line for FYs 2016 through 2020.

Table V-15
National Average Wait Time in Line (in Minutes)
by Quarter, FY 2016–FY 2020

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Quarter 1	3:12	2:30	2:18	2:25	1:57
Quarter 2	3:26	2:39	2:28	2:34	2:06
Quarter 3	2:45	2:34	2:04	1:54	2:59
Quarter 4	2:17	2:28	1:53	1:39	3:05

Source: Library Reference USPS-FY20-33, Excel file "WaitTimeInLine FY2020.xlsx," tab "Qtr Avg Wait Time National FY20;" FY 2019 ACD at 146.

Table V-15 shows that in FY 2020, the national average wait time in line was approximately 2 minutes during Quarters 1 and 2, but increased during Quarters 3 and 4 to approximately 3 minutes. This figure also shows that in FY 2020, wait time in line for Quarters 1 and 2 were shorter compared to past years. However, wait time in line during Quarters 3 and 4 were longer compared to past years.

The Public Representative comments that wait time in line nationally and for all postal areas increased between FY 2019 and FY 2020. PR Comments at 51. He points out that between FY 2019 and FY 2020, wait time in line increased by 18 seconds nationally and

⁴¹⁸ Library Reference USPS-FY20-33, Excel file "WaitTimeInLine FY2020.xlsx."

substantially more in the Capital Metro, Pacific, and Southern areas compared to other postal areas. *Id.* at 52. He states that the increased wait time in line was most likely due to the pandemic, which he assumes will continue to increase wait time in line during FY 2021. *Id.* He comments that the Postal Service does not address the increased wait time in line in the FY 2020 ACR and notes that the Postal Service did not provide any plans or timelines to either improve wait time in line or mitigate increases if the pandemic continues. *Id.*

The Public Representative concludes that wait time in line is an important aspect of consumer access and recommends that the Commission require the Postal Service to develop and file a plan with the Commission that describes how the Postal Service will mitigate the increased wait time in line during the pandemic. *Id.* He recommends that this plan describe steps and resources the Postal Service considers necessary to return wait time in line to pre-pandemic levels. *Id.*

The Postal Service explains that national and quarterly wait time in line increased between FY 2019 and FY 2020 largely due to unforeseen circumstances resulting from the pandemic, which caused longer than expected lines in lobbies “due to social distancing and significantly reduced employee availability.” Response to CHIR No. 1, question 9. It states that main drivers for increased wait time in line during FY 2020 were social distancing, increased volumes, and employee availability. Response to CHIR No. 13, question 3; Postal Service Reply Comments at 15. To mitigate increased wait time in line during the pandemic, the Postal Service notes it will continue to leverage employees from other locations to ensure employee availability, fill hiring vacancies, and use alternative access channels and technology. *Id.*

Reduced employee availability and increased volumes are reasonable explanations for the increased wait time in line between FY 2019 and FY 2020. However, it is unclear how social distancing requirements would impact wait time in line. Although lines would be longer, the number of people waiting in those lines would not increase and thus not impact wait time.

The Commission encourages the Postal Service to continue to ensure employee availability, fill hiring vacancies, and take other actions to mitigate increased wait time in line during the pandemic. In the FY 2021 ACR, the Commission recommends that the Postal Service describe actions taken during FY 2021 to mitigate wait time in line during the pandemic. If wait time in line worsens during FY 2021, the FY 2021 ACR should explain why and describe plans for improving wait time in line during FY 2022 and future years.

7. Alternative Access

In addition to providing products and services at retail facilities, the Postal Service continues to provide consumer access through alternative access channels. The Commission previously recommended that the Postal Service continue to expand alternative access channels to ensure customers have ready access to essential postal services.⁴¹⁹ The Postal Service provides a table containing information on retail revenue by channel for FY 2020 in a CHIR response.⁴²⁰ The Postal Service also provides information on the number of transactions, as well as a more detailed breakdown of revenue for some of these channels, where the information was available, in a CHIR response. *Id.* question 1. The major retail revenue channels are:

- Post Offices
- CPUs
- Click-N-Ship
- Stamp Sales by Partners⁴²¹
- SSKs
- Stamps by Mail/Phone/Fax

Figure V-35 compares retail revenue by channel from FY 2017 through FY 2020. Figure V-35 groups these retail revenue channels into three groups:

- Post Offices (walk-in revenue from post offices and CPUs)
- Internet Access (Click-N-Ship)
- Other⁴²² (including Stamp Sales by Partners, SSKs, and Stamps by Mail/Phone/Fax)

⁴¹⁹ Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 37.

⁴²⁰ Response to CHIR No. 1, question 2. The Retail Revenue by Channel table provided in this CHIR response was initially included in the Postal Service's *FY 2010 Comprehensive Statement on Postal Operations*. See Docket No. ACR2010, Library Reference USPS-FY10-17, December 29, 2010, at 24. This table does not include all Postal Service revenue, which also consists of revenue from commercial channels such as bulk mail entered through the permit process and channels used by small businesses such as PC Postage. See Responses of the United States Postal Service to Questions 1 of Chairman's Information Request No. 19, February 23, 2021, question 1.g. (Response to CHIR No. 19).

⁴²¹ This channel consists of Stamps to Go, which allows private retail stores to sell stamps to the public at the same price as the Postal Service. *Id.* question 1.e. The Stamp Sales by Partners channel does not include online sales. *Id.*

⁴²² The "Other" group also includes revenue generated by Online Other Services, Philatelic Mail Order/Catalog Sales, Stamped Envelope Sales, PC Postage Approved Shipper, and Forever Stamp Sales Alternate Access. *Id.* question 1.d.

Figure V-35
Retail Revenue, by Channel, FY 2017–FY 2020



Source: Response to CHIR No. 1 question 2; Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-7 of Chairman’s Information Request No. 1, January 16, 2020, question 2; Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman’s Information Request No. No. 1, January 11, 2019, question 7; Docket No. ACR2017, Responses of the United States Postal Service to Question 3 of Chairman’s Information Request No. 17, February 20, 2018, question 3.

Figure V-35 shows that in FY 2020, approximately 20 percent of retail revenue came from alternative access channels other than post offices. Revenue for the SSKs, Stamps by Mail/Phone/Fax, and Click-N-Ship channels increased by \$150 million, or approximately 19 percent, in FY 2020. By comparison, retail revenue overall from other channels increased by approximately 2 percent. The SSKs, Stamps by Mail/Phone/Fax, and Click-N-Ship channels provide alternative access to postal services with limited interpersonal contact.

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 customer experience generally using surveys. The ACR must include a copy of each type of customer survey and information obtained from each survey. 39 C.F.R. § 3055.92. 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. *Id.* The Postal Service provided the surveys and other customer satisfaction information in the FY 2020 ACR and Library Reference USPS-FY20-38.⁴²³

In FY 2020, the Postal Service measured customer experience using eight surveys: Business Service Network, Point of Sale, Delivery, Customer Care Center, Customer 360, Large Business, Business Mail Entry Unit, and USPS.com.⁴²⁴ Each survey measures a customer touchpoint or interaction between the customer and the Postal Service. For example, the Point of Sale survey measures customer experience at retail facilities with Point of Sale systems. Library Reference USPS-FY20-38, Preface at 3. The customer surveys, FY 2020 targets and results, and related issues will be discussed in detail in the Commission's forthcoming *Analysis of the FY 2020 Annual Performance Report and FY 2021 Annual Performance Plan*.

To measure customer satisfaction with Market Dominant products, the Postal Service uses data from the Delivery and Large Business surveys for three types of customers: residential, small/medium business, and large business. FY 2020 ACR at 54. The Delivery survey measures customer satisfaction of residential and small/medium business customers with sending and receiving mail and packages. Library Reference USPS-FY20-38, Preface at 3; CX Surveys at 29, 31. In FY 2020, residential and small/medium business customers were randomly selected, contacted by mail, and given the option of completing the Delivery survey by phone or online. FY 2020 ACR at 54. The Large Business survey measures customer satisfaction of large businesses with 500 or more employees. FY 2020 ACR at 54; CX Surveys at 51-72. A panel of large business customers completed the survey monthly in FY 2020. Library Reference USPS-FY20-38, Preface at 5. In this section, the Delivery and Large Business surveys are together referred to as the Customer Satisfaction surveys.

⁴²³ FY 2020 ACR 40-60; Library Reference USPS-FY20-38, December 29, 2020, folder "USPS-FY20-38" file "CX_Surveys_FY20.docx" (CX Surveys).

⁴²⁴ Library Reference USPS-FY20-38, PDF file "USPS-FY20-38 Preface.pdf," at 1-2 (Preface).

The Customer Satisfaction surveys measure customer satisfaction with Market Dominant products for residential, small/medium business, and large business customers by asking about their satisfaction with a number of mailing services, such as First-Class Mail and Media Mail.⁴²⁵ Customers were asked to rate their level of satisfaction with each mailing service using a six-point scale ranging from Very Satisfied to Very Dissatisfied. CX Surveys at 29-31, 66-69. The customer satisfaction result for each mailing service is expressed as the percentage of customers who selected Very Satisfied or Mostly Satisfied. FY 2020 ACR at 55-56.

2. Changes to Customer Satisfaction Surveys

The Postal Service states that it updated the Customer Satisfaction surveys in FY 2020 to more accurately measure customer satisfaction with Market Dominant products. FY 2020 ACR at 55. These updates include having two separate questions asking about customer satisfaction with domestic and international mailing services. *Id.* By contrast, the FY 2019 Customer Satisfaction surveys had one question asking customers about both domestic and international mailing services.⁴²⁶ The FY 2020 Customer Satisfaction surveys also measure customer satisfaction with more domestic and international mailing services compared to FY 2019. Figure V-36 compares the mailing services listed on the FY 2019 and FY 2020 Customer Satisfaction surveys.

⁴²⁵ The Customer Satisfaction surveys refer to classes and products as mailing services. Although they also ask about customer satisfaction with Competitive products such as Priority Mail and USPS Retail Ground, the ACR is required to include “measures of the quality of service afforded by the Postal Service” for each Market Dominant product, including “the degree of customer satisfaction with the service provided.” 39 U.S.C. § 3652(a)(2)(B)(ii). For this reason, the ACD analyzes customer satisfaction with Market Dominant products.

⁴²⁶ Docket No. ACR2019, Library Reference USPS-FY19-38, December 27, 2019, folder “USPS.FY19.38.Survey.Files,” folder “Preface” file “CX_Surveys_FY19.docx,” at 29, 58.

**Figure V-36
Comparison of Mailing Services
FY 2019 and FY 2020 Customer Satisfaction Surveys**

		 Included in survey  Excluded from survey	FY 2019 Survey	FY 2020 Survey
Market Dominant Products and Mailing Services	First-Class Mail			
	USPS Marketing Mail			 ^a
	Periodicals			 ^a
	Media Mail			
	Library Mail			
	Bound Printed Matter		 ^a	 ^a
Competitive Products	First-Class Mail Package Service			 ^c
	USPS Retail Ground			 ^c
	Parcel Select			 ^b
	Parcel Return Service			 ^a
	Priority Mail			
	Priority Mail Express			
International Mail Products and Mailing Services	First-Class Mail International			
	First-Class Mail International Package Service		 ^d	
	Priority Mail International			
	Priority Mail Express International			
	Global Express Guaranteed			
	Military and Diplomatic Mail			 ^c

^a Small/Medium Business and Large Business customers were asked this question.

^b Large Business customers were asked this question.

^c Residential and Small/Medium Business customers were asked this question.

^d The FY 2019 Customer Satisfaction surveys had one question asking about First-Class Mail International letters, postcards, and packages.

Source: See CX Surveys; Docket No. ACR2019, Library Reference USPS-FY19-38, folder "USPS.FY19.38.Survey.Files," folder "Preface," file "CX_Surveys_FY19.docx."

Figure V-36 shows that the FY 2020 Customer Satisfaction surveys added questions about customer satisfaction with First-Class Mail Package Service, Parcel Select, Parcel Return Service, Priority Mail International, Priority Mail Express International, Global Express Guaranteed, and Military and Diplomatic Mail. They also distinguish between First-Class Mail International and First-Class Mail International Package Service, which were combined into one mailing service in the FY 2019 Customer Satisfaction surveys. See FY 2020 ACR at 55. However, the FY 2020 Customer Satisfaction surveys no longer ask residential customers to rate their satisfaction with USPS Marketing Mail and Periodicals "because these products are typically sent by business customers[.]" *Id.* Also, FY 2020 customer satisfaction results are not comparable to past years because of the changes made to the Customer Satisfaction surveys. *Id.*

In the FY 2019 ACD, the Commission recommended that the Customer Satisfaction surveys measure customer satisfaction with service performance for each Market Dominant mailing service to correlate service performance factors to specific mailing services. FY 2019 ACD at 153. The FY 2020 Customer Satisfaction surveys include general questions related to service performance. Response to CHIR No. 13, question 5.a. Large Business customers were asked to rate their level of satisfaction with the Postal Service's

performance on speed of delivery, reliability, tracking and scanning information, and other factors related to the Postal Service's performance.⁴²⁷ Residential and small/medium business customers were asked about their experience with mail and packages they recently received. *Id.* They were also asked to evaluate whether mail is delivered in good condition and to the correct address, as well as whether packages are delivered in good condition to the correct address and received by the expected date. *Id.*

CHIR No. 13 asked the Postal Service to explain whether and how it asks follow-up questions to the Customer Satisfaction survey questions related to service performance. CHIR No. 13, question 5. The Postal Service responds that it asks follow-up questions for Large Business customers only if they indicate that they use a Postal Service competitor. Response to CHIR No. 13, question 5.c. It explains that the follow-up questions ask Large Business customers to rate their level of satisfaction with the competitor's performance using the same factors described above. *Id.* The Postal Service notes that Large Business customers may also provide open-text feedback in response to a question asking customers to share information about their experiences with the Postal Service. *Id.* The Postal Service explains that the Customer Satisfaction surveys do not ask follow-up questions for residential and small/medium business customers because they can provide open-text feedback when responding to a question asking about their overall satisfaction with receiving mail or packages delivered by the Postal Service. *Id.*

3. Comments

The Public Representative comments that the new Customer Satisfaction survey questions will improve customer service.⁴²⁸ However, he maintains that the Postal Service should have continued to ask residential customers about their satisfaction with USPS Marketing Mail and Periodicals to evaluate their satisfaction with receiving these mailing services. *Id.* at 57. He states that although Periodicals are sent by small/medium and large business customers, feedback from residential customers would help determine whether Periodicals were delivered late or inconsistently. *Id.* He notes that if the Postal Service retained these questions for residential customers, the Postal Service could have made meaningful comparisons of customer satisfaction across years. *Id.* He recommends that the Commission ask the Postal Service to reintroduce these questions for residential customers. *Id.*

The Public Representative observes that FY 2020 customer satisfaction results are not comparable to results from past years because of the changes made to the surveys. *Id.* He concludes that customer satisfaction is at a reasonable level and recommends that the

⁴²⁷ These factors also include service offerings, building customer relationships, product pricing, ease of contacting a representative, payment options, responsiveness of representative, product offerings, delivery of packages on expected date, issue/claim resolution, and end-to-end service. *Id.*

⁴²⁸ PR Comments at 57. The Public Representative also comments on FY 2020 targets and results for the other customer surveys. *Id.* at 52-56. The Commission will discuss the other customer surveys and customer experience generally in its forthcoming *Analysis of the FY 2020 Annual Performance Report and FY 2021 Annual Performance Plan*.

Commission request the Postal Service to describe plans for improving customer satisfaction results. *Id.* at 58.

In its reply comments, the Postal Service explains that the Customer Satisfaction surveys measure satisfaction of senders and not recipients. Postal Service Reply Comments at 16. It states that because residential customers cannot send USPS Marketing Mail and Periodicals, they are not asked about their level of satisfaction with these mailing services. *Id.* It confirms that customer satisfaction results for USPS Marketing Mail and Periodicals are not comparable to results from past years. *Id.*

4. Commission Analysis

For each customer type, Table V-16 displays customer satisfaction results for select Market Dominant mailing services for FY 2020.

Table V-16
FY 2020 Customer Satisfaction with
Market Dominant Mailing Services, by Percentage

Market Dominant Products (Mailing Services)	Residential Customers	Small/Medium Business Customers	Large Business Customers
First-Class Mail	91.44%	90.07%	83.09%
First-Class Mail International	85.30%	82.05%	88.75%
USPS Marketing Mail	N/A ^a	80.22%	80.71%
Periodicals	N/A ^a	87.24%	79.43%
Media Mail	86.60%	85.59%	78.97%
Library Mail	81.62%	82.53%	80.29%

Results are expressed as the percentage of customers who were Very Satisfied or Mostly Satisfied with a category.

^a Residential customers were not asked about their satisfaction with this mailing service.

Source: FY 2020 ACR at 57.

The Postal Service explains that FY 2020 customer satisfaction results are not comparable to results from prior years because of the changes it made to the Customer Satisfaction surveys. FY 2020 ACR at 55. Based on FY 2020 results, customer satisfaction with Market Dominant mailing services appears reasonable. Table V-16 shows that for residential and small/medium business customers, satisfaction was highest for First-Class Mail and lowest for Library Mail (residential customers) and USPS Marketing Mail (small/medium business customers). For large business customers, satisfaction was highest for First-Class Mail International and lowest for Media Mail.

In the FY 2021 ACD, the Commission will compare FY 2020 and FY 2021 results to evaluate the Postal Service's progress in improving customer satisfaction with Market Dominant mailing services, if the Postal Service conducts surveys that allow for comparison.

The Public Representative comments that the FY 2020 Customer Satisfaction surveys should have continued to ask residential customers about their satisfaction with USPS Marketing Mail and Periodicals to evaluate their satisfaction with receiving them. PR Comments at 57. In its reply comments, the Postal Service explains that the questions in the Customer Satisfaction surveys that are specific to products are used to measure sender customer satisfaction, and residential customers do not send USPS Marketing Mail and Periodicals. Postal Service Reply Comments at 18. The Postal Service chose to remove these products from the residential portion of its survey to be clearer that it measures satisfaction for these products from the perspective of the sender, not the recipient. Also, the survey contains a separate question, which asks residential customers about their experience with mail or packages they recently received, which include USPS Marketing Mail and Periodicals, and thus should mitigate the Public Representative's concern. *See CX Surveys at 26-28.*

In the FY 2019 ACD, the Commission recommended that the Customer Satisfaction surveys "link the service performance questions to specific Market Dominant mailing services to correlate service performance factors to specific mailing services." FY 2019 ACD at 153. The Postal Service asks general questions related to service performance, but does not link service performance questions to specific mailing services because the service performance questions "are designed to understand the overall satisfaction of the Postal Service's products and services, not to correlate satisfaction with service performance." Response to CHIR No. 13, question 5.b. Asking customers about their level of satisfaction with service performance for each mailing service would provide further insight into whether customers are satisfied with the speed of delivery and whether mail arrived on time or by the expected date. For example, customer satisfaction questions could ask customers "what is your satisfaction with service performance for" each mailing service.

The Commission recommends that the FY 2021 Customer Satisfaction surveys continue to ask general questions related to service performance. The Commission also recommends that the Postal Service consider asking about service performance for each mailing service to provide further insight into customer satisfaction with specific mailing services and to allow the Postal Service to assess how service performance results affect customer satisfaction with those mailing services.

In a CHIR response, the Postal Service explains that it asks follow-up questions for Large Business customers if the customer indicates that it uses a Postal Service competitor, but does not ask follow-up questions for residential and small/medium business customers. *Id.* question 5.c. Follow-up questions help facilitate customer engagement and encourage more targeted feedback from customers for specific products and services.

The Commission recommends that the Postal Service continue to ask follow-up questions for Large Business customers and consider asking follow-up questions for residential and small/medium business customers.

The Commission finds that on balance, the FY 2020 changes to the Customer Satisfaction surveys are improvements that will help the Postal Service better evaluate customer satisfaction with Market Dominant mailing services, which the Commission will continue to monitor closely in FY 2021. The Postal Service should continue to take appropriate actions to improve customer satisfaction with Market Dominant mailing services for each customer type (residential, small/medium business, and large business).

In the FY 2021 ACR, the Postal Service must describe actions taken in FY 2021 to improve customer satisfaction with Market Dominant mailing services for each customer type and explain how these actions impacted FY 2021 results. If customer satisfaction with Market Dominant mailing services declines between FY 2020 and FY 2021, the FY 2021 ACR must explain why.

CHAPTER VI. FLATS COST AND SERVICE ISSUES

A. Introduction

The Postal Service continues to face significant challenges in profitably processing and delivering flat-shaped mailpieces (flats or flat-shaped mail products). These challenges have led to continuous and persistent increases in costs, with four out of eight flat-shaped mail products not covering costs in FY 2020. These trends have persisted despite numerous operational initiatives that the Postal Service has touted as cost reduction efforts. In addition, no flat-shaped mail product met its service performance target in FY 2020. In FY 2019, the Commission finalized rules to provide additional information to improve transparency into the cost and service performance issues, as well as increase the accountability of the Postal Service related to flats operational initiatives.⁴²⁹ The Commission is appreciative of the meaningful and voluminous response of the Postal Service. While the ACR review is time-limited by statute, the Commission will continue to analyze the data provided.

The Commission's review of flats cost and service issues in this docket focuses on three areas: (1) flats financial performance, (2) flats service performance, and (3) pinch points⁴³⁰ that impact flats operational performance. In addition, current and future Postal Service initiatives designed to reduce flats costs, improve flats service performance, and/or improve flats operations are discussed throughout this Chapter.

The Commission makes several recommendations to the Postal Service to develop specific plans and goals to improve both cost and service issues for flats in FY 2021.

B. FY 2020 Flats Contribution, Costs, and Volume

In FY 2020, the unit attributable costs for flat-shaped mail products continued to increase faster than unit revenues. At the same time, volume has declined and the mail mix has trended towards more workshared mail. In this section, the Commission reviews the contribution and volume of flat-shaped mail products, changes in unit attributable costs, and the Postal Service's efforts to reduce costs through operational initiatives and changes.

⁴²⁹ Docket No. RM2018-1, Notice of Proposed Rulemaking for Reporting Requirements Related to Flats, March 1, 2019, at 7 (Order No. 5004); Order No. 5086 at 2-3.

⁴³⁰ In the FY 2015 ACD, the Commission identified and analyzed six "pinch points" that contributed to cost and service issues for flats: (1) bundle processing, (2) low productivity on automated equipment, (3) manual sorting, (4) productivity and service issues in allied operations, (5) increased transportation time and cost, and (6) last mile/delivery. FY 2015 ACD at 165.

1. Contribution and Volume

In FY 2020, the Postal Service had eight flat-shaped mail products. Table VI-1 shows the total contribution and volume of these eight products. Only four of these eight products covered their costs. As a whole, in FY 2020, flats had a contribution of -\$1.081 billion. This is the third consecutive year that the combined flats contribution has been negative. See Figure VI-1.

Table VI-1
FY 2020 Flats Contribution⁴³¹ (Millions)

Product	Volume	Contribution
First-Class Mail Flats	1,205	\$4
USPS Marketing Mail High Density and Saturation Flats and Parcels	10,427	\$430
USPS Marketing Mail Carrier Route	5,048	-\$54
USPS Marketing Mail Flats	3,199	-\$780
USPS Marketing Mail Every Door Direct Mail Retail	530	\$61
In-County Periodicals	469	-\$49
Outside County Periodicals	3,537	-\$725
Package Services Bound Printed Matter Flats	211	\$33
Totals FY 2020	24,625	-\$1,081

Source: Library Reference PRC-LR-ACR2020-9.

Figure VI-1 shows the total contribution of flat-shaped mail products, and groups flat-shaped mail products each year by whether they were compensatory or non-compensatory.⁴³² Since FY 2015, the Commission has worked to identify available data to develop metrics to measure, track, and report the cost and service performance issues for flats. The majority of the non-compensatory losses from flats are due to the negative contribution of USPS Marketing Mail Flats and Outside County Periodicals. FY 2020 was the second consecutive year that the USPS Marketing Mail Carrier Route product failed to cover its cost and had a negative contribution.

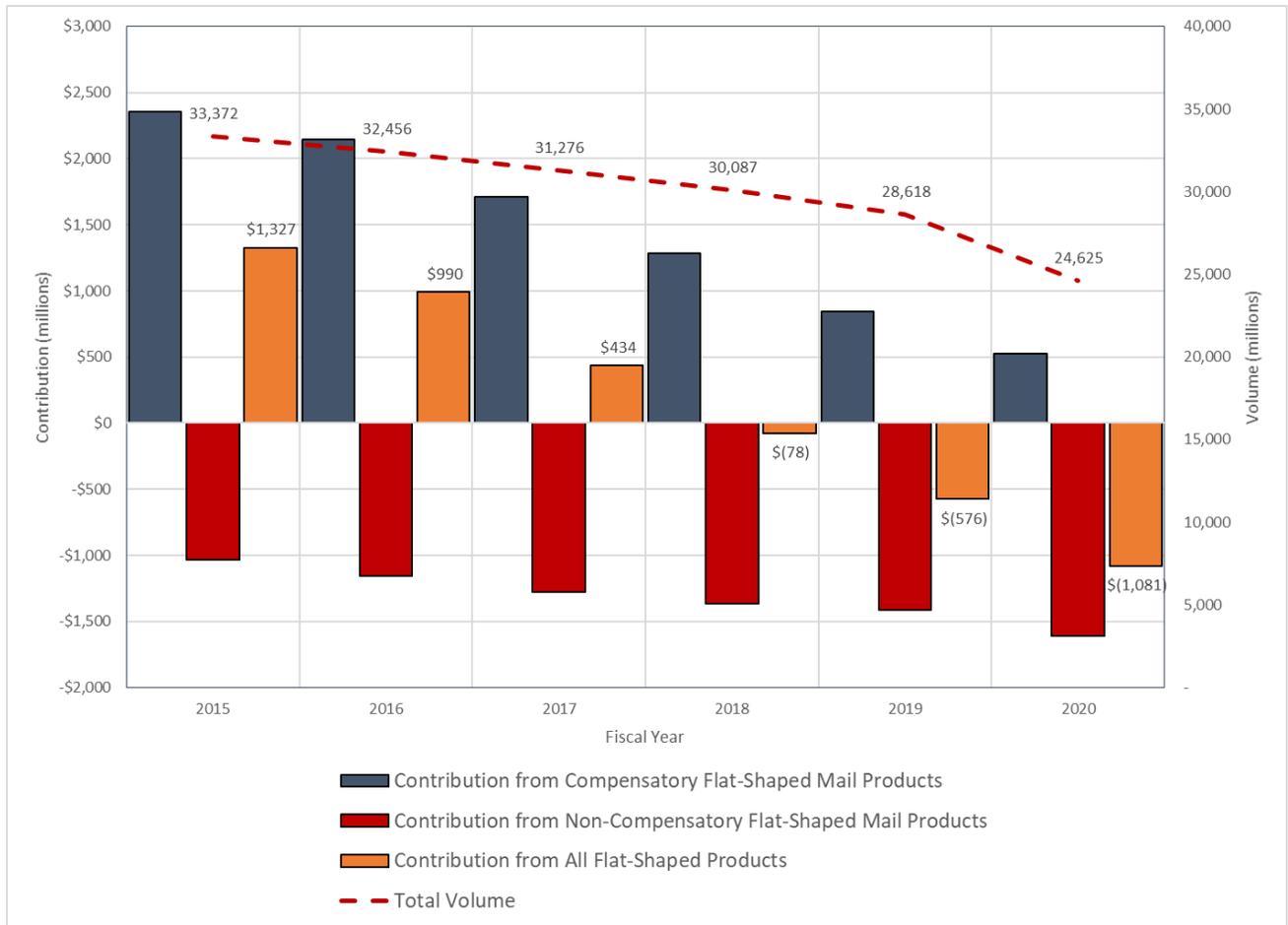
In FY 2020, the First-Class Mail Flats product barely covered its cost and had a negligible contribution.⁴³³ First-Class Mail Flats had a contribution of \$804 million in FY 2015 and has steadily decreased to \$4 million in FY 2020.

⁴³¹ This table reports product-level data, therefore non-product inframarginal costs are not included in contribution calculations. See Library Reference PRC-LR-ACR2020-1 for non-product inframarginal costs.

⁴³² This figure reports product-level data, therefore non-product inframarginal costs are not included in contribution calculations. See Library Reference PRC-LR-ACR2020-1 for non-product inframarginal costs.

⁴³³ First-Class Mail Flats became a product in FY 2007 when the PAEA was implemented. The contribution from this product in FY 2020 is the smallest since the product was created in FY 2007.

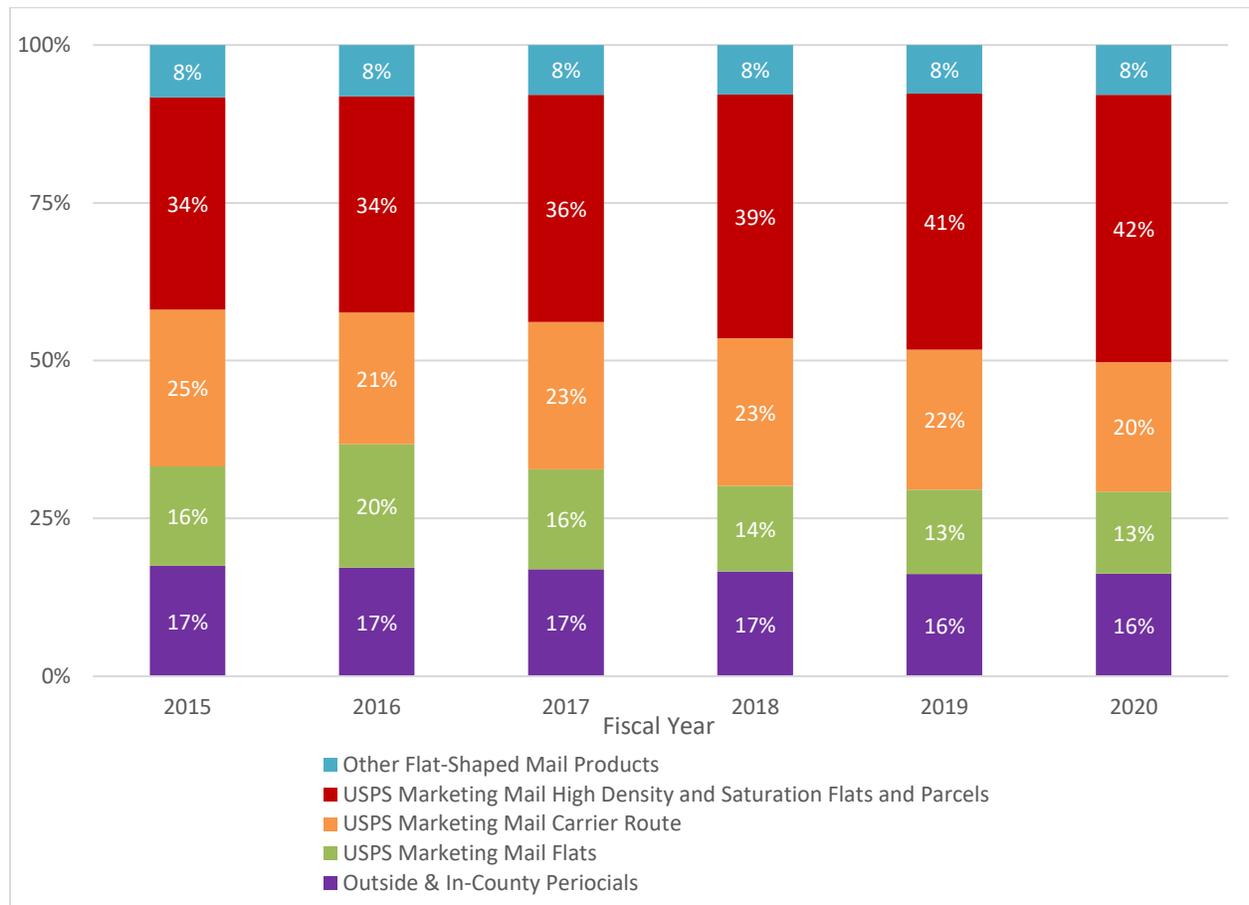
**Figure VI-1
Flats Contribution and Volume, FY 2015–FY 2020**



Source: Library Reference PRC-LR-ACR2020-9.

As shown in Figure VI-1, flats volume has steadily declined since FY 2015. At the same time, contribution from all flats products has steadily decreased since FY 2015. FY 2020 was the third consecutive year that all flats products had a combined negative contribution. The negative contribution is increasing at a rapid rate, from negative \$78 million in FY 2018 to negative \$1.081 billion in FY 2020.

**Figure VI-2
Flats Volume Distribution,⁴³⁴ FY 2015–FY 2020**



Source: Library Reference PRC-LR-ACR2020-9.

Figure VI-2 also shows that, in FY 2020, four non-compensatory products: (1) Outside County Periodicals (-20.5 cents contribution per piece), (2) In-County Periodicals (-10.4 cents contribution per piece), (3) USPS Marketing Mail Flats (-24.4 cents contribution per piece), and (4) USPS Marketing Mail Carrier Route (-1.1 cents contribution per piece), represent 50 percent of all flat-shaped mail product volumes. The negative contribution from these non-compensatory flat-shaped mail products outweighs the positive contribution from the compensatory flat-shaped mail products. USPS Marketing Mail High Density and Saturation Flats and Parcels represent the largest share of the volume and has been a steadily increasing portion every year.

⁴³⁴ Percentages in figure may not add to 100 percent due to rounding. See Library Reference PRC-LR-ACR2020-9 for unrounded numbers.

2. Unit Attributable Costs

As required by the Commission's rules, and shown in Table VI-2, the Postal Service provided a financial analysis that identifies flat-shaped mail products that have attributable costs that are increasing faster than the average unit attributable cost, which in FY 2020 increased 4.7 percent.⁴³⁵ In FY 2020, the Postal Service identified seven flat-shaped mail products that had a percentage change in unit attributable cost that was greater than average: (1) First-Class Mail Flats, (2) USPS Marketing Mail High Density and Saturation Flats and Parcels, (3) USPS Marketing Mail Carrier Route, (4) USPS Marketing Mail Flats, (5) In-County Periodicals, (6) Outside County Periodicals, and (7) Package Services Bound Printed Matter (BPM) Flats. Table VI-2 shows the change in unit attributable cost for each flat-shaped mail product from FY 2019 to FY 2020, and highlights the seven products that had cost increases above average. Of the eight flat-shaped mail products, five products had a percent change that was at least double that of the average percent change in unit attributable cost for all mail.

Table VI-2
Flats Unit Attributable Cost, FY 2019–FY 2020

Product	FY 2019 Unit Attributable Cost	FY 2020 Unit Attributable Cost	Percent Change
First-Class Mail Flats	\$1.170	\$1.282	9.6%
USPS Marketing Mail High Density and Saturation Flats and Parcels	\$0.129	\$0.138	6.7%
USPS Marketing Mail Carrier Route	\$0.263	\$0.276	5.0%
USPS Marketing Mail Flats	\$0.604	\$0.664	9.9%
USPS Marketing Mail Every Door Direct Mail—Retail	\$0.071	\$0.072	2.0%
In-County Periodicals	\$0.193	\$0.213	10.2%
Outside County Periodicals	\$0.428	\$0.480	12.3%
Package Services Bound Printed Matter Flats	\$0.522	\$0.607	16.3%
Total Market Dominant Mail	\$0.201	\$0.211	4.7%

Source: Library Reference PRC-LR-ACR2020-9.

For each product where unit attributable costs increased faster than average, the Postal Service provided a short narrative describing the drivers of the change.⁴³⁶ The Postal Service attributes the cost increases in each product to increases in mail processing, transportation, and delivery costs. *See id.*

⁴³⁵ The Commission's rules establish the average change in unit Market Dominant attributable costs as the benchmark for flats cost increases. *See* 39 C.F.R. § 3050.50(b)(4).

⁴³⁶ *See* Library Reference USPS-FY20-45, folder "Paragraph (b) --Financial Report," PDF file "Part B Narratives.pdf."

The Postal Service did not develop specific plans to reduce these unit costs in FY 2020, and cites generally to its efforts to reduce overall flat-shaped mail costs through operational initiatives and changes. *See id.*

3. Operational Initiatives

As required by the Commission's rules, the Postal Service identified several operational changes and initiatives that occurred during FY 2020, or will occur in FY 2021, related to flats.⁴³⁷ The Postal Service states that the COVID-19 pandemic "had a dramatic effect on Postal Service operations and service performance," but that it "tried to initiate and sustain strategies to reduce flats costs and improve service performance." FY 2020 Operational Initiatives Report at 1. However, the Postal Service states that it is not possible to "identify with certainty which initiatives contributed to a particular result nor to isolate the effects of each initiative." *Id.* at 2. Because the Postal Service did not provide specific goals related to these initiatives, the Commission discusses the initiatives generally in this section, and throughout the remainder of this Chapter when they are relevant.

There were approximately 14 changes and/or initiatives that the Postal Service claims had an impact on flats costs and/or service in FY 2020 or have the potential to do so in FY 2021. *See generally id.* The operational initiatives and/or changes include the development of a delivery point sequence (DPS)/FSS Analysis Tool, the development of Standard Work Instructions for specific activities, Automated Flats Sorting Machine 100 (AFSM) changes, and current initiatives to improve labeling lists, bundle visibility, and other changes. *Id.* at 2-10.

In addition to operational initiatives, in FY 2019, the Postal Service created a headquarters cross-functional team. *Id.* at 2. This team was tasked with implementing cost saving measures around flats processing and improving service performance. *Id.* In FY 2020, the team worked together with members of the flats mailing industry to identify potential initiatives to reduce costs and improve service. *Id.*

4. Commission Analysis

The volume and total contribution of flat-shaped mail products have continuously declined since FY 2015. The Postal Service must develop a plan to use available resources to reduce costs to improve the financial performance of these products. The Commission is specifically concerned that the Postal Service is spending its efforts and resources on initiatives without the ability to measure the impact of the initiatives on costs. The initiatives identified by the Postal Service for FY 2020 and FY 2021 should theoretically result in cost savings; however, the Postal Service continues to assert that it is impossible to determine their impact. The Postal Service should work to quantify the impact of these initiatives on costs in FY 2021 to ensure its efforts are productive.

⁴³⁷ See Library Reference USPS-FY20-45, folder "Paragraph (f) -- Operational Changes Report," PDF file "Paragraph (f) Report.pdf" (FY 2020 Operational Initiatives Report).

Despite the existence of the FY 2020 operational initiatives, and similar initiatives in previous years, unit costs continue to rise and no flat-shaped mail product is meeting its service performance target. As discussed above, the total flats contribution was -\$1.081 billion in FY 2020, and volume continues to decline. For the Postal Service to slow the volume declines, it must aggressively reduce costs to mitigate the need for future above-average price increases which might, in turn, drive away additional volume.

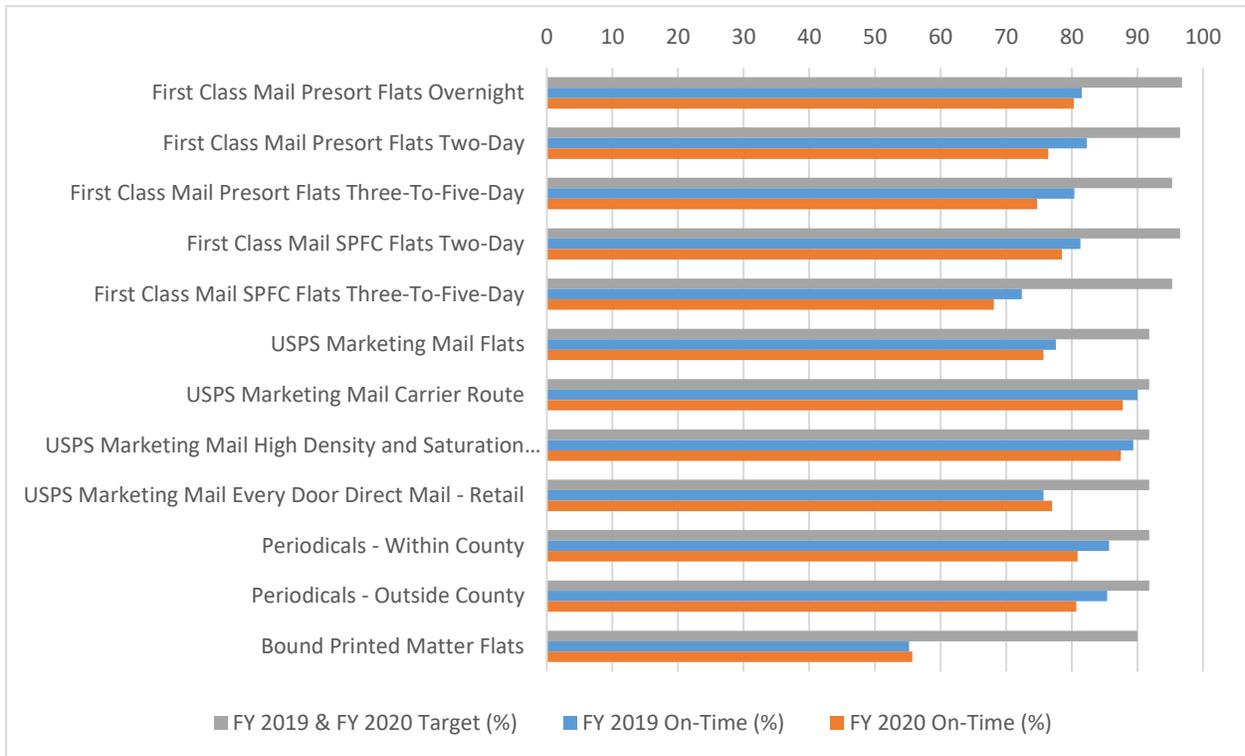
C. Service Performance

No flat-shaped mail product achieved its on-time performance target in FY 2020. As shown in Table VI-3, only two flat-shaped mail products improved on-time service performance from FY 2019 to FY 2020. However, these two products (USPS Marketing Mail Every Door Direct Mail—Retail and Bound Printed Matter Flats) had some of the lowest on-time performance in FY 2019 at 75.7 percent and 55.2 percent, respectively. All of the remaining flat-shaped mail products, which account for 97 percent of flats volume, experienced declines in on-time service performance from FY 2019 to FY 2020.

**Table VI-3
Flats Service Performance Results, FY 2019–FY 2020**

Product	FY 2019 On-Time (%)	FY 2020 On-Time (%)	FY 2019 – FY 2020 Difference	FY 2020 Target (%)
First-Class Mail Presort Flats Overnight	81.5	80.3	-1.2	96.8
First-Class Mail Presort Flats 2-Day	82.3	76.4	-5.9	96.5
First-Class Mail Presort Flats 3-5-Day	80.4	74.7	-5.7	95.3
First-Class Mail SPFC Flats 2-Day	81.3	78.5	-2.8	96.5
First-Class Mail SPFC Flats 3-5-Day	72.4	68.1	-4.3	95.3
USPS Marketing Mail Flats	77.6	75.7	-1.9	91.8
USPS Marketing Mail Carrier Route	90.0	87.8	-2.2	91.8
USPS Marketing Mail High Density and Saturation Flats/Parcels	89.4	87.5	-1.9	91.8
USPS Marketing Mail Every Door Direct Mail—Retail	75.7	77.0	1.3	91.8
In-County Periodicals	85.7	80.9	-4.8	91.8
Outside County Periodicals	85.4	80.7	-4.7	91.8
Bound Printed Matter Flats	55.2	55.7	0.5	90.0

**Figure VI-3
Flat-Shaped Mail Service Performance Results, FY 2019 and FY 2020**



Source: Library Reference PRC-LR-ACR2020-9.

The Postal Service has indicated that some operational initiatives will result in improved service; however, as discussed above, the Postal Service is unable to determine how its operational changes and/or initiatives will impact service.⁴³⁸ As discussed in Section V.A.4.c., the Commission has determined that the service performance results for both of the Periodicals products were not in compliance in FY 2020. *See* Chapter V. at 197. The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service performance for flat-shaped mail products, as detailed in Chapter V.

⁴³⁸ *See generally* FY 2020 Operational Initiatives Report; *see also* Library Reference USPS-FY20-45, folder “Paragraph (c) -- Service Performance Report,” subfolder “C2-C6 Timelines,” PDF file “C2-C6 Timelines FY20.pdf” (FY 2020 C2-C6 Timelines).

D. Pinch Points

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.

In Docket No. RM2018-1, the Commission developed specific reporting requirements related to each pinch point. *See* Order No. 5086. In this section, the Commission discusses trends in metrics related to each pinch point, and recommends areas where the Postal Service should focus its resources and/or provide additional reporting in future years.

1. Bundle Processing

In FY 2020, the Postal Service provided the data in Table VI-4 on Bundle Breakage Performance.⁴³⁹ These data show that the percent of broken bundles increased 0.23 percentage points to 5.72 percent, representing a slower rate of growth relative to last year’s 0.69percentage point increase.

**Table VI-4
Bundle Breakage**

FY	Total Bundles	Broken Bundles	% Broken
2018	460,468,758	22,081,833	4.80%
2019	423,461,111	23,211,989	5.48%
2020	357,469,115	20,432,791	5.72%

Source: Library Reference PRC-LR-ACR2020-9.

In response to a FY 2019 ACD Directive, under the rubric “Efforts to Reduce Bundle Breakage,” the Postal Service stated “[it] has focused its efforts on lowering the incidence of bundle breakage at the individual level.”⁴⁴⁰ Recognizing that bundle integrity may vary across different entry locations and/or based on the content of particular bundles, the

⁴³⁹ Library Reference PRC-LR-ACR2020-9, tab “Table 4 - Bundle Breakage.”

⁴⁴⁰ *See* Docket No. ACR2019, Response of the United States Postal Service to Commission Requests for Status Reports in the FY 2019 Annual Compliance Determination, July 15, 2020, at 3 (July 2020 Status Reports).

Postal Service designed the Mailer Irregularity Application to provide specific and actionable information on bundle breakage and other preparation and/or quality issues to mailers.⁴⁴¹ The Postal Service affirms that the Mailer Irregularity Application has been expanded to all Full-Service mailers via the Mailer Scorecard. Response to CHIR No. 5, question 19. This application was further updated to improve codes and descriptions to allow for improved clarity on irregularities. *See* FY 2020 Operational Initiative Report at 9. The Postal Service states that outreach to mailers, such as widespread deployment of the Mailer Irregularity Application, presents the greatest opportunity to reduce bundle breakage, and ultimately reduce flats costs and increase flats service performance. *See* July 2020 Status Reports at 4. The application will continue to be used in FY 2021 and should reduce the amount of poorly prepared pallets and bundles. *See* FY 2020 Operational Initiative Report at 9. While the Postal Service hopes that the Mailer Irregularity Application will encourage mailers to resolve irregularities, the Postal Service does not have “firm expectations of whether the number of irregularities might decrease in FY 2021.”⁴⁴²

Bundle breakage/processing is characteristically different between the two main non-compensatory flat products, Periodicals and USPS Marketing Mail flats, and by extension, their relative cost impact also varies. Table VI-5 shows FY 2020 bundle breakage by product and its cost impact, as estimated by the Postal Service.

Table VI-5
Bundle Breakage by Product and Cost Impact⁴⁴³

FY	Mail Class	Total Bundles	Broken Bundles	Percent Broken	Estimated Cost Impact per Broken Bundle (\$)	Estimated Cost Impact per piece in Broken Bundle (\$)	Total Cost Impact (\$)
2020	Periodicals	115,134,176	4,858,530	4.22%	2.808	0.166	13,644,873
2020	USPS Marketing Mail	242,334,939	15,574,261	6.43%	2.653	0.100	41,316,793
	Total	357,469,115	20,432,791	5.72%			54,961,666

Source: Library Reference PRC-LR-ACR2020-9.

⁴⁴¹ *Id.* The Mailer Irregularity Application resides on the surface visibility mobile scanner platform and utilizes available barcode information, a selectable issue list, and images to provide specific insight into bundle breakage. *Id.* n.1.

⁴⁴² Responses of the United States Postal Service to Questions 1-15 of Chairman’s Information Request No. 13, February 16, 2021, question 13 (Response to CHIR No. 13).

⁴⁴³ In response to a FY 2019 ACD Directive, the Postal Service estimated the cost impact of bundle breakage for Periodicals and USPS Marketing Mail flats for FY 2019. *See* Response to CHIR No. 5, question 16. The cost impacts were estimated by modifying both the USPS Marketing Mail and Periodicals workbooks, establishing two hypothetical scenarios. First, the Postal Service hardcoded the CRA Proportional Adjustment Factors. Second, the Postal Service modified the bundle breakage inputs to create scenarios with 0 and 100 percent bundle breakage. The difference between the resulting total mail processing unit costs from those two scenarios is the estimated mail processing unit cost impact of bundle breakage. *Id.*; *see also* Excel file “Q16 CHIR No. 5.xlsx.”

The Postal Service stated that the cost impact is a measure of additional mail processing activities required due to premature bundle breakage. *Id.* However, the Postal Service further acknowledged that additional bundle breakage is possible in manual operations where data systems do not provide visibility. *Id.* As a result, the total cost impact represents a floor of the bundle breakage impact. The estimated cost impact for bundle breakage was \$59.8 million in FY 2019⁴⁴⁴ and \$55.0 million in FY 2020.⁴⁴⁵

The Postal Service explained that bundles for Periodicals are typically more uniform in size than USPS Marketing Mail bundles. Response to CHIR No. 5, questions 18. Periodicals bundles are often poly wrapped and strapped by the mailer; while USPS Marketing Mail bundles vary widely in size, and are roughly twice as likely to be prepared in sacks rather than placed on pallets. *Id.* Sacked bundles are prone to higher breakage rates because they do not have the protection that pallets provide. *Id.* Thus, the average bundle breakage rate for Periodicals was 4.22 percent while USPS Marketing Mail was 6.43 percent. While bundle breakage varies across product and machine type, the Postal Service has not established a mailer-specific bundle breakage threshold due in part, to variability of equipment across sites, thus making it difficult to hold a mailer to a single standard.⁴⁴⁶ The Postal Service provided bundle breakage data disaggregated by machine type for FY 2020.⁴⁴⁷ Figure VI-4 shows the mean bundle breakage rate for machines in FY 2020 which varies across machine types.

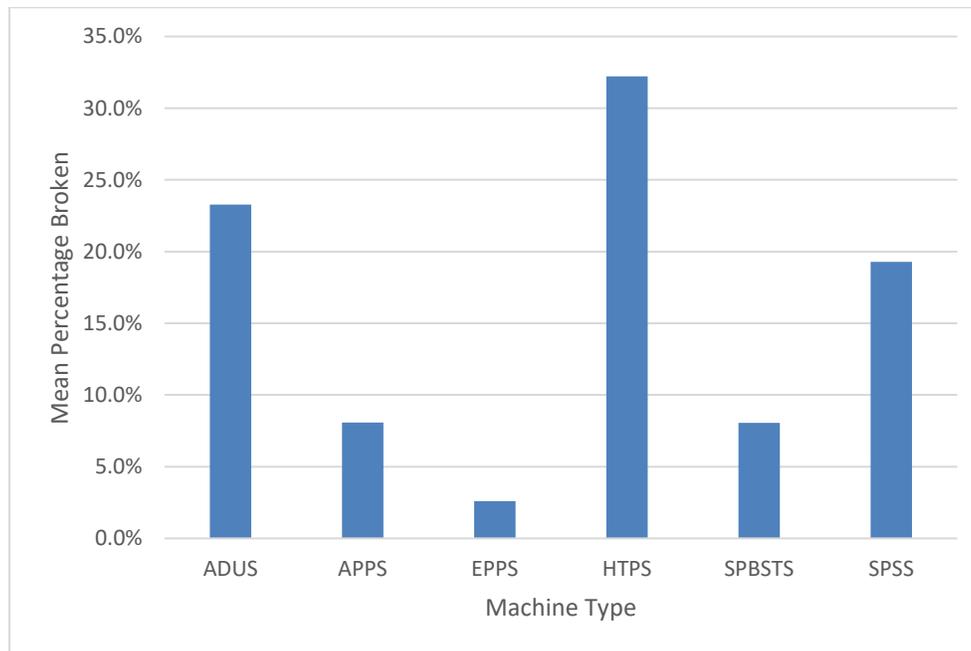
⁴⁴⁴ See July 2020 Status Reports at 1.

⁴⁴⁵ See Response to CHIR No. 13, question 10; see also Excel file "Q10 ChIR No. 13.xlsx."

⁴⁴⁶ Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 18, February 23, 2021, question 2 (Response to CHIR No. 18).

⁴⁴⁷ The Postal Service provides details regarding several metrics on bundle breakage. See Library Reference USPS-FY20-45, folder "Paragraph (e) -- Pinch Point Reports," subfolder "e.1 Bundle Breakage Visibility," Excel file "FY16_FY20Bundle.Brkgge.E1_Public.xlsx."

Figure VI-4
Bundle Breakage Data by Machine Type



Source: Library Reference PRC-LR-ACR2020-9.

The majority of bundles (roughly 95 percent)⁴⁴⁸ are processed on either the Automated Package Processing System (APPS) or the Sorter/Small Parcel and Bundle Sorter Tracking (SPBSTS) both of which have a mean breakage rate of 8.1 percent, which is lower than the breakage rate for other machines. The High Throughput Package Sorter (HTPS) had the highest mean rate of bundle breakage, 32.2 percent. However, only 0.003 percent of bundles are processed on this machine. The Small Package Sorting System (SPSS) has a mean breakage rate of 19.3 percent. The Automated Delivery Unit Sorter (ADUS) which was introduced in 2019 had a mean breakage rate of 23.3 percent but processed only roughly 1.7 percent of bundles.⁴⁴⁹

The Enhanced Package Processing Sorter (EPPS) processes roughly 2 percent of all bundles and has the lowest mean bundle breakage rate: 2.6 percent. The Postal Service stated that the EPPS machine will be decommissioned for the purpose of processing bundles. *See* FY 2020 Operational Initiatives Report at 7. The Postal Service states that “[i]t has been determined that this machine is best suited to handle the increasing parcel volumes and not be used for flats bundle processing.” *Id.* The Postal Service states it has no plans to procure any additional machines. Response to CHIR No. 5, question 17. The Postal Service

⁴⁴⁸ See Library Reference PRC-LR-ACR2020-9, tab “Table 4 – Bundle Breakage.”

⁴⁴⁹ Both the HTPS and ADUS machines are not the primary bundle sorting machines used by the Postal Service for both design and operational purposes, but can be used to process bundles when needed. The high breakage percentages highlight why these machines are not frequently used for bundle processing.

cited operational efficiency differences between the EPPS and the APBS machines as the reason it will discontinue the use of the EPPS in bundle processing. It states “the clearing and clean-up process takes over an hour to perform on this two-tier machine compared to only a few minutes on the APBS.” Response to CHIR No. 18, question 1.

Commission analysis. The percentage of bundles that are broken during Postal Service processing is steadily increasing. In FY 2021, the Postal Service must work to reduce the number of broken bundles while continuing to increase the number of tracked bundles. In FY 2020, the Postal Service spent \$123.3 million on bundle processing, which accounts for 6.0 percent of flats processing costs.⁴⁵⁰ In FY 2020, the Postal Service estimated the cost impact of broken bundles to be \$55.0 million.⁴⁵¹ Given that the cost impact of broken bundles is excluded from the calculation of the cost impact of bundle processing, adding the calculated cost impact of broken bundles to the total cost of bundle processing results in roughly \$178.2 million, an estimated 44.6 percent higher than the cost of bundle processing if no bundle breakage occurred.⁴⁵²

The Commission recommends that the Postal Service continue to estimate and report the additional cost bundle breakage adds to flats processing. In addition, the Postal Service should continue to study the causes, impacts and ways to reduce bundle breakage; enhance reporting and tracking of bundle irregularities; and work with mailers to ensure corrective actions are implemented when irregularities are shared through the Mailer Irregularity Application on the Mailer Scorecard.

2. Low Productivity on Automation Equipment

In FY 2019, the Postal Service began providing additional data related to this pinch point, including specific data for machines and facilities. Below the Commission analyzes the ability of specific machines to achieve productivity targets, trends in productivities of different mail processing machines, and trends in productivities at the facility level.

The Postal Service has specific productivity targets for its automation equipment, and in FY 2020, none of those targets were achieved.⁴⁵³ As discussed in more detail below, many productivities decreased in FY 2020. The Postal Service states that it will place additional emphasis on attaining targeted productivities for flat-shaped mail in FY 2021. *Id.* at 2. However, the Postal Service does not have a metric to quantify the service impact of low productivity on automation equipment for flat-shaped products. *See* FY 2020 C2-C6 Timelines at 1. The Postal Service states that it could not begin to develop this metric in FY 2020 as “. . . postal resources were focused on critical initiatives such as COVID-19 response efforts and support for the general election.” *Id.* The Postal Service plans to begin

⁴⁵⁰ See Library Reference USPS-FY20-45, folder “Paragraph (b) -- Financial Report,” Excel file “FY20.Rule.3050.50.Para.B.xlsx,” tab “Item b8.”

⁴⁵¹ See Response to CHIR No. 13, question 10, Excel File “Q10 ChIR No. 13.xlsx.”

⁴⁵² The cost impact of broken bundles is \$178.2 million due to rounding. *See* Library Reference PRC-LR-ACR2020-9, tab “Table 5 – Bundle Cost Impact.”

⁴⁵³ See Library Reference USPS-FY20-45, folder “e.9 Trend Narrative.PRC.LR.9 Update,” PDF file “FY20 Rule 3050.50(e.9) Narratives.pdf,” at 1 (Section e.9 Narratives).

development in Quarter 3 of FY 2021, provide reporting on the service impacts of low productivity in FY 2022, and submit the first reports in Quarter 1 of FY 2023. *Id.*

The primary machines used to process flats are the APBS, the Automated Package Processing System (APPS), the AFSM 100, and the FSS. The Postal Service estimates that below target productivity for these machines resulted in an additional \$119 million in mail processing costs for flat-shaped mail in FY 2020.⁴⁵⁴

In FY 2020, the Postal Service provided annual productivities by machine type.⁴⁵⁵ Data for the three highest volume machines are displayed in Figure VI-5. As shown in Figure VI-5, no machine shown met its productivity target, and most productivities have either decreased or remained relatively unchanged since FY 2015 despite the Postal Service's efforts to improve productivities. Forty-six AFSMs were removed in FY 2020;⁴⁵⁶ however, in August 2020, the Postal Service suspended removal of any additional mail processing equipment.⁴⁵⁷ See FY 2020 Operational Changes Report at 6. The Postal Service estimates that each AFSM 100 machine removed saved a total of \$0.658 million. Response to CHIR No. 5, question 15.d. Therefore, the Postal Service estimates there were roughly \$30.3 million in savings from AFSM 100 equipment removals in FY 2020.

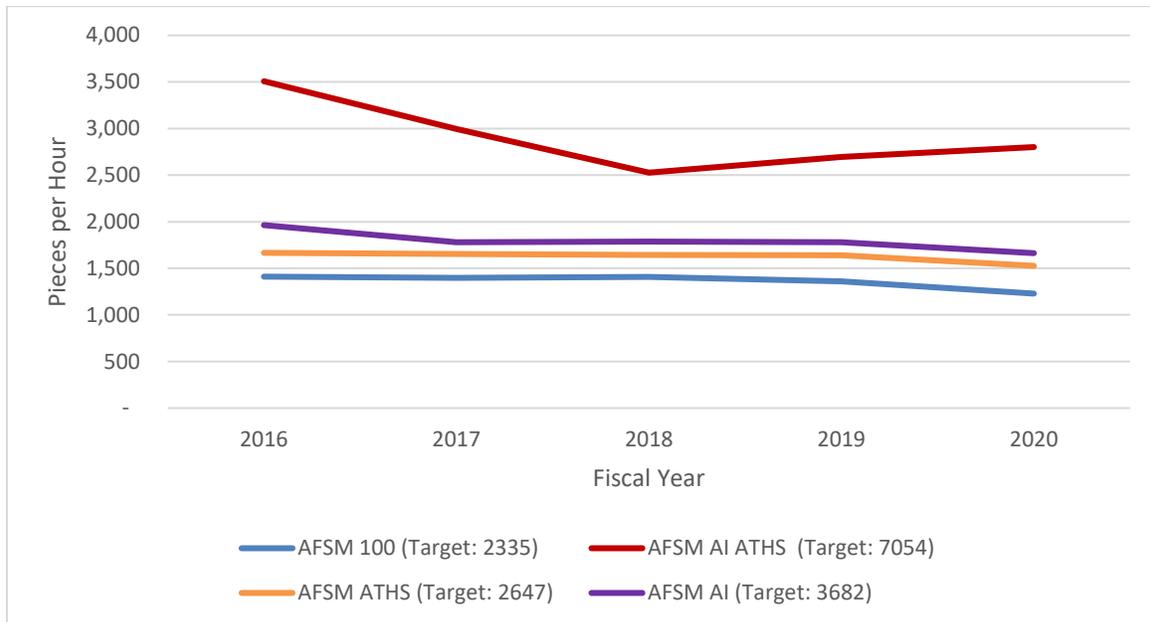
⁴⁵⁴ See Library Reference USPS-FY20-45, folder "Paragraph (b) -- Financial Report," Excel file "FY20.Rule.3050.50.Para.B.xlsx," tab "Item b9."

⁴⁵⁵ The Postal Service provides productivities for four different types of AFSM machines. See Glossary of Postal Terms. The AFSM 100 is an automated machine that processes flat-shaped mail. *Id.* The AFSM Automatic Induction (AI) is an enhanced AFSM 100 machine that automates the preparation and feeding of flat-shaped mail into the AFSM 100. *Id.* The AFSM Automatic Tray Handling System (ATHS) enhances the AFSM 100 by automatically exchanging, labeling, loading, and sweeping mail trays. *Id.* Finally, the AFSM AI ATHS includes both of the enhancements associated with the AFSM AI and AFSM ATHS. *Id.*

⁴⁵⁶ Response to CHIR No. 5, question 15.a.

⁴⁵⁷ See Postmaster General Louis DeJoy Statement, August 18, 2020, available at <https://about.usps.com/newsroom/national-releases/2020/0818-postmaster-general-louis-dejoy-statement.htm>.

**Figure VI-5
Machine Productivities,
FY 2015–FY 2020**



Source: Library Reference PRC-LR-ACR2020-9.

To address the low productivity of the AFSM 100 machines, the Postal Service created an AFSM certification process in FY 2019.⁴⁵⁸ The certification process was initiated in FY 2020, but was not completed. The Postal Service plans to continue this initiative in FY 2021. *See* FY 2020 Operational Initiatives Report at 6. In FY 2020, the Postal Service began developing and disseminating Standard Work Instructions. *Id.* at 5. The Postal Service also added 1,120 bins to APBS machines for sortation in FY 2020. *Id.* at 7. The Postal Service explains that these additional bins “help[] to finalize more mail on a primary automated operation” and reduce mail that must be reworked. *Id.*

The FSS is another machine used by the Postal Service to process flats and sort pieces into DPS. Table VI-6 highlights the general declines in performance for the FSS in FY 2020. Specifically, the percentage of mail that was put into DPS on the FSS declined to 71.7 percent and the productivity of the FSS continued to decline. The Postal Service does not have specific plans to directly address the FSS machine DPS percentage during FY 2021. Response to CHIR No. 13, question 14. The FSS Leakage percentage, which measures mail destined for the FSS, but processed elsewhere, increased to 32.7 percent in FY 2020. In addition, in FY 2019, the Postal Service provided the capacity percentage of the FSS, which measures the total capacity of the machine utilized. *Id.* The data show that this percentage

⁴⁵⁸ *See* Docket No. ACR2019, Library Reference USPS-FY19-45, folder “Paragraph (f) -- Operationan Changes Report,” PDF file “Paragraph (f) Report.pdf,” at 9-10 (FY 2019 Operational Initiatives Report).

decreased from 63.7 in FY 2018 to 44.4 percent in FY 2020, down 19 percentage points in just 2 years.

Table VI-6
FSS Performance Metrics

	2015	2016	2017	2018	2019	2020
DPS %	60	56.7	54.7	77.1	78.6	71.7
Productivity (TPF/Hour)	797	768	744	758	730	663
Mailpieces at risk (%)	5.4	5.7	5.8	4.6	4.7	4.7
Leakage (%)	n/a	n/a	20.1	21.9	25.4	32.7
Capacity (%)	n/a	n/a	n/a	63.7	58.4	44.4
Volume (TPF, in millions)	4,121	3,993	3,883	3,705	3,393	2,617
Mail Processing Cost \$(000)	202,259	205,802	208,243	197,704	192,883	166,825

Source: Library Reference PRC-LR-ACR2020-9.

In previous years, the Postal Service used the FSS Scorecard to monitor FSS performance, but it retired the scorecard in FY 2019. *See* FY 2019 Operational Initiatives Report at 3. The Postal Service explains that it developed a new comprehensive Flats Scorecard in FY 2020. Response to CHIR No. 5, question 25.a.

In FY 2019, the Postal Service described four initiatives targeted at increasing the DPS percentage of the FSS and reducing FSS leakage. FY 2019 Operational Changes Report at 4-6.

1. The Postal Service created a self-audit checklist for all facilities that resulted in facilities changing sort plans, and changing operating windows, which the Postal Service asserts should improve the DPS percentage. *Id.*
2. The Postal Service manually audited its labeling lists to ensure they aligned with actual FSS zones. *Id.*
3. The FSS Delivery Point Compression initiative was intended to optimize sort programs by adding zones to the FSS network. *Id.*
4. FSS software was developed to enhance address sort logic and improve handling of barcoded items. *Id.*

Many of these initiatives were scheduled to occur in FY 2020, but were not implemented due to the decline in flat volume as a result of the COVID-19 pandemic. FY 2020 Operational Initiatives Report at 4. In FY 2020, labeling lists played an important role in the makeup and distribution of mail products, however none of the other FSS operational initiatives were implemented. *Id.*

The Postal Service also provided Mail Processing Variance Report data that provides the productivity of various mail processing machines at the facility level.⁴⁵⁹ In the FY 2019 ACD, the Commission analyzed productivities by facility size for a single year and found there was a weak correlation between volume and productivity for every machine. FY 2019 ACD at 167-68. In response, the Postal Service stated that:

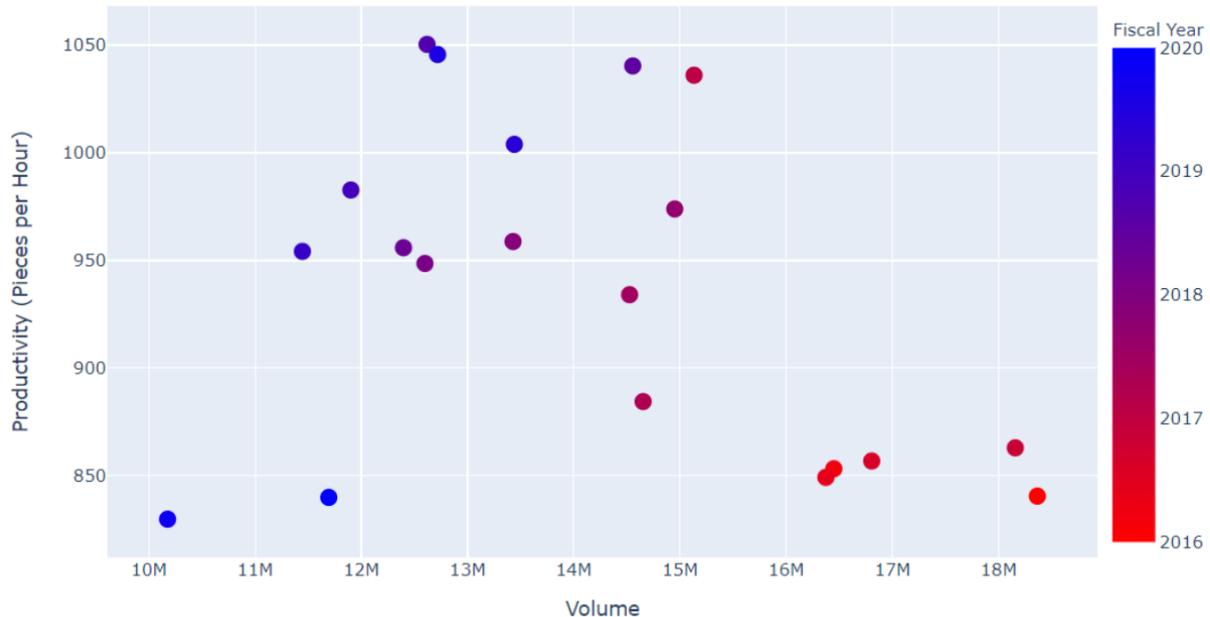
Differences in productivities from plant to plant may arise due to a number of other factors—many of which are difficult or impossible to quantify—such as differences in facility layouts, facilities' network roles, internal mailflows, operating windows, staffing practices, and management effectiveness. These factors can amplify or counteract direct effects of size on productivity.

July 2020 Status Reports at 7-8.

To account for facility-specific differences, the Commission analyzed this data by filtering by each mail processing facility, then calculating the correlation between volume and productivity over time. The Commission's analysis showed that many individual mail processing facilities showed no correlation between volume and productivity over time. The average volume and productivity by quarter for these facilities are shown in Figure VI-6.

⁴⁵⁹ See Library Reference USPS-FY20-NP31, December 29, 2020, Excel file "NONPUBLIC MP Variance FY15_20.xlsx."

Figure VI-6
Average Volume and Productivity, Selected Facilities, FY 2016–FY 2020⁴⁶⁰



Source: Library Reference PRC-LR-ACR2020-9.

As shown in Figure VI-6, the data provided by the Postal Service do not exhibit a clear relationship between volume and productivity over time for these facilities on the AFSM AI ATHS machine. More recent observations are represented by blue dots, while older observations are represented by red dots. The data show that even as these facilities lost volume, they did not necessarily become less productive. Analyzing the data by facility, should control for facility-specific differences. Therefore, it can be inferred that factors beyond just volume loss may be contributing to declining productivities at these facilities.⁴⁶¹

Commission analysis. The Postal Service's flats initiatives should, in theory, improve its flats mail processing operations. However, the majority of these initiatives were not implemented in FY 2020. Mail processing costs continue to rise in spite of declining volume and similar operational initiatives in previous years.⁴⁶² The Commission remains concerned about the Postal Service's efforts to improve low productivity of automation

⁴⁶⁰ Facilities used for this graphic exhibited a low correlation between volume and productivity over time for the AFSM AI ATHS machine. Observing the relationship between volume and productivity on single machine in a single facility over time corrects for any facility specific factors which may affect the relationship between volume and productivity across facilities. Each dot represents a quarter of the fiscal year, and the average productivity and average volume for this group of facilities in that quarter.

⁴⁶¹ The Commission is currently evaluating Docket No RM2020-13 where the Postal Service had proposed a change in mail processing variabilities for letter and flat-shaped mail processing operations.

⁴⁶² For example, in FY 2018, the Postal Service removed 59 AFSM 100 machines in response to volume declines. Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-28 of Chairman's Information Request No. 6, February 8, 2019, question 10.

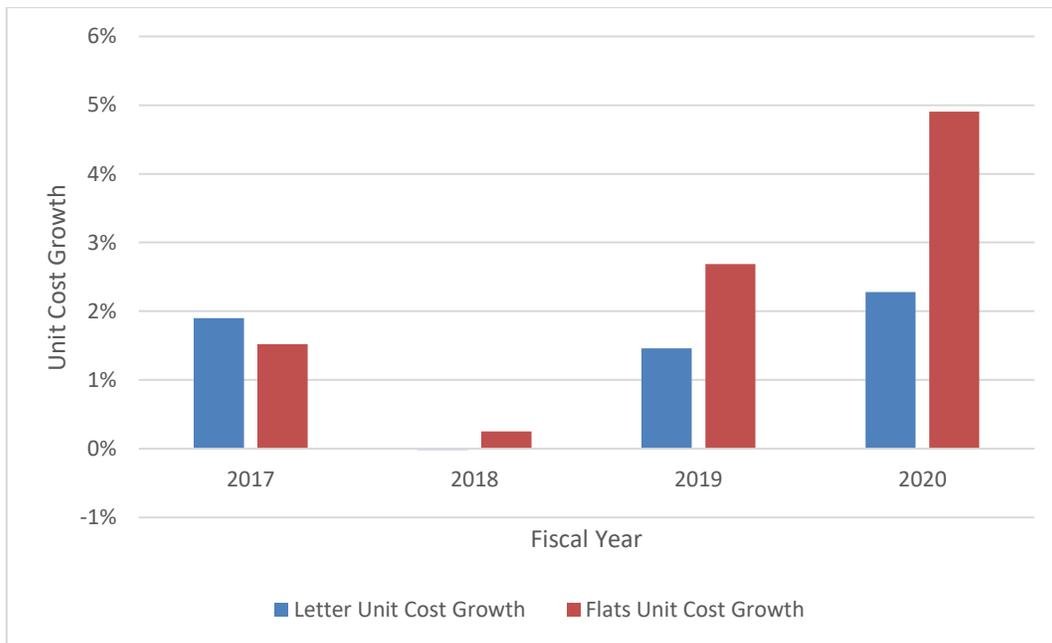
equipment, because it has not provided a specific plan with specific goals to improve the productivity of this equipment.

The Commission recommends that the Postal Service establish a specific plan to achieve its productivity targets for each flat-shaped mail processing machine, and continue to provide estimates of the impact of changing productivities on the mail processing costs of flat-shaped mail products in FY 2021.

3. Manual Sorting

The Postal Service spent \$391.4 million on manually processing flats in FY 2020, a decline of 6 percent from FY 2019. *See* PRC-LR-ACR2020-9. While the total cost of manually processing flats declined in FY 2020, it did not fall as fast as volume, and the unit costs of manual processing increased 5 percent in FY 2020. Figure VI-7 shows the percentage change in unit cost of manually handling a piece of flat shaped mail versus letter shaped mail. In FY 2018, FY 2019, and FY 2020, the average unit cost of manually handling a piece of flat mail has grown much faster than for letters. This difference is particularly stark in FY 2020, where the cost of manually processing flats grew at double the rate for letters.

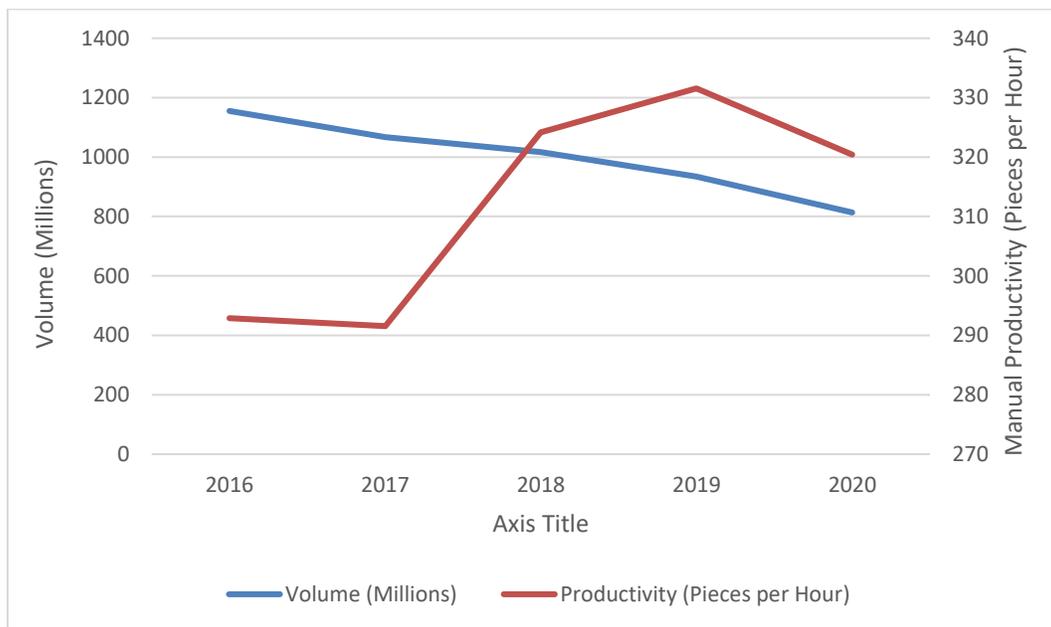
Figure VI-7
Change in Manual Unit Cost, Letters and Flats, FY 2017–FY 2020



Source: Library Reference PRC-LR-ACR2020-9.

The decline in manual productivities in recent years is also troubling. Figure VI-8 shows manual volume and productivity for FY 2016 through FY 2020. While manual volumes have been declining steadily since FY 2016, manual productivity had been increasing in FY 2018 and FY 2019. This trend reversed in FY 2020, as manual productivity fell by roughly 3 percent.

Figure VI-8
Manual Processing Productivity and Volume, FY 2016–FY 2020



Source: Library Reference PRC-LR-ACR2020-9.

The Postal Service removed approximately 142 manual flats cases between July 2019 and August 2020, but states that it has “no available cost estimates of the cost savings from the removal of manual flats cases.” Response to CHIR No. 5, question 21. In FY 2021, the Postal Service has a goal to reduce manual processing, but has not determined the number of manual flats cased to be removed. Response to CHIR No. 5, question 22.a.

Commission analysis. The Commission is encouraged by the reduction in the cost of manual processing for flat-shaped mail in FY 2020. However, the fact that that reduction did not result in any progress in unit cost savings is troubling.

The Commission recommends that the Postal Service should develop an accurate method to track flat-shaped mail that is manually processed in FY 2021. Once there is an accurate measurement of flat-shaped mail, the Postal Service should develop a specific plan that continues to decrease the quantity of flat-shaped mailpieces processed manually, and achieve a proportional reduction in unit manual processing costs.

4. Productivity and Service Issues in Allied Operations⁴⁶³

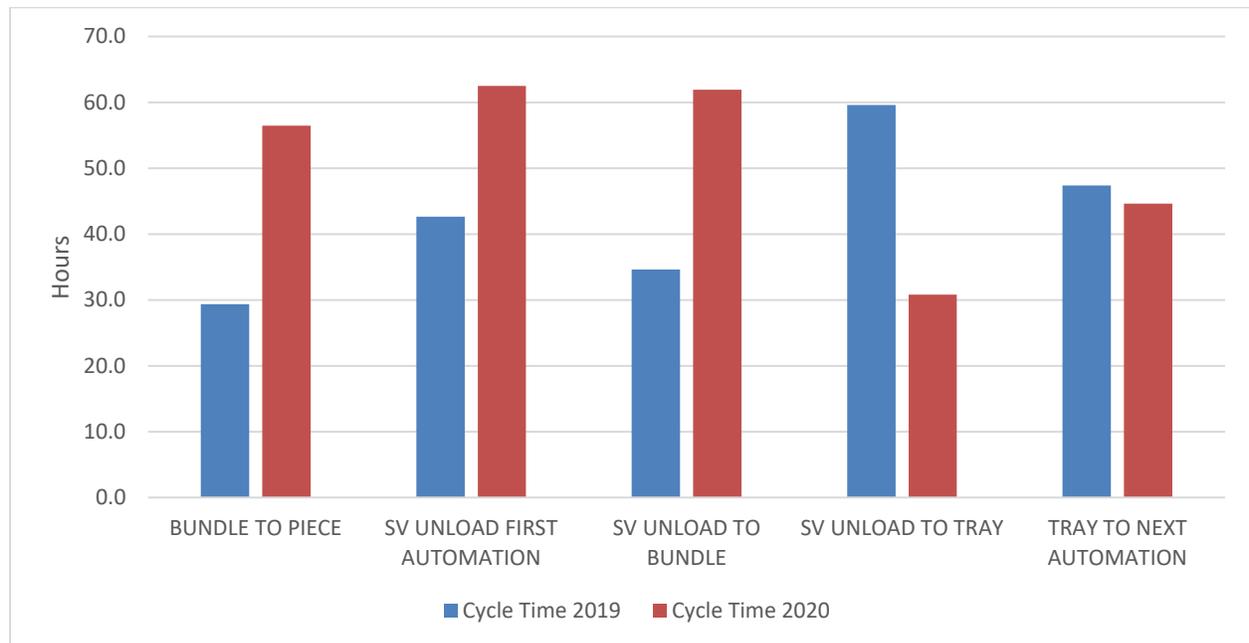
Allied operations represented 27 percent of flats costs in FY 2020; relatively no change compared to FY 2019. Though visibility into allied operations had been challenging and limited in prior years, two recently launched tools allowed the Postal Service to gain additional insight into allied operations: the Operations Efficiency Daily Dashboard, and trend charts and heat maps. *See* July 2020 Status Reports at 21. The Operations Efficiency Daily Dashboard tool provides more insight into the transportation of mail to subsequent handling or staging areas, and mail preparation procedures required for inducting mail into mail processing equipment. *Id.* According to the Postal Service, the heat maps are used to identify opportunity sites and to drive down unnecessary workhours. *Id.* Trend charts and heat maps are shared with senior management on a daily basis and are used for discussions within their respective departments. *Id.*

The Postal Service also uses Work in Process (WIP), also known as cycle time, which is the amount of time mail spends in mail processing operations, to gain insight into allied operations. *See* Section e.9 Narratives at 3. The Postal Service stated “[M]ail processing operations run on planned schedules and any additional time spent in one operation can adversely impact the next operation and can potentially lead to service failures.” *Id.* An updated version of the Cycle Time report is now available in Informed Visibility for USPS Marketing Mail letters and flats and Periodicals. *Id.*

Figure VI-9 shows WIP cycle times for various flats mail processing operations. The earliest WIP data available was from quarter three of FY 2019. To account for seasonal variation, Figure VI-9 compares WIP cycle times from quarters 3 and 4 of FY 2019 to Quarters 3 and 4 of FY 2020. While “SV Unload to Tray” showed a large decline, and “Tray to Next Automation” was relatively unchanged, most allied operations activities showed steep increases in cycle times in FY 2020.

⁴⁶³ Allied operations are mail processing activities that involve preparing the mail for pallet, bundle, or piece processing and include platform operations, e.g., unloading trucks and moving pallets to mail processing equipment. FY 2015 ACD at 173.

Figure VI-9
Cycle Time, FY 2019 and FY 2020



Source: Library Reference PRC-LR-ACR2020-9.

In FY 2020, the Postal Service continued to use the GRID initiative to aid sites in visualizing where there is slack time in their processing.⁴⁶⁴ The Postal Service states that implementation of this initiative might have contributed to the improvement in service performance in Quarters 1 and 2 of FY 2020 compared to same period last year. See July 2020 Status Reports at 22. For example, Quarters 1 and 2 Year-to-Date service performance for all USPS Marketing Mail improved from 84.1 percent in FY 2019 to 88.4 in FY 2020. *Id.* Even though the first two quarters exhibited some improvements, overall comparisons between FY 2019 and FY 2020 show declines.

Commission analysis. The Commission is encouraged by the Postal Service's effort in using operational efficiency tools, the GRID initiative, and cycle times update to provide additional visibility into allied operations. However, more effort is required.

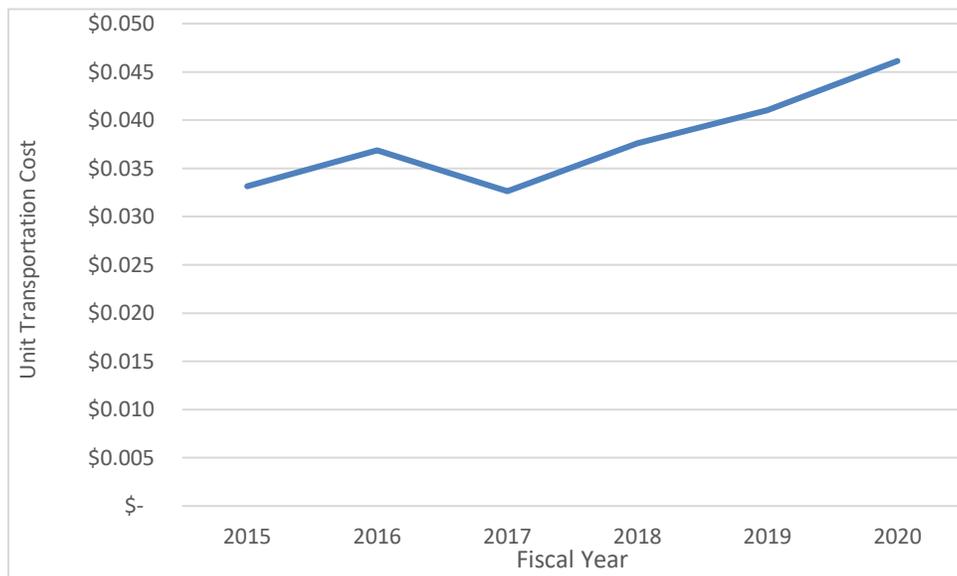
The Commission recommends that the Postal Service should develop a plan to reduce the costs associated with allied operations and gain additional insight into allied operations. In addition, the Postal Service must use the updated version of the Cycle Time report to generate detailed data/reports on mail entry points. Furthermore, the Postal Service must indicate the WIP cycle time for each processing point, and the corrective action(s) taken when delays occur in processing points, thus impacting service performance.

⁴⁶⁴ *Id.* The GRID enables specific sites and Headquarters personnel to view processing patterns, delayed inductions and other opportunities for improvement. See July 2020 Status Reports at 21-22.

5. Transportation Cost and Time

In FY 2020, unit transportation costs increased 12.4 percent, which is a continuation of a trend that began in FY 2017. *See* Figure VI-10. Further, while volume decreased and weight remained constant from FY 2019 to FY 2020, total transportation costs increased. The Postal Service attributes unit transportation cost increases for First-Class Mail Flats to an increase in purchased surface transportation and a decrease in the capacity utilization of flats tubs.⁴⁶⁵ Response to CHIR No. 5, question 1.a. The Postal Service is working to develop a methodology to calculate the service impact of transportation issues on flat-shaped mail products to begin reporting in FY 2022. FY 2020 C2-C6 Timelines.

Figure VI-10
Flats Transportation Unit Costs,⁴⁶⁶ FY 2015–FY 2020



Source: Library Reference PRC-LR-ACR2020-9.

⁴⁶⁵ See Chapter V., Section A.2.

⁴⁶⁶ The data in this figure reflects the following flat-shaped mail products and classes: First-Class Mail Flats, USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, Periodicals, and Package Service BPM Flats.

The Postal Service provided data from SVWeb⁴⁶⁷ related to transportation. *See* FY 2020 Section e.9 Narratives at 5-6. These data show that although the FY 2020 results are still far below target, the Postal Service has improved many of its metrics related to transportation. Specifically, on-time departures have increased, on-time arrivals have increased, and late containers have decreased. *Id.*

Table VI-7
Surface Visibility (SV)Web Transportation Metrics

Metric	Goal	FY 2018 Result	FY 2019 Result	FY 2020 Result
On-time Departure	100%	70.5%	72.6%	87.2%
On-time Arrival	100%	62.0%	63.4%	74.7%
Average Load ⁴⁶⁸	60%	32.1%	32.1%	38.6%

Source: Library Reference PRC-LR-ACR2020-9.

Commission analysis. In FY 2020, the unit transportation costs increased and the Postal Service does not have a specific plan to address this issue.

The Commission recommends that the Postal Service should develop a plan in FY 2021 to reduce the costs associated with transporting flat-shaped mail. The plan should establish specific achievable goals that reduce transportation costs for flat-shaped mail. The Commission will continue to monitor the SVWeb transportation metrics to ensure the Postal Service continues to make progress towards its goals.

6. Last Mile/Delivery

The Postal Service spent a total of \$1.02 billion in city carrier in-office costs for flats in FY 2020, or 7.5 cents per piece. City carrier in-office costs include the cost of casing to DPS. *See* Figure VI-11. When the additional mail processing costs associated with the FSS are added to the city carrier in-office costs, the Postal Service spent \$1.19 billion processing flats to DPS in FY 2020.⁴⁶⁹ This is a 4.7 percent reduction from FY 2019, when the Postal Service spent \$1.25 billion on processing flats to DPS.⁴⁷⁰ However, it is only \$362 million less than the amount spent casing flats in FY 2008, when volume was more than double.⁴⁷¹

⁴⁶⁷ The SVWeb applications allow managers to pull reports presenting Area, District, and facility data, such as the number of trips that have arrived and departed over a given period of time, the percentage of the load on each trip (utilization), and the on-time performance for each trip. 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, at 61-62. Using these reports, the Postal Service is able to track the usage of transportation resources, and identify opportunities to mitigate costs. *Id.*

⁴⁶⁸ *See* Chapter V., Section A.2.

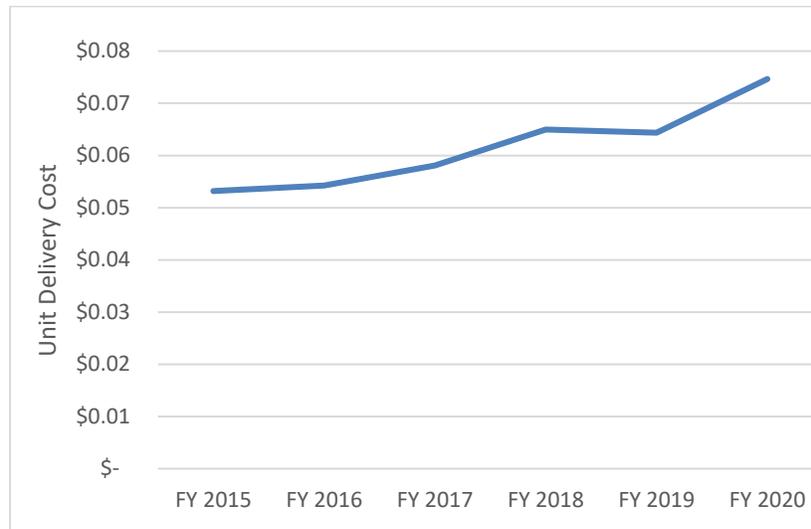
⁴⁶⁹ The cost of FSS processing in MODS and NDC facilities was \$167 million. *See* Library Reference PRC-LR-ACR2020-9.

⁴⁷⁰ FY 2019 ACD at 173. The unit cost of processing flats to DPS in FY 2020 was 8.7 cents per piece. *See* Library Reference PRC-LR-ACR2020-9.

⁴⁷¹ As detailed in Library Reference PRC-LR-ACR2020-9, the cost segment 6 in-office cost for flats in FY 2008 was \$1.549 billion, \$362 million more than the combined FSS mail processing and in-office cost of \$1.187 billion in FY 2020. As further detailed in Library Reference PRC-LR-ACR2020-9, flat volume was 34.35 billion pieces in FY 2008 and declined to 13.67 billion pieces in FY 2020, which represents a 60.2 percent decline.

In FY 2008, the Postal Service manually cased all flats because there were no FSS machines. Despite the addition of FSS machines and 60 percent less volume, the Postal Service has only reduced the cost of the final sortation operation for flats by 23 percent since FY 2008.

Figure VI-11
Cost Segment 6: City Delivery Carriers – Office Activity⁴⁷²
Unit Costs, FY 2015–FY 2020



Source: Library Reference PRC-LR-ACR2020-9.

To monitor the service impact of last-mile delivery, the Postal Service uses last mile indicator (LMI) quarterly scores. Compared to FY 2019, the LMI quarterly scores in FY 2020 improved in Quarters 1 and 2 and worsened in Quarters 3 and 4. *See* Library Reference PRC-LR-ACR2019-9.

Commission analysis. In FY 2020, unit in-office delivery costs increased significantly and the Postal Service does not have a specific plan to address this issue.

The Commission recommends that the Postal Service should develop a plan in FY 2021 to reduce the costs associated with delivering flat-shaped mail. The plan should establish specific achievable goals that reduce delivery costs for flat-shaped mail. The Commission will continue to monitor the costs of last-mile delivery in FY 2021 to ensure the Postal Service efforts result in improvements.

⁴⁷² The data in this table reflect the following flat-shaped mail products and classes: First-Class Mail Flats, USPS Marketing Mail Carrier Route, USPS Marketing Mail Flats, Periodicals, and BPM Flats.

E. Comments

PostCom states that the Postal Service presents increasingly disappointing performance on flats year after year. PostCom Comments at 7. PostCom remains concerned that the Commission's reporting requirements are insufficient to resolve flats issues. *Id.* Specifically, PostCom is concerned that the reporting requirements will require the Postal Service to expend additional resources and further increase the costs of the Postal Service. *Id.* at 7-8.

The Public Representative states that the Postal Service appears to have complied with most of the requirements that require responses, including data, reports, and management initiatives regarding current flats service and costs. PR Comments at 103. Citing the disruption of ordinary operations caused by the COVID-19 pandemic, the Public Representative notes that the Postal Service was unable to provide meaningful year-to-year data comparisons or to fully implement planned management initiatives. *Id.* He asserts that the initiatives will likely yield only incremental reductions of cost, if any. *Id.* at 127. However, the Public Representative notes that "initiatives are needed" and "there is no question that oversight of flats processing and other handling of flats is necessary." *Id.* He concludes that recent top-level management changes along with reorganization of the Postal Service's area operations and changing lines of authority hold the most promise of significant longer term cost reductions. *Id.* at 128.

F. Commission Analysis

As highlighted above, flats had a negative contribution of -\$1.081 billion in FY 2020. Since FY 2015, the Commission has worked to identify available data to develop metrics to measure, track, and report the cost and service performance issues for flats. In FY 2019, the Commission finalized its annual reporting requirements for flats, which leverages data collected internally by the Postal Service to increase transparency and enhance the accountability of the Postal Service to solve these persistent problems. *See* Order No. 5086.

FY 2020 represents the second year that the Postal Service was required to provide specific information related to flats cost and service issues. The Commission appreciates the information provided by the Postal Service this year. The Commission recognizes the impact of the COVID-19 pandemic on flats cost and service issues, including the delayed implementation of several initiatives intended to address these issues. However, because of the continuing trend of increased costs and declines in service, the Commission continues to have concerns related to the lack of specific plans to reduce costs and improve service of flat-shaped mail. The Commission is also concerned that the Postal Service is unable to determine how its operational initiatives and/or changes will impact cost and service. To resolve these concerns, the Commission has identified several areas where the Postal Service should improve its data and/or develop specific plans and goals to improve service and reduce costs. In addition, the Commission encourages the Postal Service to quantify the impact of its current and future initiatives on costs and service. The fact that in FY 2020 flat-shaped mail products collectively had a cumulative negative contribution of more than \$1 billion highlights the urgency and importance of this task.

In response to PostCom's concern that these reporting requirements may increase the costs of the Postal Service, the Commission has not required the Postal Service to develop any new data; it has only required that the Postal Service provide data that it already possesses.

Because the ACR review is time-limited by statute, the Commission has not exhausted its review of the data. The Commission will continue to analyze the data provided to identify potential further insights.

Appendix A: Key Commission Findings and Directives Requiring Postal Service Action for Future Annual Compliance Reports

Workshare Discounts:

- *The Commission encourages the Postal Service to set all workshare discounts as close as possible to avoided costs in order to send efficient pricing signals. The Commission's new rules contain both a floor and a ceiling on future passthroughs, which will require the Postal Service to set workshare discounts closer to their avoided costs. FY 2020 ACD, Chapter II.*

NDC Machinable Barcoded Parcels and NDC Marketing Parcels:

- *The Commission finds that NDC Machinable Barcoded Parcels and NDC Marketing Parcels were not adequately justified pursuant to 39 U.S.C. § 3622(e)(2) in FY 2020. The Commission expects the Postal Service to reduce this passthrough in the next Market Dominant price adjustment in compliance with 39 C.F.R. §§ 3030.280 through 3030.284, or to seek a waiver under 39 C.F.R. § 3030.286. FY 2020 ACD, Chapter II.*

Periodicals:

- *All of the Commission recommendations pertaining to reducing flats costs in Chapter VI of this Report apply to Periodicals. In Chapter VI, the Commission reiterates its longstanding finding that despite numerous cost reduction initiatives designed to reduce flat-shaped mail costs, these costs continue to rise. The Commission is very concerned by the Postal Service's continued inability to reduce costs for Periodicals. The Commission also continues to be concerned with the lack of progress the Postal Service has made in its ability to quantify the cost savings of its initiatives. Without knowing the impact of its initiatives on the costs of Periodicals, it will be difficult for the Postal Service to reduce those costs. FY 2020 ACD, Chapter III.*

Periodicals Pricing Efficiency:

- *The Commission directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2021 ACR. The report must include an analysis of how the pricing in Docket No. R2021-1 impacted the cost, contribution, and revenue of Periodicals in FY 2021 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2021. FY 2020 ACD, Chapter III.*

USPS Marketing Mail Flats:

- *The Commission finds that the issues raised in the FY 2010 ACD regarding USPS Marketing Mail Flats have continued to worsen. From FY 2010 to FY 2020, the cost coverage for USPS Marketing Mail Flats has decreased 19 percentage points. In addition, the Postal Service remains unable to predict, using reasonable assumptions, when the USPS Marketing Mail Flats product will cover cost, or what the impact is of any of the Postal Service's cost saving initiatives. In the meantime, the actual impact from the Commission's FY 2018 ACD Directive on revenues will not be seen until FY 2021 data is available. However, based on projections which show the likely impact on revenues to be positive, the Commission finds it appropriate to continue the FY 2018 and FY 2019 directives for another year. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class. As stated above, the Postal Service must remain cognizant of mail mix changes when adjusting prices and do its best to meet the requirements of this directive and the price cap while maximizing unit revenue increases within the product. Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and providing required documentation of those efforts in future Annual Compliance Reports. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter VI. of this Report. FY 2020 ACD, Chapter III.*

USPS Marketing Mail Parcels:

- *The Commission finds that FY 2020 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable costs. As with USPS Marketing Mail Flats, the actual impact from the most recent price increases, which were responsive to the Commission's FY 2019 directive, will not be seen until FY 2021 data is available. Nevertheless, based on projections which show the likely impact on revenue to be positive, the Commission finds it appropriate to continue the FY 2019 directive. In the next generally applicable Market Dominant price adjustment, the Postal Service must*

propose a price increase for USPS Marketing Mail Parcels that is at least 2 percentage points above the class average for the USPS Marketing Mail class. In addition to above-average price increases, the Postal Service should continue to 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 2021 ACR. FY 2020 ACD, Chapter III.

USPS Marketing Mail Carrier Route:

- *The Commission finds that FY 2020 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost. The Postal Service has not provided a specific plan to reduce Carrier Route costs in FY 2021. Cost coverage for USPS Marketing Mail Carrier Route has declined further below 100 percent for the second consecutive year. The Commission finds it appropriate to require an above average price change for FY 2021. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Carrier Route that is at least 2 percentage points above the class average for the USPS Marketing Mail class. In addition to above-average price increases, the Postal Service must continue to explore and implement opportunities to further reduce the unit costs of flat-shaped mail products, including USPS Marketing Mail Carrier Route, as further discussed in Chapter VI. of this Report. FY 2020 ACD, Chapter III.*

Media Mail/Library Mail:

- *The Commission finds that the FY 2020 revenue for Media Mail/Library Mail was not sufficient to cover attributable costs. The Commission recommends that the Postal Service apply an above-average price increase to Media Mail/Library Mail in the next rate case while balancing the need for BPM Parcels to also receive an above-average price increase. FY 2020 ACD, Chapter III.*

Bound Printed Matter Parcels:

- *The Commission finds that FY 2020 revenue for BPM Parcels was not sufficient to cover attributable costs. The Commission recommends that the Postal Service propose a price increase for BPM Parcels that is above the class average for the Package Services class. In addition to an above-average price increase, the Postal Service should continue to expend a reasonable amount of resources proportionate to the size of the product to explore and implement opportunities to reduce the unit cost of BPM Parcels and report on those opportunities and results in the FY 2021 ACR. FY 2020 ACD, Chapter III.*

Money Orders:

- *The Commission finds that FY 2020 revenue for Money Orders was not sufficient to cover attributable cost. The Commission recommends that the Postal Service propose an above-average price increase for Money Orders moving forward (consistent with 39 C.F.R. § 3030.221). In addition to above-average price increases, the Postal Service should expend a reasonable amount of resources proportionate to the size of the product to explore the reasons behind any shift in consumer behavior contributing to the decrease in revenue for Money Orders, and report on the results of this investigation in the FY 2021 ACR. FY 2020 ACD, Chapter III.*

Inbound Letter Post:

- *The Commission finds that revenue for Inbound Letter Post was not sufficient to cover attributable cost in FY 2020. The Commission recommends that the Postal Service negotiate bilateral and multilateral agreements that contain rates for Inbound Letter Post that are more compensatory than default terminal dues. The Commission also urges the Postal Service to undertake focused initiatives to reduce Inbound Letter Post costs without compromising quality of service, and to improve quality of service in order to benefit from terminal dues bonuses. Lastly, the Commission recommends that the Postal Service work with the Department of State within the relevant UPU bodies to ensure that terminal dues proposals adopted at the 2021 UPU Congress will cover costs for Inbound Letter Post. FY 2020 ACD, Chapter III.*
- *The Commission directs the Postal Service to provide both Service Performance Measurement (SPM) and QLMS CY 2020 and CY 2021 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 2021 ACR. The Commission also directs the Postal Service to state in its FY 2021 ACR whether it forfeited revenue in CY 2020 and CY 2021 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2020 and CY 2021, the Commission directs the Postal Service to provide the forfeited amounts for CY 2020 and for CY 2021 based on all results available to date and explain how this amount is calculated based on service performance results. FY 2020 ACD, Chapter III.*
- *The Commission directs the Postal Service to file a report within 90 days of issuance of this ACD that includes the following: service performance reports for CY 2020 and all available reports for CY 2021; a status update on projects and initiatives to improve service performance identified in the FY 2020 Annual Compliance Report and Responses to CHIR No. 5, questions 3 to 7, including the “Terminal Dues Score Improvement” Lean Six Sigma Black Belt Project, and their effectiveness in improving*

service performance based on available metrics; root cause failures identified through coordination with the UPU and IPC and steps that have been taken to address them; and the amount of Inbound Letter Post forfeited revenue due to not meeting UPU service performance targets in CY 2020 and CY 2021. The Commission further directs the Postal Service to provide an update to this report no later than 180 days after the issuance of this ACD. FY 2020 ACD, Chapter III.

International Money Transfer Service—Inbound:

- *The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2020. The Commission encourages the Postal Service to continue its efforts towards termination of the remaining agreements comprising the IMTS—Inbound product during FY 2021. FY 2020 ACD, Chapter IV.*

International Money Transfer Service—Outbound:

- *The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2020. Considering the progress the Postal Service has made towards terminating the agreements comprising the IMTS—Inbound product, the Commission expects less variability for the IMTS—Outbound unit cost estimates in the future. FY 2020 ACD, Chapter IV.*

International Ancillary Services:

- *The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2020 because one sub-component, Inbound Competitive International Registered Mail, did not cover costs. The Commission directs the Postal Service to provide a detailed analysis of obstacles that prevent the Postal Service from meeting performance targets for inbound registered items, as well as the projected cost of attaining performance targets, within 120 days of issuance of this ACD. FY 2020 ACD, Chapter IV.*

Competitive Outbound International Products Consisting of NSAs:

- *The Commission concludes that one Competitive outbound international product consisting of NSAs, GEPS 11, did not satisfy 39 U.S.C. § 3633(a)(2) because revenue did not exceed the attributable cost for the product. The two contracts in this product are no longer active, and thus no longer need to be terminated. The Commission directs the Postal Service to continually monitor the financial performance of outbound international NSAs. For details pertaining to the monitoring of the financial*

performance of international NSAs, see Section IV.C.4.c. below. FY 2020 ACD, Chapter IV.

Monitoring of Competitive Outbound International NSAs Financial Performance:

- *The Commission directs the Postal Service to monitor the financial performance of each outbound international contract on a quarterly basis and to file with the Commission a summary Excel file pertaining to the latest postal quarter. The summary file should be filed with the Commission within 30 days of the conclusion of each postal quarter, including postal Quarter 4. The summary file should include, for each active NSA and each outbound international service NSA, revenues, pieces, weight, and costs. FY 2020 ACD, Chapter IV.*

Revisions to the ICRA:

- *The Commission urges the Postal Service to provide accurate data pertaining to the latest fiscal year at the time of the original submission of fiscal year data in future Annual Compliance Review dockets. FY 2020 ACD, Chapter IV.*

Service Performance Impact Analysis of Initiatives:

- *Because the Commission is concerned with reoccurrence, the Postal Service is directed to file with the Commission a service performance impact analysis for initiatives that are planned for implementation on or before the issuance of the next ACD (March 29, 2022) and are reasonably foreseeable to impact service performance results. The analysis shall be filed in Docket No. ACR2020 as soon as practicable, but at least 30 days prior to implementation. FY 2020 ACD, Chapter V.*

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 2020 and directs the Postal Service to improve service performance results for its First-Class Mail products in FY 2021. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's difficulty in achieving its service performance targets and takes that into account in formulating its directives. FY 2020 ACD, Chapter V.*
- *The Commission is concerned that FY 2020 service performance results for Single-Piece Letters/Postcards declined from FY 2019 and remain substantially below target. Accordingly, the Commission determines that Single-Piece Letters/Postcards remains out of compliance for the sixth year in a row. Additionally, the Commission is very*

concerned that results for Outbound Single-Piece International, which have remained below target since FY 2009, declined significantly from the previously-observed levels and are substantially below target in FY 2020. Therefore, the Commission determines that Outbound Single-Piece International is not in compliance for FY 2020. FY 2020 ACD, Chapter V.

- *The Commission directs the Postal Service to provide information on the following six matters. 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 explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be reached. The Postal Service is encouraged to file a motion for clarification in Docket No. ACR2020, if necessary. Where appropriate, the Postal Service shall explain the reasons for any differences in the calculation of data in FY 2021 versus FY 2020, and shall propose a method for comparing the FY 2021 data to the FY 2020 data. FY 2020 ACD, Chapter V.*

(a) FY 2021 Nationwide Transit and Last Mile
Improvement Efforts and Plans

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2021 nationwide efforts to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.

1. *The transit evaluation shall explain how the progress made in FY 2021 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2021. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*
2. *The Last Mile evaluation shall explain how the progress made in FY 2021 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2021. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2021 Quarter 1 to FY 2020 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2021. Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally, the Commission will continue to allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated evaluation and plan shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(b) FY 2021 Division Improvement Efforts and Plans

Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement efforts are led by personnel in the new Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.

1. *For each Division, the Postal Service shall evaluate the efficacy of its FY 2021 efforts to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on-time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2021. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2021 Quarter 1 to FY 2020 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2021.*
2. *For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will continue to allow the Postal Service to describe its progress and plans at a class-level. However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization. The report for each Division shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated report from each Division shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(c) Consistent Data

Third, to facilitate the consistent monitoring of First-Class Mail service performance (particularly for Single-Piece Letters/Postcards), the Commission directs the Postal Service to provide the following data, described in items 1 through 5. Data shall be provided for FY 2021 Quarter 1, Quarter 2, and "mid-year" within 90 days of the issuance of this ACD (by June 28, 2021). Data shall be provided for FY 2021 Quarter 3, Quarter 4, "second-half" and annualized for the fiscal year, in the FY 2021 ACR (by December 29, 2021). The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.

- 1. The top five root cause point impacts for First-Class Mail, disaggregated by shape/product and service standard, presented for the nation and each Area. Please present results for Flats at the product level and disaggregated by the single-piece and presorted categories.*
- 2. The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.*
- 3. The number of CLTs (any HCR that is late more than 4 hours), presented for the nation, each Area, and each District.*
- 4. The performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals), presented for the nation, each Area, and each District.*
- 5. The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2021. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2021, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2020.*

(d) FY 2021 ISC Improvement Efforts and Plans

To monitor the Postal Service's efforts to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility responsible for processing Outbound Single-Piece International) on the following matters, described in items 1 and 2.

1. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2021 efforts to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International by describing the facility's progress made toward addressing the identified deficiencies related to each facility's adherence to processing requirements and explaining how the facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2021.*
2. *For each facility, the Postal Service shall provide a detailed plan to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International that describes each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion.*

The evaluations shall include quantitative analysis that identifies the metric(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece International volume it processed each Quarter and provide corresponding quantification for the same period during FY 2020. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated report from each facility shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

These facility-specific reporting requirements are in addition to the Inbound Letter Post specific status updates required by Section III.B.8.b.3., above.

(e) Evaluation of Feasibility and Status of
Developing Point Impact Data for International
Mail

For its domestic First-Class Mail products, the Postal Service has developed point impact data, which quantifies the number of percentage points by which on-time results decreased due to each specific root cause indicator. See Response to CHIR No. 1,

question 20.a. Since FY 2019 Quarter 3, the Postal Service has generated national-level data for its international products using internal SPM. The Commission encourages the Postal Service to use the experience it has obtained in developing point impact data for its domestic products and in generating internal SPM data for international products to quantitatively link decreases in international service performance results to root causes of failure. Therefore, the Commission directs the Postal Service to evaluate the feasibility and status of its efforts to develop point impact data for Inbound Letter Post and Outbound Single-Piece International. The Postal Service shall file this evaluation within 90 days of the issuance of this ACD (by June 28, 2021). An updated evaluation shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(f) National Monthly Service Performance Results

To monitor the Postal Service's efforts to remediate the decline from FY 2019 to FY 2020, the Commission directs the Postal Service to provide national service performance results, disaggregated by month, for Single-Piece Letters/Postcards and Outbound Single-Piece International (all service standards and combined). These monthly results shall be due on the following schedule: May 10, 2021 (monthly results for October 2019 through March 2021), August 9, 2021 (monthly results for April 2021 through June 2021), November 9, 2021 (monthly results for July 2021 through September 2021), February 9, 2022 (monthly results for October 2021 through December 2021), and May 10, 2022 (monthly results for January 2022 through March 2022). FY 2020 ACD, Chapter V.

USPS Marketing Mail Service Performance:

- The Commission expects that the service performance results for the USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail) that did not achieve their FY 2020 service performance targets will improve in FY 2021. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for these products. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives. FY 2020 ACD, Chapter V.*
- If the service performance results for any USPS Marketing Mail product do not achieve the applicable annual service performance target in FY 2021, then the FY 2021 ACR shall include: (1) the top five root cause point impacts for the product for each quarter and annually for FY 2021, disaggregated by shape/product and entry level/service standard; (2) an evaluation of the efficacy of the Postal Service's FY 2021 efforts to improve this product's service performance (including any progress toward addressing*

the recurring operational efficiency issues identified by the Postal Service); and (3) a detailed plan explaining how this product's results will be improved. 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 explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be provided. Where appropriate, the Postal Service shall specifically address how the evaluation and plan apply to mailpieces entered at origin versus mailpieces entered further into the mail stream. FY 2020 ACD, Chapter V.

Periodicals Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for both Periodicals products in FY 2020 and directs the Postal Service to improve service performance results for these products in FY 2021. The Commission is very concerned that on-time results for these products, which have remained below target since FY 2009, declined significantly from the levels observed in FY 2019 and are substantially below their targets in FY 2020. Therefore, the Commission determines that In-County and Outside County Periodicals are not in compliance for FY 2020. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.*

(a) FY 2021 Improvement Efforts and Plans

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2021 nationwide efforts to improve In-County and Outside County Periodicals service performance and to provide specific detailed plans to improve Periodicals service performance, as described in items 1 and 2.

1. *The Postal Service shall evaluate the efficacy of its FY 2021 efforts to improve on-time results for Periodicals by describing the progress made (including how the Postal Service adapted its efforts in light of the pandemic's impacts and the status of efforts identified in Docket Nos. ACR2019 and ACR2020) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2021. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2021 Quarter 1 to FY 2020 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2021.*
2. *The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation*

and completion of each planned action, and the metrics used to measure progress toward completion.

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 28, 2021). An updated report shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(b) Evaluation of Feasibility and Status of
Developing Point Impact Data for Periodicals

The Postal Service has developed point impact data for other classes of mail (First-Class Mail and USPS Marketing Mail), which quantifies the number of percentage points by which on-time service performance decreased due to each specific root cause indicator. See Response to CHIR No. 1, questions 20.a., 22.a. The Commission encourages the Postal Service to use this experience to quantitatively link decreases in Periodicals service performance results to root causes of failure. Therefore, the Commission directs the Postal Service to evaluate the feasibility and status of its efforts to develop point impact data for Periodicals. The Postal Service shall file this evaluation within 90 days of the issuance of this ACD (by June 28, 2021). An updated evaluation shall be filed at the time of the FY 2021 ACR (by December 29, 2021).

(c) National Monthly Service Performance Results

To monitor the Postal Service's efforts to remediate the decline from FY 2019 to FY 2020, the Commission directs the Postal Service to provide national on-time percent results, disaggregated by month, for In-County and Outside County Periodicals.¹ These monthly results shall be due on the following schedule: May 10, 2021 (monthly results for October 2019 through March 2021), August 9, 2021 (monthly results for April 2021 through June 2021), November 9, 2021 (monthly results for July 2021 through September 2021), February 9, 2022 (monthly results for October 2021 through December 2021), and May 10, 2022 (monthly results for January 2022 through March 2022). FY 2020 ACD, Chapter V.

Package Services Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for BPM Flats and Media Mail/Library Mail in FY 2020 and directs the Postal Service to apply its data leveraging techniques to improve service performance results for these products in FY 2021. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service*

¹ This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements rather than replaces the requirements of 39 C.F.R. part 3055.

performance targets and takes that into account in formulating its directives. FY 2020 ACD, Chapter V.

- *While the on-time performance result for BPM Flats increased from FY 2019 to FY 2020 by 0.5 percentage points (largely driven by improved pre-pandemic performance during Quarters 1 and 2), the Commission remains concerned that this product is substantially below its target. Moreover, FY 2020 marks the ninth consecutive year that BPM Flats has remained below its target. The Commission is also concerned that the FY 2020 on-time performance result for Media Mail/Library Mail remains below target and declined again for the third consecutive year. The Commission acknowledges that the Postal Service has repeatedly asserted that both of these products have significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is slower and costlier. FY 2020 ACD, Chapter V.*
- *To monitor the Postal Service's efforts to remediate these ongoing issues related to its flat- and parcel-shaped mail products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide the following information in the FY 2021 ACR for BPM Flats and Media Mail/Library Mail. First, the Postal Service shall evaluate the efficacy of the Postal Service's FY 2021 efforts (including how the Postal Service adapted its efforts in light of the pandemic's impacts and the status of efforts identified in Docket Nos. ACR2019 and ACR2020) to improve on-time service performance for each product. Second, the Postal Service shall provide a detailed plan for how each product's results will be improved, describing: each planned action, the problem that the planned action is expected to remediate, the estimated timeframe for implementation and completion of each planned action, and the metrics used to measure progress toward completion. FY 2020 ACD, Chapter V.*

Special Services Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for Post Office Box Service, Stamp Fulfillment Services, and Ancillary Services in FY 2020 and directs the Postal Service to apply its data leveraging techniques to improve service performance results for these products in FY 2021. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives. FY 2020 ACD, Chapter V.*
- *Post Office Box Service results continued to fall short of its performance target in FY 2020. The Commission expects the service performance results for Post Office Box Service will improve in FY 2021 as the Postal Service realigns its staffing to correspond*

with the pandemic's impacts on volume and employee availability. If the results for Post Office Box Service do not achieve the service performance target in FY 2021, then the FY 2021 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2021 efforts (including how the Postal Service adapted its efforts in light of the pandemic's impacts and the status of efforts identified in Docket Nos. ACR2019 and ACR2020) to improve on-time service performance for this product; and (2) a detailed plan explaining how this product's results will be improved. FY 2020 ACD, Chapter V.

- *The Commission expects that the Postal Service will improve results for Stamp Fulfillment Services and Ancillary Services in FY 2021. If the results for Stamp Fulfillment Services or Ancillary Services do not achieve the service performance target in FY 2021, then the FY 2021 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2021 efforts (including how the Postal Service adapted its efforts in light of the pandemic's impacts and the status of efforts identified in Docket No. ACR2020) to improve on-time service performance for this product; and (2) a detailed plan explaining how this product's results will be improved. FY 2020 ACD, Chapter V.*

Consumer Access:

- *The Commission reiterates the importance of providing consistent information among the Annual Report to Congress, ACR, and CHIR responses. For its FY 2021 filings, the Postal Service must obtain data from the same system to ensure that information provided for both retail facilities and delivery points is consistent among the FY 2021 Annual Report to Congress, FY 2021 ACR, and CHIR responses. If there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2021 ACR instead of in CHIR responses. FY 2020 ACD, Chapter V.*

Post Office Suspensions:

- *The Commission directs the Postal Service to continue filing quarterly reports on the status of the 211 remaining 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 2021 and in FY 2022 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing the information provided in the FY 2020 Quarter 4 update. For each remaining suspended post office, quarterly reports must describe the suspended post office's status, specific steps taken to resolve that suspended post office during that quarter, and anticipated next steps. If the Postal Service does not take steps to resolve a suspended post office during the quarter, it must explain why in the quarterly report. FY 2020 ACD, Chapter V.*

- *The FY 2021 Quarter 2 report must include data disaggregated for FY 2021 Quarters 1 and 2 and contain the information required by the Commission as described above. The FY 2021 Quarter 2 report must also include a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended from FY 2017 through FY 2021. If the Postal Service fails to resolve suspended post offices in accordance with its plan and timeline, the FY 2021 ACR must explain why and include a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended from FY 2017 through FY 2022. FY 2020 ACD, Chapter V.*

Customer Satisfaction:

- *In the FY 2021 ACR, the Postal Service must describe actions taken in FY 2021 to improve customer satisfaction with Market Dominant mailing services for each customer type and explain how these actions impacted FY 2021 results. If customer satisfaction with Market Dominant mailing services declines between FY 2020 and FY 2021, the FY 2021 ACR must explain why. FY 2020 ACD, Chapter V.*

Flat-Shaped Mail:

- *The Commission recommends that the Postal Service continue to estimate and report the additional cost bundle breakage adds to flats processing. In addition, the Postal Service should continue to study the causes, impacts and ways to reduce bundle breakage; enhance reporting and tracking of bundle irregularities; and work with mailers to ensure corrective actions are implemented when irregularities are shared through the Mailer Irregularity Application on the Mailer Scorecard. FY 2020 ACD, Chapter VI.*
- *The Commission recommends that the Postal Service establish a specific plan to achieve its productivity targets for each flat-shaped mail processing machine, and continue to provide estimates of the impact of changing productivities on the mail processing costs of flat-shaped mail products in FY 2021. FY 2020 ACD, Chapter VI.*
- *The Commission recommends that the Postal Service should develop an accurate method to track flat-shaped mail that is manually processed in FY 2021. Once there is an accurate measurement of flat-shaped mail, the Postal Service should develop a specific plan that continues to decrease the quantity of flat-shaped mailpieces processed manually, and achieve a proportional reduction in unit manual processing costs. FY 2020 ACD, Chapter VI.*

- *The Commission recommends that the Postal Service should develop a plan to reduce the costs associated with allied operations and gain additional insight into allied operations. In addition, the Postal Service must use the updated version of the Cycle Time report to generate detailed data/reports on mail entry points. Furthermore, the Postal Service must indicate the WIP cycle time for each processing point, and the corrective action(s) taken when delays occur in processing points, thus impacting service performance. FY 2020 ACD, Chapter VI.*
- *The Commission recommends that the Postal Service should develop a plan in FY 2021 to reduce the costs associated with transporting flat-shaped mail. The plan should establish specific achievable goals that reduce transportation costs for flat-shaped mail. The Commission will continue to monitor the SVWeb transportation metrics to ensure the Postal Service continues to make progress towards its goals. FY 2020 ACD, Chapter VI.*
- *The Commission recommends that the Postal Service should develop a plan in FY 2021 to reduce the costs associated with delivering flat-shaped mail. The plan should establish specific achievable goals that reduce delivery costs for flat-shaped mail. The Commission will continue to monitor the costs of last-mile delivery in FY 2021 to ensure the Postal Service efforts result in improvements. FY 2020 ACD, Chapter VI.*

Appendix B: Commenters

2020 Annual Compliance Determination

Commenter	Comment Citation	Citation Short Form
Amazon.com Services, Inc. (ASI)	Reply Comments of Amazon.com Services, Inc., February 12, 2021	ASI Reply Comments
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association (ACMA), February 2, 2021	ACMA Comments
American Consumer Institute Center for Citizen Research (ACI)	Comments of American Consumer Institute Center for Citizen Research Regarding Docket No. ACR2020 Submitted to the United States Postal Regulatory Commission, January 27, 2021	ACI Comments
Association for Postal Commerce (PostCom)	Comments of the Association for Postal Commerce, February 1, 2021	PostCom Comments
Association for Postal Commerce (PostCom) and Delivery Technology Advocacy Council (DTAC)	Comments of the Association for Postal Commerce and Delivery Technology Advocacy Council on FY 2020 Report and FY 2021 Plan, March 1, 2021	PostCom/DTAC Comments
Frontiers of Freedom	Comments of Frontiers of Freedom Regarding Docket No. ACR2020 Submitted to the United States Postal Regulatory Commission, January 29, 2021	Frontiers of Freedom Comments
National Association of Presort Mailers (NAPM)	Comments of the National Association of Presort Mailers, February 1, 2021	NAPM Comments
National Postal Policy Council (NPPC)	Reply Comments of the National Postal Policy Council, February 12, 2021	NPPC Reply Comments
Parcel Shippers Association (PSA)	Parcel Shippers Association Reply Comments, February 12, 2021	PSA Reply Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc., February 1, 2021	Pitney Bowes Comments

Commenter	Comment Citation	Citation Short Form
Public Representative (PR)	Public Representative Comments, February 2, 2021	PR Comments
Pubic Representative (PR)	Public Representative Comments on the FY 2020 Performance Report and FY 2021 Performance Plan, March 1, 2021	PR Comments on FY 2020 Performance Report and FY 2021 Performance Plan
Small Business and Entrepreneurship Council (SBE Council)	Comments of Small Business and Entrepreneurship Council on Docket No. ACR2020, February 1, 2021	SBE Council Comments
Taxpayers Protection Alliance (TPA)	Comments of Taxpayers Protective Alliance on the 2020 Annual Compliance Report Docket No. ACR2020, February 1, 2021	TPA Comments
Taxpayers Protection Alliance (TPA)	Reply Comments to 2020 Annual Compliance Report Docket No. ACR2020, February 12, 2021	TPA Reply 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 2020, February 1, 2021	UPS Comments
United Parcel Service, Inc. (UPS)	Reply Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2020, February 12, 2021	UPS Reply Comments
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, February 12, 2021	Postal Service Reply Comments
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, March 15, 2021	Postal Service Reply Comments on FY 2020 Performance Report and FY 2021 Performance Plan

Appendix C: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AADC	Automated area distribution center
ACD	<i>Annual Compliance Determination</i>
ACI	American Consumer Institute Center for Citizen Research
ACMA	American Catalog Mailer Association
ACR	<i>Annual Compliance Report</i>
ADC	Area distribution center
ADP	Alternative Delivery Provider
ADPR	Alternative Delivery Provider Reseller
ADUS	Automated Delivery Unit Sorter
AFSM	Automated Flats Sorting Machine
APBS	Automated Parcel and Bundle Sorter
APWU	American Postal Workers Union
BPM	Bound Printed Matter
BSN	Business Service Network
CEM	Customer Experience Measurement
C.F.R.	Code of Federal Regulations
CGR	Carrier Generated Route
CHIR	Chairman's Information Request
CI	Customer Insights
CIR	Commission Information Request
CLT	Critically Late Trip
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
CY	Calendar Year
DDU	Destination delivery unit
DFSS	Destination Flats Sequencing System
DNDC	Destination network distribution center
DPS	Delivery point sequencing
DSCF	Destination sectional center facility
ECP	Efficient component pricing

Acronym/Abbreviation	Meaning
ECSI	Educational, cultural, scientific or informational (value)
EDDM-R	Every Door Direct Mail—Retail
EMS	Express Mail Service
EPG	E-Parcel Group
EPPS	Enhanced Package Processing Sorter
ESAS	Expedited to the Street Afternoon Sortation
EXFC	External First-Class Measurement
FedEx	Federal Express Corporation
FPO	Foreign postal operator
FSS	Flats Sequencing System
FY	Fiscal Year
GBE	Global Bulk Economy
GEPS	Global Expedited Package Services
GEPS—NPR	Global Expedited Package Services—Non-Published Rates
GMS	Global Monitoring System
GREPS	Global Reseller Expedited Package Services
HCR	Highway contract route
HTPS	High Throughput Package Sorter
IBRS	International Business Reply Service
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
IOCS	In-Office Cost System
IPA	International Priority Airmail
IPC	International Post Corporation
ISAL	International Surface Air Lift
ISC	International Service Center
IV	Informed Visibility
LMI	Last mile indicator
Mixed ADC	Mixed area distribution center
MPA & ANM	Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers
MMP	Managed mail program
MSP	Mail Service Providers
NAPM	National Association of Presort Mailers
NDC	Network distribution center
NPPC	National Postal Policy Council

Acronym/Abbreviation	Meaning
NSA	Negotiated service agreement
NTU	National Taxpayers Union
OIG	Office of Inspector General
P&DC	Process and distribution center
PAEA	Postal Accountability and Enhancement Act
Pitney Bowes	Pitney Bowes Inc.
PMG	Postmaster General
PMI RRB	Priority Mail International Regional Rate Boxes
POS	Point of Sale
PostCom	Association for Postal Commerce
PTR	Product Tracking and Reporting
PR	Public Representative
PVS	Postal Vehicle Service
QBRM	Qualified Business Reply Mail
QLMS	Quality Link Measurement System
RDT	Required Delivery Time
RFID	Radio Frequency Identification Scan
RPG	Run Plan Generators
SASP	Seamless Acceptance and Service Performance
SBE Council	Small Business and Entrepreneurship Council
SCF	Sectional center facility
SDR	Special Drawing Right
SFS	Stamp Fulfillment Services
SPBSTS	Sorter/Small Parcel and Bundle Sorter Tracking
SRP	Supplementary remuneration program
STC	Surface Transfer Center
THS	Terminal Handling Service
TPA	Taxpayers Protection Alliance
TPF	Total Pieces Fed
UFSM	Upgraded Flats Sorting Machine
U.S.C.	United States Code
UPS	United Parcel Service, Inc.
UPU	Universal Postal Union
VPO	Village Post Office
WIP	Work in Process

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