



POSTAL REGULATORY COMMISSION

Annual Compliance Determination Report

Fiscal Year 2019

March 25, 2020

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EXECUTIVE SUMMARY

This report reviews the Postal Service's performance in Fiscal Year (FY) 2019, 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 (U.S.C.). It is based on information the Postal Service is required to provide within 90 days after the close of the fiscal year and on comments subsequently received from the public. Specific Commission findings and directives are identified in italics in each chapter.

Consistent with the approach adopted in past years, the *Annual Compliance Determination* (ACD) focuses on compliance issues as defined in 39 U.S.C. §§ 3653(b)(1) and (b)(2). These statutory subsections require the Commission to make determinations on whether any rates and fees in effect during FY 2019 were not in compliance with chapter 36 of Title 39 of the United States Code and whether any service standards in effect during FY 2019 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2019-1 and all the rates in effect during FY 2019 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 2019* that will be issued later this year. The Commission will also issue a separate report on the Postal Service's *FY 2018 Annual Performance Report and FY 2020 Performance Plan* to fulfill its statutory responsibilities under 39 U.S.C. § 3653(c).

A. Principal Findings: Market Dominant Rate and Fee Compliance

In Chapter 2, the Commission identifies compliance issues related to 12 workshare discounts, finding that 1 discount 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 workshare discount 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 Noncompensatory Products

In Chapter 3, the Commission identifies 8 noncompensatory Market Dominant products: Periodicals In-County, Periodicals Outside County, USPS Marketing Mail Flats, USPS Marketing Mail Parcels, USPS Marketing Mail Carrier Route, Inbound Letter Post, Media Mail/Library Mail, and Stamp Fulfillment Services. The Commission notes that the Inbound Registered Mail component of the International Ancillary Services product was also noncompensatory.

In the FY 2018 ACD, the Commission directed the Postal Service to include an updated version of the FY 2018 ACD Periodicals Pricing Report in its FY 2019 *Annual Compliance Report* (ACR). The Commission concludes that on the whole, the Postal Service's FY 2019 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 2020 ACR and 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.

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 2018 ACD is likely to have a positive impact, and the Commission directs the Postal Service to continue the above average price increases as detailed by the FY 2018 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.¹ Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and continue to comply with the FY 2015 directive.² For USPS Marketing Mail Parcels, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2019 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 strongly recommends 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. If the Postal Service chooses not to do so, it must provide an estimate of the impact of the

¹ In Docket No. RM2017-3, the Commission has proposed uniform regulations to systematically address the contribution losses stemming from this and other noncompensatory products.

² In FY 2015, 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.

price increases it proposes on the contribution of the USPS Marketing Mail class and the contribution of the USPS Marketing Mail Carrier Route product.

For Inbound Letter Post, the Commission expresses concern about the decrease in contribution and cost coverage from FY 2018 to FY 2019. In December 2019, the Commission approved 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, which may improve the product's financial performance 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. Lastly, the Commission further recommends that the Postal Service work with the Department of State to put forward proposals on compensatory terminal dues to the Universal Postal Union (UPU) Congress in August 2020. For International Registered Mail, a component of the International Ancillary services product, the Commission urges the Postal Service to continue efforts to limit cost increases. The Commission also recommends that the Postal Service take steps to improve its service performance for Inbound International Registered Mail in order to receive the full amount of additional revenue under the UPU supplementary remuneration program. In addition, the Commission recommends that the Postal Service work with the Department of State to negotiate higher rates for Inbound International Registered Mail at the UPU Congress in August 2020.

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, but has been historically inadequate. The Commission directs the Postal Service to submit a plan outlining how it will increase the cost coverage of Media Mail/Library Mail within 90 days of the filing of the ACD.

For the Special Services product Stamp Fulfillment Services, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2019 and urges the Postal Service to continue to improve cost coverage. If the Postal Service proposes a below-average price increase in its next Market Dominant price increase, it should explain its rationale.

C. Principal Findings: Competitive Products Rate and Fee Compliance

In Chapter 4, the Commission finds that revenues for six 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: two domestic NSAs, International Priority Airmail (IPA), International Money Transfer Service—Inbound (IMTS—Inbound), Royal Mail Group Inbound Air Parcel Post Agreement, and Inbound

Competitive Multi-Service Agreements with Foreign Postal Operators 1. The Commission directs the Postal Service to take corrective action, as appropriate, for each noncompliant product. These actions include requiring termination or renegotiation of noncompensatory agreements, a review of rates and revenue discrepancies, an update on the status of the request to seek authority to terminate or renegotiate agreements, and transparency on costing issues.

D. Principal Findings: Service Performance and Customer Access

In Chapter 5, the Commission finds that most products failed to meet their service performance targets for FY 2019.

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

Because data generated from the new internal Service Performance Measurement systems replace data previously generated by the legacy external measurement systems, service performance results for the affected products in FY 2019 are not directly comparable to results for previous fiscal years.

In the FY 2018 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 2019 ACR. The Postal Service has made progress in developing a quantitative 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 directs the Postal Service to continue reporting specific information developed from its First-Class Mail metrics within 90 days of the issuance of this report and as part of its FY 2020 ACR. Additionally, the Commission directs the Postal Service to provide more transparency regarding the progress and effects of its existing multi-year national service performance improvement strategies.

E. Principal Findings: Flats Cost and Service Issues

In Chapter 6, the Commission finds that unit costs for flats have continued to rise, contribution losses have continued to grow, and no flats products met their service performance targets. 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. 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 also reviews and evaluates current and future Postal Service initiatives designed to reduce flats costs, improve flats service performance, and/or improve flats operations and provides recommendations for improvement.

CHAPTER 1: INTRODUCTION

A. Statutory Context

Two sections of Title 39 of the United States Code (U.S.C.), as amended by the Postal Accountability and Enhancement Act (PAEA),³ 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 Annual Compliance Report (ACR). *See* 39 U.S.C. § 3652(a). The second provision, 39 U.S.C. § 3653, requires the Commission to review the Postal Service's annual reports and issue an Annual Compliance Determination (ACD) regarding whether rates were not in compliance with applicable provisions of Title 39 and whether any service standards were not met. 39 U.S.C. § 3653(b). Together, these provisions establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service.

The Commission has again decided to report separately on the Postal Service's financial condition and its performance plans and program performance.⁴ 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 2020. This ACD focuses on the requirements of 39 U.S.C. § 3653(b)(1) and (b)(2).⁵

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

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

³ Pub. L. 109-435, 120 Stat. 3198 (2006).

⁴ *See* Notice Regarding the Postal Service FY 2019 *Annual Performance Report* and FY 2020 *Annual Performance Plan*, January 9, 2020 (Order No. 5400).

⁵ The Commission addresses only rates and fees that have been challenged by Commenters, or otherwise present compliance issues.

Chapter 6, the Commission evaluates cost and service issues for flat-shaped mailpieces (flats).⁶

There are three appendices to the FY 2019 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 2019 ACR on December 27, 2019; thus, the Commission must issue this ACD no later than March 26, 2020.

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 2020 Performance Plan*, and its *FY 2019 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).

⁶ 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 Docket No. RM2018-1, Order Adopting Final Rules on Reporting Requirements Related to Flats, May 8, 2019 (Order No. 5086). The Postal Service submitted the required information in its FY 2019 ACR and the Commission will evaluate the data for the first time in this proceeding.

F. Procedural History

On December 27, 2019, the Postal Service filed its FY 2019 ACR, covering the period from October 1, 2018, through September 30, 2019.⁷ 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 2019 ACR, which contains a list of special studies and a discussion of obsolescence in accordance with 39 C.F.R. § 3050.12.⁸

The Postal Service concurrently filed its *2019 Annual Report and Comprehensive Statement on Postal Operations* as part of Library Reference USPS-FY19-17 to the FY 2019 ACR.⁹

On December 30, 2019, the Commission issued an order establishing Docket No. ACR2019 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing January 30, 2020, and February 10, 2020, as the deadlines for comments and reply comments, respectively.¹⁰

On January 15, 2020, 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.¹¹ On January 22, 2020, the Postal Service filed a response, opposing the request for access to some of the library references.¹² Comments were also received from third party

⁷ United States Postal Service FY 2019 *Annual Compliance Report*, December 27, 2019 (FY 2019 ACR). The Postal Service made other filings that revise the FY 2019 ACR and selected Library References. Notice of the United States Postal Service of Revisions to Certain Pages of the FY 2019 Annual Compliance Report – Errata, January 10, 2020; Notice of the United States Postal Service of Revisions to Multiple Annual Compliance Report Folders – Errata, January 10, 2020. Unless otherwise noted, references to the Postal Service's FY 2019 ACR are to its ACR and accompanying Library References as revised.

⁸ Library Reference USPS-FY19-9, December 27, 2019 (Roadmap Document).

⁹ Library Reference USPS-FY19-17, December 27, 2019 (FY 2019 *Annual Report*).

¹⁰ Notice of Postal Service's Filing of *Annual Compliance Report* and Request for Public Comments, December 30, 2019 (Order No. 5381); see also 85 FR 532 (January 6, 2020). On January 9, 2020, the Commission established separate comment dates for the Postal Service's FY 2019 *Performance Report* and FY 2020 *Performance Plan*. See Order No. 5400.

¹¹ United Parcel Service, Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 15, 2020, at 1 (UPS Motion for Access).

¹² United States Postal Service Response to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 22, 2020 (Response to UPS Motion for Access).

postal customers, opposing UPS's motion.¹³ On January 27, 2020, UPS filed a reply to the opposition.¹⁴ The Commission granted UPS's motion for access on January 29, 2020.¹⁵ On February 6, 2020, UPS filed a motion requesting an extension of time to file its reply comments regarding the ACR, stating that it needed additional time to evaluate the non-public information.¹⁶ The Commission granted the motion for extension, extending the deadline for all reply comments to February 18, 2020.¹⁷

G. Methodology Changes

The FY 2019 ACR generally employs the methodologies used most recently by the Commission unless the Commission has approved a change in methodology.¹⁸ In this proceeding, the Postal Service relies upon ten approved or partially approved methodology changes.¹⁹ The Postal Service discusses the effect of methodology changes to FY 2019 ACR library references in the Roadmap Document.²⁰

H. Product Analysis

The Postal Service provides an analysis of each Market Dominant product, including special services and international NSAs active during FY 2019. This analysis includes a discussion of workshare discounts and passthroughs for Market Dominant products, required by 39 U.S.C. § 3652(b). The Postal Service also provides data for Competitive products and discusses the data with references to standards under 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. Last, the Postal Service discusses one Competitive market test conducted in FY 2019.²¹

¹³ See Comments of CVS Health, January 23, 2020 (CVS Health Comments); Comments of Sportswear, Inc., January 21, 2020 (Sportswear Comments); Comments of Express Save Industries, Inc., January 17, 2020 (Express Save Industries Comments).

¹⁴ United Parcel Service, Inc.'s Motion for Leave to Reply and Reply to the United States Postal Service's Response to Motion Requesting Access to Non-Public Materials, January 27, 2020 (UPS Reply to Postal Service Opposition for Motion for Access).

¹⁵ Order Granting Motion for Access, January 29, 2020 (Order No. 5416).

¹⁶ Motion of United Parcel Service, Inc. for Extension to File Reply Comments, February 6, 2020.

¹⁷ Order Granting Motion for Extension of Time to File Reply Comments, February 7, 2020 (Order No. 5420).

¹⁸ See FY 2019 ACR at 4-5.

¹⁹ Docket No. RM2019-10, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), August 29, 2019 (Order No. 5213); Docket No. RM2019-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), October 1, 2019 (Order No. 5259); Docket No. RM2019-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), October 7, 2019 (Order No. 5269); Docket No. RM2019-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), October 22, 2019 (Order No. 5280); Docket No. RM2020-1, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Nine), November 4, 2019 (Order No. 5291); Docket No. RM2019-14, Order on Analytical Principles Used in Periodic Reporting (Proposal Eight), November 12, 2019 (Order No. 5299); Docket No. RM2019-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), November 13, 2019 (Order No. 5305); Docket No. RM2020-2, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Ten), December 4, 2019 (Order No. 5336); 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).

²⁰ See Roadmap Document at 85-96.

²¹ FY 2019 ACR at 70.

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. § 3055.²²

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. § 3007.200. 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 by showing that the information is commercially sensitive and by identifying the nature, extent, and likelihood of commercial harm that would result from disclosure. *Id.* § 3007.201. The FY 2019 ACR included such an application with respect to certain Competitive and international Market Dominant products. FY 2019 ACR, Attachment 2.

UPS submitted a motion for access to library references concerning these products, and the Postal Service opposed the motion in part. 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.²³

In response, the Postal Service stated that the disclosure of the non-public information would place commercially-sensitive information at risk, that affected third parties objected to the access, and that the motion further seeks an extension of prior access to non-public library references from earlier ACR dockets.²⁴

The Commission first found that UPS's motion satisfied the Commission's rules for seeking access to non-public information. Order No. 5416 at 8-9; 39 C.F.R. § 3007.301. The Commission also found that the presence of commercially sensitive information alone is not grounds to deny access and that Commission rules provide adequate protective conditions to safeguard the Postal Service and third parties from potential harms. Order No. 5416 at 10-14. The Commission noted that its protective conditions are sufficient to secure the information for current and previous docket information. *Id.* at 15. 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 13-14. Accordingly, the Commission granted UPS's motion for access. *Id.* at 15.

²² FY 2019 ACR, section III.

²³ See UPS Motion for Access at 1-2.

²⁴ Response to UPS Motion for Access at 1-3.

K. Requests for Additional Information

Twenty-two Chairman's Information Requests (CHIRs) were issued with respect to the ACR from January 9, 2020, to March 19, 2020. The Postal Service responded to the CHIRs, often filing supplemental information in support of the responses.²⁵

Steve Hutkins filed two motions for issuance of information requests.²⁶ The Postal Service opposed the first motion.²⁷ Subsequent CHIRs were issued based on these motions.²⁸

UPS filed a motion for issuance of information requests on February 13, 2020.²⁹ Subsequently, a CHIR was issued based on this motion.³⁰

²⁵ Several of the Postal Service's CHIR responses were accompanied by motions requesting late acceptance. *E.g.*, Motion of the United States Postal Service for Late Acceptance of Response to Questions 1-2 of Chairman's Information Request No. 13, February 19, 2020. Each of the Postal Service's motions for late acceptance is granted.

²⁶ Motion for Issuance of Information Request, January 15, 2020; Motion for Issuance of Information Request No. 2, February 7, 2020.

²⁷ Answer of the United States Postal Service in Response to Steve Hutkins' Motion for Issuance of Information Request, January 21, 2020.

²⁸ *See, e.g.*, Chairman's Information Request No. 6 and Notice of Filing Under Seal, January 24, 2020.

²⁹ Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, February 13, 2020.

³⁰ Chairman's Information Request No. 15, February 13, 2020.

CHAPTER 2: MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

A. Introduction

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

B. The Class-Level Price Cap

The Commission approved price adjustments that went into effect during FY 2019, which complied with the price cap provision, in accordance with 39 C.F.R. § 3010.23.³¹

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.”³² In PostCom’s view,

[D]espite estimated passthroughs that exhibit considerable volatility due to methodological changes, postal inefficiency, and normal variation the Postal

³¹ In Docket No. R2019-1, the Commission issued an order approving the Postal Service’s proposed rates for FY 2019. Docket No. R2019-1, Order on Price Adjustments for First Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 13, 2018 (Order No. 4875). On September 13, 2019, the United States Court of Appeals for the District of Columbia Circuit vacated the First-Class Mail price adjustments authorized by Order No. 4875. *See Carlson v. Postal Reg. Comm’n*, 938 F.3d 337, 352 (D.C. Cir. 2019). On October 24, 2019, the Commission issued an order applying the requirements of the PAEA, the Administrative Procedure Act, and the Commission’s regulations in determining that the Postal Service’s proposed First-Class Mail price adjustments were consistent with applicable law. Docket No. R2019-1, Order Approving Price Adjustments for First-Class Mail, October 24, 2019 (Order No. 5285).

³² Comments of the Association for Postal Commerce, January 30, 2020, at 2 (PostCom Comments).

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

Id. PostCom further asserts that “the calculation of avoided costs and the setting of workshare discounts is an inexact science,” and “the Commission has not adequately accounted for this uncertainty” *Id.* 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 in a “mechanistic” way, the Commission is discouraging efficient mail preparation, entry, and processing. *Id.* at 3. PostCom observes that many workshare discounts are set at less than 100 percent of avoided costs, which is also inefficient from a pricing perspective. *Id.* at 4-5. 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 5-6.

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 2019. The end of year prices in effect in FY 2019 were the prices approved in Docket No. R2019-1. Therefore, the discounts evaluated for compliance in FY 2019 are the Docket No. R2019-1 prices. The Commission finds that workshare discounts that were not greater than the associated avoided costs were in compliance for FY 2019.

The Commission reiterates, as it has in the past, that section 3622(e) of Title 39 only specifically prohibits 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.³³ 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. The Commission notes that in FY 2019 there were 40 passthroughs in the USPS Marketing Mail class set below 100 percent.³⁴

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,

³³ 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).

³⁴ See Library Reference PRC-LR-ACR2019-4.

the Postal Service should quantify the impact of the operational efficiency in its cost avoidance models.

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

1. First-Class Mail

One First-Class Mail workshare discount exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2019: 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 2019			
	End-of-Year Discount (\$)	Avoided Cost (\$)	Passthrough	Postal Service Justification Under 39 U.S.C. § 3622(e)(2) ³⁵
First-Class Mail Automation Letters: Barcoding & Presorting				
Automation Mixed AADC Letters	0.072	0.067	107.5%	Operational Efficiency ³⁶

Source: Library Reference PRC-LR-ACR2019-3.

a. Automation Mixed AADC Letters

In FY 2019, the passthrough for Automation Mixed AADC Letters was 107.5 percent. FY 2019 ACR at 10. The Postal Service states that it reduced the Automation Mixed AADC Letter discount in Docket No. R2020-1. FY 2019 ACR at 11. The Postal Service states that when the Docket No. R2020-1 prices go into effect, the passthrough will be 100 percent. *Id.* Accordingly, the Postal Service states that no further action is required.

The Commission finds that the Automation Mixed AADC Letters discount exceeded avoided costs in FY 2019. Due to the discount approved in Docket No. R2020-1, the Commission finds that no further action is required for the Automation Mixed AADC Letters discount.

³⁵ Section 3622(e) of Title 39 provides exceptions to the general requirement that workshare discounts must not exceed avoided costs.

³⁶ The Postal Service offered this justification in Docket No. R2019-1. See Docket No. R2019-1 United State Postal Service Notice of Market-Dominant Price Change at 10. October 10, 2018 at 10. The Postal Service did not offer any justification in the FY 2019 ACR.

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

Pitney Bowes Inc. (Pitney Bowes), National Association of Presort Mailers (NAPM), and PostCom suggest that the workshare discounts for certain First-Class Mail products should be set closer to 100 percent of the avoided costs.³⁷ Pitney Bowes commends the Postal Service's efforts to increase the discount for First-Class Mail 5-Digit Automation Letters, but notes that the discount only passes through 79 percent of avoided costs. Pitney Bowes Comments at 1-2. Pitney Bowes states that there is room for further improvement to ensure that workshare discounts fully reflect the work performed by mailers and mail service providers. *Id.* at 2. NAPM suggests that its members "could sell presort services to even more businesses if the incentive reflected the full costs avoided by the Postal Service," which would result in a shift to more efficient products. NAPM Comments at 4. PostCom notes that the Postal Service and the Commission focus only on discounts that pass through more than 100 percent of avoided costs and ignore discounts that pass through less than 100 percent of avoided costs. PostCom Comments at 4. PostCom states that this approach leads to less efficient mail entry and processing. *Id.*

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. To further this objective, the Commission has proposed rules in Docket No. RM2017-3 that require the Postal Service to improve the pricing efficiency of workshare discounts.³⁸

In this proceeding, the Commission evaluates workshare discounts for compliance with 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 2019.

2. Periodicals

In FY 2019, only one Outside County Periodicals workshare discount exceeded the avoided cost of the corresponding mailer worksharing activity in FY 2019. This is down from nine excessive workshare discounts in FY 2018. *See* FY 2018 ACD at 17. Table II-2 identifies that passthrough.

³⁷ See Comments of Pitney Bowes Inc., January 30, 2020, at 1-2 (Pitney Bowes Comments); Comments of the National Association of Presort Mailers, January 30, 2020, at 2-5 (NAPM Comments); PostCom Comments at 2-5.

³⁸ See Docket No. RM2017-3, Revised Notice of Proposed Rulemaking, December 5, 2019, at 206-211 (Order No. 5337).

Table II-2
Periodicals Workshare Discounts Exceeding Avoided Costs³⁹

Type of Worksharing	FY 2019			
	End-of-Year Discount (\$)	Avoided Cost (\$)	Passthrough	Postal Service Justification Under 39 U.S.C. § 3622(e)(2) ⁴⁰
Periodicals Outside County: Presorting (dollars / piece)				
Machinable Automation 3-Digit/SCF Flats	0.055	0.054	101.9%	ECSI

The Postal Service justifies this discount 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 2019 ACR at 31.

No comments were received about this excessive discount.

The Commission finds that the Machinable Automation 3-Digit/SCF Flats discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(C) in FY 2019.

3. USPS Marketing Mail

Ten USPS Marketing Mail workshare discounts exceeded the avoided costs of the corresponding mailer workshare activity in FY 2019. These 10 workshare discounts are in the Letters, Parcels, Carrier Route, and High Density and Saturation Letters products, which are identified in Table II-3 and discussed individually in this section.

³⁹ 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-ACR2019-5 for a comprehensive display of all Periodicals prices and worksharing relationships for FY 2019.

⁴⁰ Section 3622(e) of Title 39 provides exceptions to the general requirement that workshare discounts must not exceed avoided costs.

Table II-3
USPS Marketing Mail Workshare Discounts Exceeding Avoided Costs⁴¹

Type of Worksharing	FY 2019			
	End-of-Year Discount (\$)	Avoided Cost (\$)	Passthrough	Postal Service Justification Under 39 U.S.C. § 3622(e)(2) ⁴²
USPS Marketing Mail Letters: Barcoding (dollars / piece)				
Automation Mixed Automated Area Distribution Center (AADC) Letters	0.011	0.007	157.1%	Operational Efficiency
USPS Marketing Mail Letters: Dropshipping (dollars / piece)				
Destination Network Distribution Center (DNDC) Dropship Letters	0.022	0.021	104.8%	Rate Shock
Destination Sectional Center Facility (DSCF) Dropship Letters	0.028	0.024	116.7%	Rate Shock
USPS Marketing Mail Parcels: Barcoding (dollars / piece)				
Mixed NDC Machinable Barcoded Parcels	0.054	0.041	131.7%	Operational Efficiency
Mixed NDC Irregular Barcoded Parcels	0.054	0.041	131.7%	Operational Efficiency
NDC Marketing Barcoded Parcels	0.054	0.041	131.7%	Operational Efficiency
USPS Marketing Mail Parcels: Presorting (dollars / piece)				
SCF Marketing Parcels	0.314	0.226	138.9%	None
USPS Marketing Mail Carrier Route: Dropshipping (dollars / piece)				
DNDC Dropship Letters	0.025	0.021	119.0%	Rate Shock
DSCF Dropship Letters	0.032	0.024	133.3%	Rate Shock
USPS Marketing Mail High Density and Saturation Letters: Dropshipping (dollars / piece)				
DSCF Dropship Letters	0.025	0.024	104.2%	Rate Shock

Source: Library Reference PRC-LR-ACR2019-4.

⁴¹ In FY 2019, 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)).

⁴² 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.”

Pitney Bowes suggests that the workshare discounts for certain USPS Marketing Mail products that do not exceed avoided costs should nevertheless be set closer to avoided costs. Pitney Bowes Comments at 2. Pitney Bowes specifically identifies the workshare discounts for Automation AADC Letters and Automation 5-Digit Letters. *Id.*

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. To further this, the Commission has proposed rules in Docket No. RM2017-3 that require the Postal Service to improve the pricing efficiency of workshare discounts.⁴³

a. Letters

The following three workshare discounts for Letters exceeded avoided costs in FY 2019:

- Automation Mixed automated area distribution center (AADC) Letters
- Destination network distribution center (DNDC) Dropship Letters
- Destination sectional center facility (DSCF) Dropship Letters

Each is discussed below. All remaining discounts offered for Letters were less than or equal to avoided costs, and were thus consistent with 39 U.S.C. § 3622(e) in FY 2019.

(1) Automation Mixed AADC Letters

The passthrough for Automation Mixed AADC Letters was 157.1 percent in FY 2019, down from 216.7 percent in FY 2018. FY 2019 ACR at 20. Although this passthrough remains above 100 percent, the Postal Service justifies it pursuant to 39 U.S.C. § 3622(e)(2)(D), asserting that it encourages mailers to provide Intelligent Mail barcodes (IMbs) on their mailpieces, which improves operational efficiency. *Id.* The Postal Service further states that this passthrough will be corrected when Docket No. R2020-1 prices take effect, at which time it will fall to 85.7 percent. *Id.* Therefore, the Postal Service asserts that no further action is necessary with regard to this passthrough. *Id.*

The Public Representative agrees that this excessive passthrough has been adequately addressed by the Postal Service, and that it will no longer be out of compliance once the prices approved by the Commission in Docket No. R2020-1 take effect. PR Comments at 55.

PostCom argues that if the passthrough for Automation Mixed AADC Letters is justified based on operational efficiency, then reducing it by over 70 percentage points is “radical,” and “will necessarily lead to more inefficient operations.” PostCom Comments at 6. Moreover, PostCom notes that “the new discount will pass through only 85.7% of avoided costs, which is [also inefficient] from a pricing perspective.” *Id.*

The Commission finds that the Automation Mixed AADC Letters discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2019. Due to the discount approved in

⁴³ See Order No. 5337 at 206-211.

Docket No. R2020-1, which is set below avoided costs, the Commission finds that no further action is required for the Automation Mixed AADC Letters discount. However, the Commission encourages the Postal Service to increase the discount to send efficient price signals in the next Market Dominant price adjustment.

(2) DNDC and DSCF Dropship Letters

In FY 2019, the passthroughs for DNDC Dropship Letters and DSCF Dropship Letters were 104.8 and 116.7 percent, respectively, down from 126.3 and 134.8 percent, respectively, in FY 2018. FY 2019 ACR at 19. The Postal Service justifies these excessive discounts pursuant to 39 U.S.C. § 3622(e)(2)(B) on the grounds that they are necessary to mitigate rate shock. *Id.* at 19-20. The Postal Service states that when Docket No. R2020-1 prices take effect in January 2020, these passthroughs will be reduced to 95.2 percent for DNDC Dropship Letters, and 108.3 percent for DSCF Dropship Letters. *Id.* at 20. Therefore, the Postal Service asserts that no further action is necessary for DNDC Dropship Letters. *Id.* With regard to DSCF Dropship Letters, the Postal Service states that it intends to recommend to the Board of Governors that they realign this passthrough with avoided costs in the next Market Dominant rate adjustment. *Id.*

The Public Representative agrees that the excessive passthrough for DNDC Dropship Letters has been adequately justified by the Postal Service, and that this passthrough will no longer be out of compliance once the prices approved by the Commission in Docket No. R2020-1 take effect. PR comments at 54. The Public Representative also agrees that the excessive passthrough for DSCF Dropship Letters has been adequately justified under 39 U.S.C. § 3622(e)(2)(B) and that the Postal Service has reduced it by at least 10 percentage points. *Id.* at 54-55.

NAPM commends the Postal Service for continuing the IMb incentive for USPS Marketing Mail, while taking issue with the Postal Service's intention to realign the DSCF Dropship Letters passthrough with avoided costs in the next Market Dominant rate adjustment. NAPM Comments at 6-8. NAPM argues that reducing the DSCF Dropship Letters discount will effectively amount to a cost increase for its members, who have no practical choice but to dropship to the DSCF because if they attempt to dropship any closer to the origin then service performance will suffer. *Id.* Furthermore, NAPM states that if mailers are forced to move from DSCF to DNDC entry it will increase the Postal Service's transportation costs. *Id.* at 8. NAPM asserts that rising transportation costs negatively impact both mailers who are dropshipping mail to Postal Service facilities and the Postal Service itself, and that the Commission should account for rising transportation costs in the next Market Dominant price adjustment. *Id.* at 9. NAPM takes the position that the DSCF Dropship Letters discount should not be further reduced based on the negative impact it would have on the Postal Service's operational efficiencies and costs. *Id.* at 10.

The Commission continues to encourage NAPM, the Postal Service, or any other interested party to initiate a rulemaking proceeding with the Commission identifying any costs avoided by dropshipping that are not captured in the relevant avoided cost models.

The Commission concludes that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2019. For DNDC Dropship Letters, the Commission finds that no further action is required as the Commission finds that a substantial one-time reduction in the passthrough would likely adversely affect users and the Postal Service took adequate steps in Docket No. R2020-1 to phase out this excessive passthrough. The Commission expects the Postal Service to align the DSCF Dropship Letters discount with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

b. Parcels

Four workshare discounts for Parcels exceeded avoided costs in FY 2019:

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

These discounts are discussed together 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 131.7 percent in FY 2019, down from 141.5 percent in FY 2018. FY 2019 ACR at 21. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(D) on the grounds that they encourage mailers to pre-barcode parcels, thereby increasing operational efficiency. *Id.* In Docket No. R2020-1, the Postal Service reduced each of these passthroughs by at least 10 percentage points.⁴⁴ The Postal Service states that it intends to recommend to the Board of Governors that these passthroughs be reduced by at least 10 percentage points in the next Market Dominant price adjustment. FY 2019 ACR at 21.

The Public Representative agrees that these excessive passthroughs are justified under 39 U.S.C. § 3622(e)(2)(D). PR Comments at 57-58. She states that the Postal Service has followed through with its plan to reduce these passthroughs by at least 10 percentage points in the most recent Market Dominant rate case. *Id.* at 57.

The Commission finds that the Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2019. The Commission expects the Postal

⁴⁴ Docket No. R2020-1, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, at 12 (Order No. 5321).

Service to follow its plan to reduce these passthroughs by at least 10 percentage points in future Market Dominant price adjustments.

(2) SCF Marketing Parcels

SCF Marketing Parcels had a passthrough of 138.9 percent in FY 2019, up from 79.3 percent in FY 2018. FY2019 ACR at 21. The Postal Service explains this excessive passthrough by stating that there was a significant decrease in the product's cost avoidance of 43 percent. *Id.* Furthermore, due to the change in cost avoidance, this passthrough will increase even further to 146.9 percent under the prices approved by the Commission in Docket No. R2020-1. *Id.* at 21-22. The Postal Service states that it intends to recommend to the Board of Governors that they realign this discount with its avoided cost in the next Market Dominant price adjustment. *Id.* at 22.

The Public Representative states that this excessive passthrough is not in compliance with 39 U.S.C. § 3622(e)(2). PR Comments at 58. She notes that the Postal Service does not provide any statutory justification for this excessive passthrough, and does not explain why the cost benefits from greater presorting are declining for this product. *Id.* at 58, 59. She expresses concern about the decrease in the costs avoided when mailers undertake greater presort efforts by moving their parcels from the NDC presort level to the SCF presort level and notes that “[i]t appears that, at least in part, the decrease in avoided costs is due to an increase in SCF unit costs relative to NDC unit costs.” *Id.* at 58. She states that she is “concerned that the excessive SCF Marketing Parcels passthrough is providing mailers an incentive to shift mail from a category with relatively stable unit costs to one with unit costs that are increasing.” *Id.* at 59. She also notes that the Postal Service does not make a commitment to reduce this excessive passthrough in the next Market Dominant rate case. *Id.* The Public Representative recommends that the Commission inquire into the cause of changes in the avoided costs for SCF Marketing Parcels and require the Postal Service to reduce the passthrough for this product in the next Market Dominant rate case. *Id.* at 60.

In response to an information request, the Postal Service asserts that unit costs for NDC Marketing Parcels decreased in FY 2019, while unit costs for SCF Marketing Parcels increased.⁴⁵ The Postal Service attributes this difference to changes in the inputs to the cost avoidance models, primarily the inputs for MODS productivity and the percentage of parcels weighing over 6 ounces. *Id.*

The Commission finds that the SCF Marketing Parcels passthrough was not adequately justified pursuant to 39 U.S.C. § 3622(e)(2) in FY 2019. The Commission expects the Postal Service to align this discount with avoided costs in the next Market Dominant price adjustment or cite an appropriate statutory exception. In addition, the Postal Service should further investigate why the unit costs of SCF Marketing Parcels increased in FY 2019 and report on any findings in the FY 2020 ACR.

⁴⁵ Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 12, February 14, 2020, question 2 (Responses to CHIR No. 12).

c. Carrier Route

Two workshare discounts for Carrier Route exceeded avoided costs in FY 2019:

- DNDC Dropship Letters
- DSCF Dropship Letters

These discounts are discussed together below. All remaining discounts offered for Carrier Route were less than avoided costs, and thus were consistent with 39 U.S.C. § 3622(e).

In FY 2019, the passthroughs for Carrier Route DNDC and DSCF Dropship Letters were 119.0 percent and 133.3 percent, respectively, down from 142.1 percent and 152.2 percent, respectively, in FY 2018. FY 2019 ACR at 22; FY 2018 ACD at 32. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B) on the grounds that they are necessary to mitigate rate shock. *Id.* In Docket No. R2020-1, the Postal Service reduced these passthroughs by at least 10 percentage points. Order No. 5321 at 13. The Postal Service states that it intends to recommend to the Board of Governors that they reduce these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment. FY 2019 ACR at 22.

The Public Representative agrees that these excessive passthroughs are justified under 39 U.S.C. § 3622(e)(2)(B). PR Comments at 55-56. She states that the Postal Service has followed through with its plan to reduce these passthroughs by at least 10 percentage points in the most recent Market Dominant rate case. *Id.*

The Commission finds that a substantial one-time reduction in these passthroughs would likely adversely affect users and that the Postal Service took appropriate steps in Docket No. R2020-1 to phase out these excessive passthroughs. Thus, the Commission finds that the Carrier Route DNDC and DSCF Dropship Letters discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2019. The Commission expects the Postal Service to align these discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

d. High Density and Saturation Letters

One workshare discount for High Density and Saturation Letters exceeded avoided costs in FY 2019:

- DSCF Dropship Letters

This discount is discussed below. All remaining discounts offered for High Density and Saturation Letters were less than avoided costs, and thus were consistent with 39 U.S.C. § 3622(e).

In FY 2019, the passthrough for DSCF Dropship Letters was 104.2 percent, down from 121.7 percent in FY 2018. FY 2019 ACR at 23; FY 2018 ACD at 34. The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(B) on the grounds that it is necessary to mitigate rate shock. FY 2019 ACR at 23. The Postal Service asserts that when the prices approved by the Commission in Docket No. R2020-1 take effect, this discount will be reduced to 95.8 percent. *Id.* Therefore, the Postal Service asserts that no further action is required with regard to this discount. *Id.*

The Public Representative agrees that the excessive passthrough for DSCF Dropship Letters has been adequately justified under 39 U.S.C. § 3622(e)(2)(B). PR Comments at 56-57. She asserts that this passthrough will no longer be out of compliance once the prices approved by the Commission in Docket No. R2020-1 take effect. *Id.*

The Commission finds that a substantial one-time reduction in this passthrough would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2020-1 to phase out this excessive passthrough. Due to the discount approved in Docket No. R2020-1, the Commission finds that no further action is required for the High Density and Saturation DSCF Dropship Letters discount.

4. Package Services

No Package Services workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2019 and, therefore, all discounts were consistent with 39 U.S.C. § 3622(e) in FY 2019.

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 2019. The Commission commends the Postal Service for using its pricing flexibility to ensure full compliance of this class in FY 2019.

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

A. Introduction

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

This Chapter begins with an analysis of noncompensatory products organized by class. It also includes a discussion of other issues raised by commenters.

B. Noncompensatory Products

1. Periodicals

a. Introduction

The Periodicals class is comprised of two products, In-County⁴⁶ and Outside County. Revenue for both of these products was insufficient to cover attributable costs in FY 2019. In FY 2019, 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 64.0 percent. Below, the Commission discusses the FY 2019 financial results for Periodicals in more detail and then reviews the Postal Service's Periodicals Pricing Report filed in response to a FY 2018 ACD directive. In addition, the Commission discusses Periodicals cost and service issues in Chapter 6.

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 2020, the Commission will continue to require the Postal Service to report on its efforts to reduce costs, as discussed in Chapter 6. The Commission also directs the Postal Service to file in the FY 2020 ACR a FY 2020 Periodicals Pricing Report that analyzes the impact of the Docket No. R2020-1 price adjustment.

⁴⁶ The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

b. Previous ACD Directives

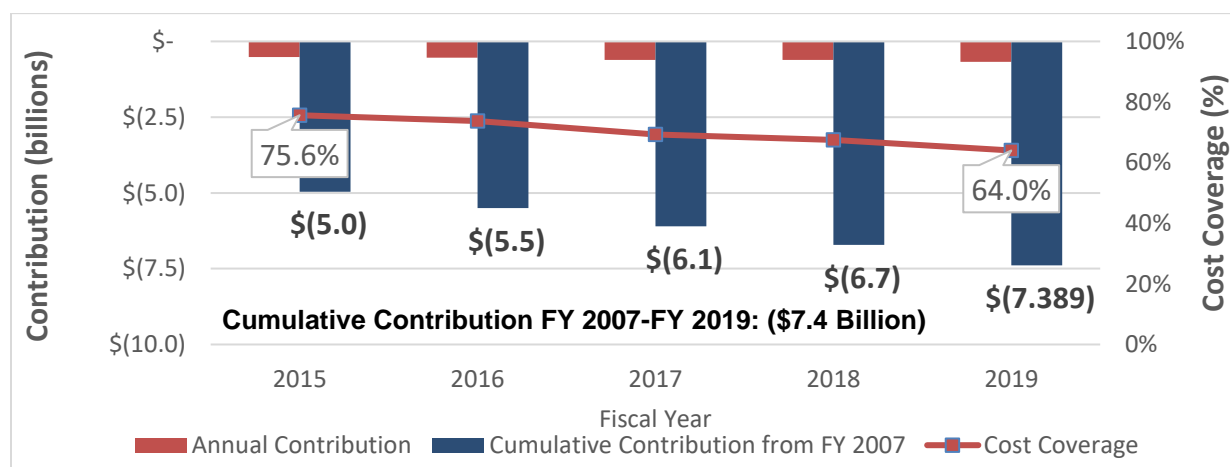
The Periodicals class has consistently failed to cover costs, and the Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.⁴⁷ Beginning with the FY 2015 ACD, the Commission has directed the Postal Service to file a Periodicals Pricing Report that analyzes how pricing decisions impact cost, contribution, and revenue. FY 2015 ACD at 23-24.

In FY 2015, the Commission also directed the Postal Service 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 6 of this Report.

c. FY 2019 Financial Results

The cost coverage for Periodicals decreased from 67.5 percent in FY 2018 to 64.0 percent in FY 2019. As Figure III-1 illustrates, Periodicals cost coverage continues to decline, resulting in a cumulative negative contribution of more than \$7.3 billion from FY 2007 to FY 2019. Note that the contribution in FY 2015 (blue bar) is the cumulative negative contribution from FY 2007 to FY 2015 and the cumulative negative contribution continued to accumulate from FY 2015 to FY 2019.

Figure III-1
Periodicals Annual and Cumulative Contribution and Cost Coverage, FY 2015–FY 2019⁴⁸



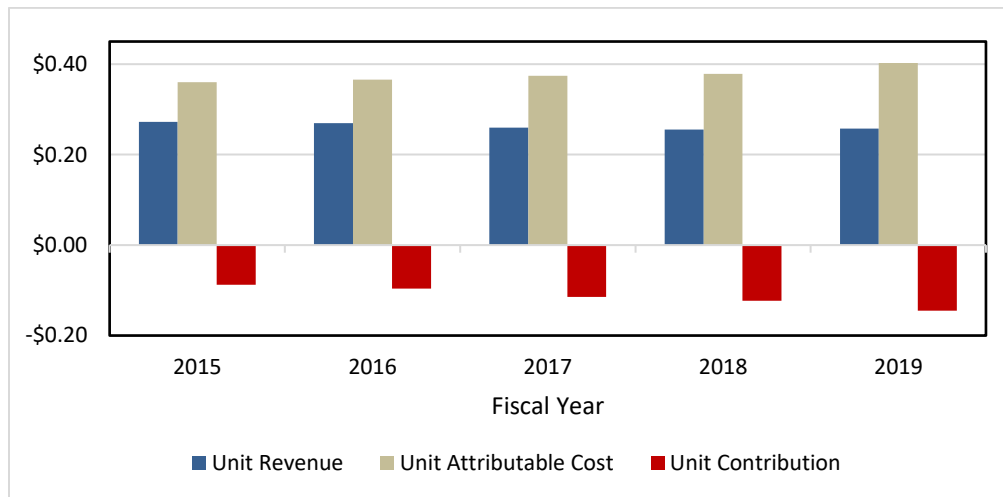
Source: Library Reference PRC-LR-ACR2019-5.

⁴⁷ 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.

⁴⁸ Complete FY 2007 to FY 2019 Periodicals data can be found in Library Reference PRC-LR-ACR2019-5.

Unit revenue for the Periodicals class as a whole increased from 25.6 cents in FY 2018 to 25.8 cents in FY 2019. FY 2019 ACR at 30. However, unit attributable cost⁴⁹ increased from 37.9 cents to 40.3 cents during the same period. *Id.* at 30-31. The 0.8 percent increase in unit revenue coupled with the 6.3 percent increase in unit cost caused unit contribution to decline in FY 2019. Figure III-2 details the unit cost, revenue, and contribution for Periodicals as a whole from FY 2015 to FY 2019.

Figure III-2
Periodicals Unit Cost, Revenue, and Contribution, FY 2015–FY 2019⁵⁰



Source: Library Reference PRC-LR-ACR2019-5.

d. Comments on Periodicals

The Public Representative comments that total losses for the Periodicals class are at their highest level since FY 2010.⁵¹ She appreciates the provision of the Periodicals Pricing Report, which allows for a better understanding of the dynamics and impacts of Periodicals pricing. PR Comments at 43. She notes, however, that because price increases are limited by the price cap, it is difficult for the Postal Service to make significant improvements in Periodicals cost coverage. *Id.*

In response, MPA-The Association of Magazine Media (MPA) asserts that the Public Representative's statement on the difficulty of the Postal Service to make significant improvements in Periodicals cost coverage due to price cap limitations is erroneous.⁵² MPA states that "[o]pportunities to recapture past productivity and cost levels are plentiful and

⁴⁹ 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.

⁵⁰ Complete FY 2007 to FY 2019 Periodicals data can be found in Library Reference PRC-LR-ACR2019-5.

⁵¹ Public Representative Comments, January 30, 2020, at 41 (PR Comments).

⁵² Comments of MPA-The Association of Magazine Media, February 18, 2020, at 1 (MPA Comments).

attainable.” MPA Comments at 2. To reduce costs and increase cost coverage, MPA recommends rightsizing Postal Service operations to recapture efficiencies that were achievable in FY 2007, abandoning the Flats Sequencing System (FSS) experiment, and passing through a much higher percentage of the Carrier Route Basic cost avoidance. *Id.* at 4-6.

e. Commission Analysis

Since FY 2007, Periodicals volume declined 47.3 percent, total revenue declined 45.4 percent, total attributable cost declined 29.2 percent, and the Periodicals class accumulated negative contribution of almost \$7.4 billion. *See* Library Reference PRC-LR-ACR2019-5. As detailed in Figure III-2, from FY 2018 to FY 2019, unit revenue increased by 0.8 percent and unit attributable cost increased by 6.3 percent. The widening gap between unit revenue and unit attributable cost resulted in a lower unit contribution and an increasing total negative contribution for Periodicals. To address the contribution shortfall of Periodicals, the Commission analyzes Periodicals costs and Periodicals prices. It is due to classes such as Periodicals that the Commission has proposed new regulations to address noncompensatory classes in the future.⁵³

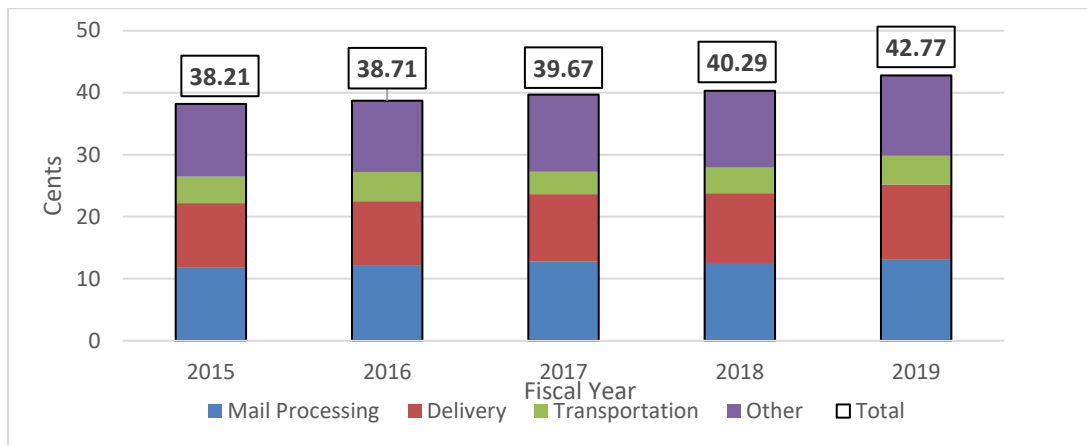
(1) Unit Costs and FY 2019 Operational Initiatives to Reduce Costs

In FY 2019, the Outside County product constituted 89.2 percent of all Periodicals volume and 94.8 percent of total Periodicals attributable cost.⁵⁴ Figure III-3 shows that Outside County Periodicals unit attributable cost increased by 2.48 cents from FY 2018 to FY 2019.

⁵³ *See* Docket No. RM2017-3, Revised Notice of Proposed Rulemaking, December 5, 2019 (Order No. 5337).

⁵⁴ *See* PRC-LR-ACR2019-5, Excel file “FY19 Periodicals Cost Coverage.xlsx.”

Figure III-3
Change in Outside County Periodicals Unit Attributable Costs,⁵⁵ FY 2015–FY 2019⁵⁶



Source: Library Reference PRC-LR-ACR2019-5.

In FY 2019, the unit attributable costs increased for delivery, transportation, mail processing, and other costs.⁵⁷ 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.⁵⁸ However, as discussed further in Chapter 6, the Postal Service has been unable to quantify the expected impact of those operational initiatives and changes. *See* Chapter 6 at 168. Therefore, the Commission is unable to determine the impact of these initiatives on the cost coverage of Periodicals.

All of the Commission recommendations pertaining to reducing flats costs in Chapter 6 of this Report apply equally to Periodicals. In Chapter 6, the Commission reiterates its longstanding finding that despite numerous cost reduction initiatives designed to reduce flat-shaped mail costs, these costs continue to rise. In addition, the Commission continues to be concerned with the inability of the Postal Service to quantify the cost savings of its initiatives.

(2) Periodicals Pricing Efficiency

In the FY 2018 ACD, the Commission directed the Postal Service to include an updated version of the FY 2018 ACD Periodicals Pricing Report in its FY 2019 ACR. FY 2018 ACD at 22. The updated report was to include an analysis of how the pricing in Docket No. R2019-1

⁵⁵ The figures in this tab do not include piggybacks. A majority of the other costs are piggybacked onto mail processing, delivery, and transportation.

⁵⁶ Complete FY 2007 to FY 2019 Periodicals data can be found in Library Reference PRC-LR-ACR2019-5.

⁵⁷ Other costs included in Figure III-3 include cost segments, 1, 2, 8, 11, 12, 13, 15, 16, 17, 18, 19 and 20.

⁵⁸ *See* Library Reference USPS-FY19-45, December 27, 2019.

impacted the cost, contribution, and revenue of Periodicals in FY 2019 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2019.⁵⁹

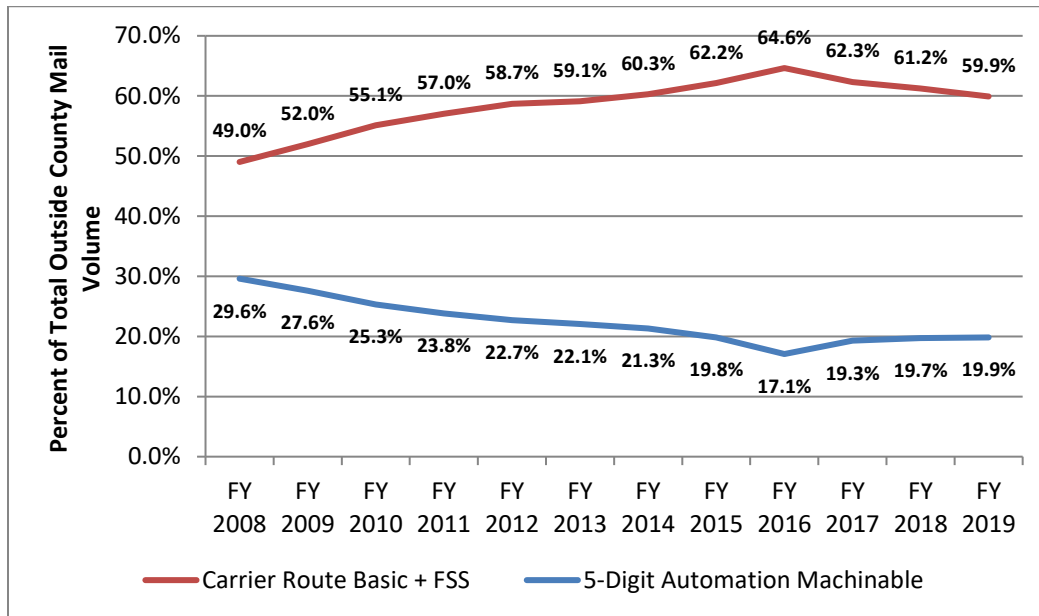
The Postal Service states that the Periodicals price changes in Docket No. R2019-1 sought to improve the efficiency signals given to customers by pricing pieces, bundles, and containers closer to estimated unit processing costs. Periodicals Pricing Report at 3. In Docket No. R2019-1, the Postal Service increased the differential between the Carrier Route price and non-Carrier Route prices by keeping the Carrier Route price constant and increasing the non-Carrier Route prices. *Id.* In addition, the Destination delivery unit (DDU)-entered Carrier Routes pallet prices were not changed while the prices for all other containers increased. *Id.* The Postal Service asserts that these price changes were meant to encourage customers to move to the lowest-cost mail preparation, which is Carrier Route bundles on 5-Digit pallets. *Id.*

The Postal Service reports that the proportion of Periodicals mail prepared on 5-Digit Carrier Routes pallets increased from FY 2017 to FY 2019. *Id.* at 4. However, the Postal Service states that some customers experienced a decline in subscribers that reduced density and resulted in migration of mail to less presorted containers, such as MADC pallets. *Id.* at 6. The Postal Service concludes that the migration of mail to higher cost preparation offset the cost reductions from migration to the lower cost preparations induced by price incentives. *Id.* Overall, the mail processing cost per piece and per container increased from FY 2018 to FY 2019. *Id.* at 8.

From FY 2008 through FY 2019, mailer presortation of Outside County Periodicals increased. As Figure III-4 illustrates, 49.0 percent of mail volume was presorted to the Carrier Route level in FY 2008, whereas 59.9 percent of mail volume was presorted to the Carrier Route level in FY 2019. While the FY 2019 levels exceed the FY 2008 levels, a smaller percent of Outside County Periodicals was presorted to Carrier Route in FY 2019 than the peak of 64.6 percent that occurred in FY 2016.

⁵⁹ *Id.* The Postal Service filed this updated report as Library Reference USPS-FY19-44, December 27, 2019, Update to Periodicals Pricing Report (Periodicals Pricing Report).

Figure III-4
Change in Outside County Periodicals Mail Mix, FY 2008–FY 2019⁶⁰



Source: Library Reference PRC-LR-ACR2019-5.

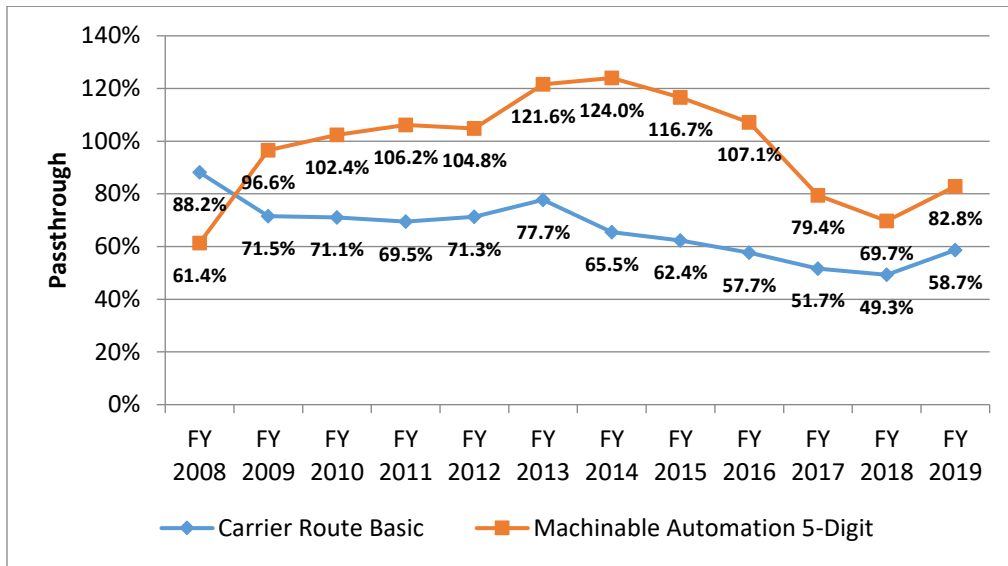
The Periodicals Pricing Report discusses the recent shift away from higher levels of presortation due to declining subscriber bases and lower density of publications. Figure III-4 illustrates this trend from FY 2016 through FY 2019. The Postal Service states that the volume of Periodicals mail has continued to decline as customers and publishers increasingly move their business online. *Id.* at 1. The Postal Service asserts that some customers were able to respond to pricing signals and increase the volume of mail entered using low cost preparation, but some customers experienced a decline in subscribers that reduced density and resulted in migration of mail to less presorted containers. *Id.* at 6.

In addition, 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.⁶¹ 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 2008 to FY 2019.

⁶⁰ 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.

⁶¹ 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.

**Figure III-5
Carrier Route Basic and Machinable Automation 5-Digit Passthroughs**



Source: Library Reference PRC-LR-ACR2019-5.

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 mailer the mail preparation method that is most efficient for both the Postal Service and the mailer.⁶²

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.

⁶² 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.

The Commission directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2020 ACR. The report must 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.

2. USPS Marketing Mail Flats

a. Introduction

In FY 2019, USPS Marketing Mail Flats had its worst cost coverage since the product was established in FY 2007. In the FY 2018 ACD, the Commission required a price increase for USPS Marketing Mail Flats at least 2 percentage points above the class average. FY 2018 ACD at 72. 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 striving to reduce the product's costs. 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 6 of this Report.

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

The Commission has issued three specific directives related to the cost coverage of USPS Marketing Mail Flats, which are discussed in further detail below. The FY 2010 directive was 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. Finally, due to the lack of results from the Postal Service's cost reduction efforts and continued cost coverage declines, the FY 2018 directive focused on improving revenues.

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

(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 6 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 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. The Commission implemented the FY 2018 directive based on cost coverage declines, substantial unit cost increases, inadequate unit revenue increases, and other alarming metrics. FY 2018 ACD at 69-70. 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 70. Additionally, the Commission noted that the Postal Service had chosen to increase USPS 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.*

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 USPS Marketing Mail in the next Market Dominant rate adjustment. *Id.* at 71. The Commission also required the Postal Service to continue responding to the Commission's FY 2010 and FY 2015 directives. *Id.*

c. FY 2019 Results

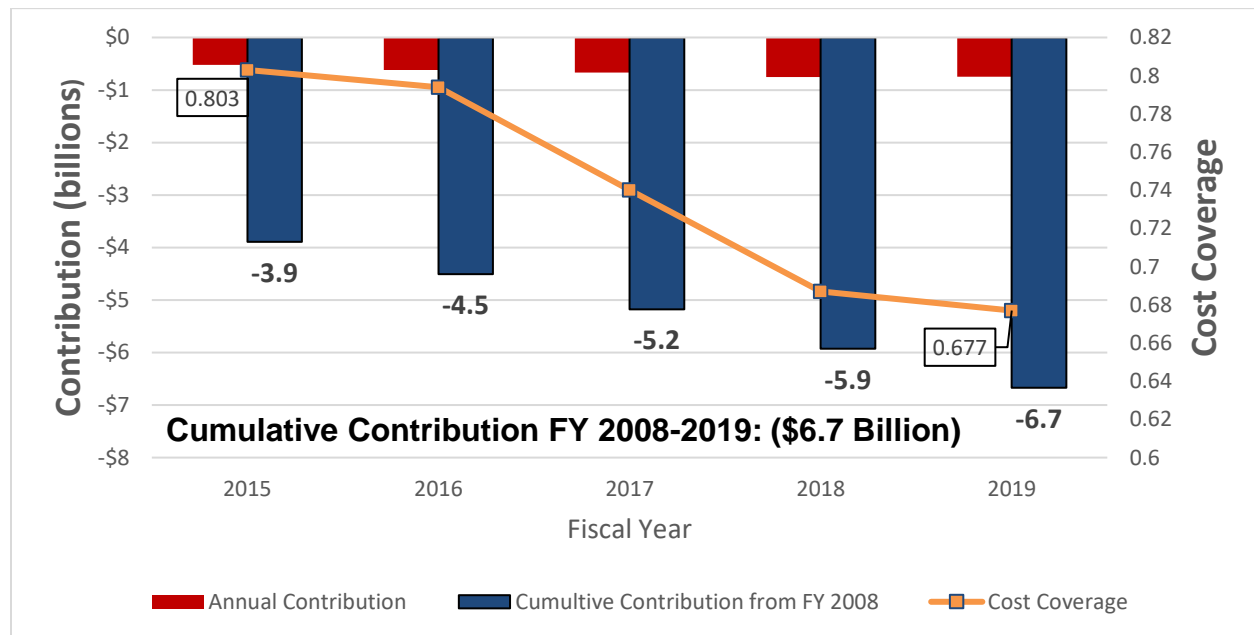
In FY 2019, USPS Marketing Mail Flats had a cost coverage of 67.7 percent.⁶³ As shown in Figure III-6, cost coverage for USPS Marketing Mail Flats has steadily declined since FY 2015, when the cost coverage was 80.3 percent.⁶⁴ In FY 2019, the cost coverage for USPS Marketing Mail Flats dropped by another 1 percentage point to its lowest value ever. Volume decreased 6.4 percent between FY 2018 and FY 2019. Negative contribution

⁶³ The Commission's cost coverage calculation may differ 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-ACR2019-1.

⁶⁴ Library Reference PRC-LR-ACR2019-4.

decreased by \$7.2 million. *Id.* The cumulative contribution loss from USPS Marketing Mail Flats from FY 2008 through FY 2019 is negative \$6.7 billion.

Figure III-6
USPS Marketing Mail Flats Annual and Cumulative Contribution and Cost Coverage, FY 2015–FY 2019⁶⁵



Source: Library Reference PRC-LR-ACR2019-4.

The Postal Service ascribes the decrease in cost coverage to “[s]harp volume declines in this product category and similar categories[,]” which caused “mail processing costs . . . to rise at a faster rate than wages.” FY 2019 ACR at 18. Specifically, the Postal Service asserts that:

From FY 2008 to FY 2019, Flats volume has decreased from 10.0 billion pieces to 3.8 billion pieces; AFSM 100 annual Total Pieces Fed has decreased from 27.7 billion to 11.7 billion; and aggregate AFSM 100 throughput has fallen from 3,314 pieces per machine hour to 2,148 pieces per [machine] 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. 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

⁶⁵ 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, putting upward pressure on Flats and Carrier Route per-piece mail processing costs.” *Id.*

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 no costing methodology changes were made in FY 2019 that affected the costs for Flats and the historical and current fiscal year subsidy for the Flats product. *Id.* at 26. The Postal Service is unable to provide an estimated timeline for phasing out the subsidy. *Id.* at 27. The Postal Service explains that it provided a description of operational changes designed to reduce the cost for Flats in response to the separate reporting that was required pursuant to 39 C.F.R. § 3050.50(f).⁶⁶ The Postal Service also provides a schedule for future price increases for the Flats product, but it contends that the “implementation of the Commission’s most recent pricing proposal for underwater products in Docket No. RM2017-3 should obviate the requirement that the Postal Service present such a schedule in subsequent proceedings.” FY 2019 ACR at 24-25.

In response to the FY 2018 ACD directive, the Postal Service proposed, and the Commission approved, a 3.893 percent price increase for USPS Marketing Mail Flats in Docket No. R2020-1.⁶⁷

e. Comments on USPS Marketing Mail Flats

The Public Representative continues to be concerned about the decrease in cost coverage for USPS Marketing Mail Flats and concludes that the Postal Service’s cost reduction strategies have been largely ineffective.⁶⁸ She recommends that the Postal Service continue to increase prices for Flats “as much (and as frequently) as possible in order to bring the product into compliance.” PR Comments at 39.

The American Catalog Mailers Association (ACMA) highlights the substantial increases in unit costs that have occurred for Flats, observing that volume-weighted unit costs have increased much more substantially than either Consumer price index (CPI) or input costs.⁶⁹ ACMA contrasts this with the unit cost increase for USPS Marketing Mail Letters, which has been much smaller.⁷⁰ ACMA points out that these cost increases have occurred despite considerable investment by the Postal Service in technology and improvements that should have reduced costs. *Id.* ACMA notes that “the cost increases make it more difficult for the Postal Service to maintain rate relationships and supply a nationwide system of the kind expected of it.” *Id.* at 8. ACMA conjectures that the rates for USPS Marketing Mail Flats could

⁶⁶ *Id.* at 26; see Library Reference USPS-FY19-45 and Chapter 6, *infra*. This is the information required by the Commission’s FY 2015 directive.

⁶⁷ See Order No. 5321 at 9, Table III-1.

⁶⁸ PR Comments at 39.

⁶⁹ Initial Comments of the American Catalog Mailers Association (ACMA), January 30, 2020, at 4-5 (ACMA Comments).

⁷⁰ *Id.* at 5. ACMA notes that the compound annual unit cost increase for USPS Marketing Mail letters since FY 2008 is 2.05 percent. *Id.*

come to approximate the rates for First-Class Mail Flats, even though First-Class Mail Flats receive better service. *Id.*

ACMA notes that USPS Marketing Mail Flats are becoming disproportionately used by nonprofit, as opposed to commercial, mailers, which partially explains the product's cost coverage issues. *Id.* at 11. ACMA opines that the reported costs for 5-Digit Automation Flats are too high, which it views as a problem because “[f]or the purpose of setting presort and automation discounts, volume-and-presort-variable costs are developed for the 5-digit category.” *Id.* at 12. ACMA asserts “[i]f there is a reason why the mail preparation and the flows cannot be improved, consideration should be given to creating a new product or a new work-stream, as a way to provide reasonable rates to non-[Enhanced Carrier Route] mailers.” *Id.* at 12-13. ACMA also asserts that “[b]eyond mail processing, the *delivery* costs of 5-digit are 5.4 [cents] greater than the delivery costs of Carrier Route[,]” and that “[t]his difference also should be studied.”⁷¹ In summation, it is ACMA's contention that “Flats have a cost problem[;] [they] do not have a price problem.” *Id.* at 14.

PostCom asserts that with regard to USPS Marketing Mail Flats, “above average price increases . . . obviously [have] not ha[d] the intended effect.” PostCom Comments at 6. PostCom notes that over the past 10 years, “despite a significant growth in co-mailing activity by the mailing industry, per unit revenues have grown.” *Id.* at 7. However, “[t]he problem is that . . . unit attributable costs have increased 64 [percent].” *Id.* In PostCom's view, “[i]f costs continue to increase at a rate exceeding 6 percent annually, price changes are at best pointless and arguably [are] accelerating a vicious cycle.” *Id.* To PostCom, “it is increasingly apparent that the Postal Service is either unable or unwilling to respond to flats volume changes by removing costs from its network . . . [.]” and “[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.*

The Commission continues to encourage ACMA or any other interested party to initiate a proceeding before the Commission if they believe that the Postal Service's reported costs are incorrect or its costing methodologies are inadequate. Such issues are more appropriately handled in a discrete proceeding than in an ACR docket.

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 cost coverage for the product. 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 examines USPS Marketing Mail Flats' costs in more detail by reviewing actual unit cost results, and the Postal Service's efforts to reduce costs through operational initiatives. Fourth, the Commission evaluates changes in unit revenues and the Postal Service's price

⁷¹ *Id.* at 13 (emphasis in original). ACMA rejects the Postal Service's assertion that increases in mail processing and delivery costs are explained by declining volumes resulting in the loss of economies of scale and density. *See, e.g.*, FY 2019 ACR at 16. ACMA maintains that “the costs reported do not quantify the effects of volume changes.” ACMA Comments at 13.

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. To address noncompensatory products such as USPS Marketing Mail Flats in the future, the Commission has proposed new regulations which are currently pending in a separate docket.⁷²

(1) FY 2019 Cost Coverage and Unit Contribution

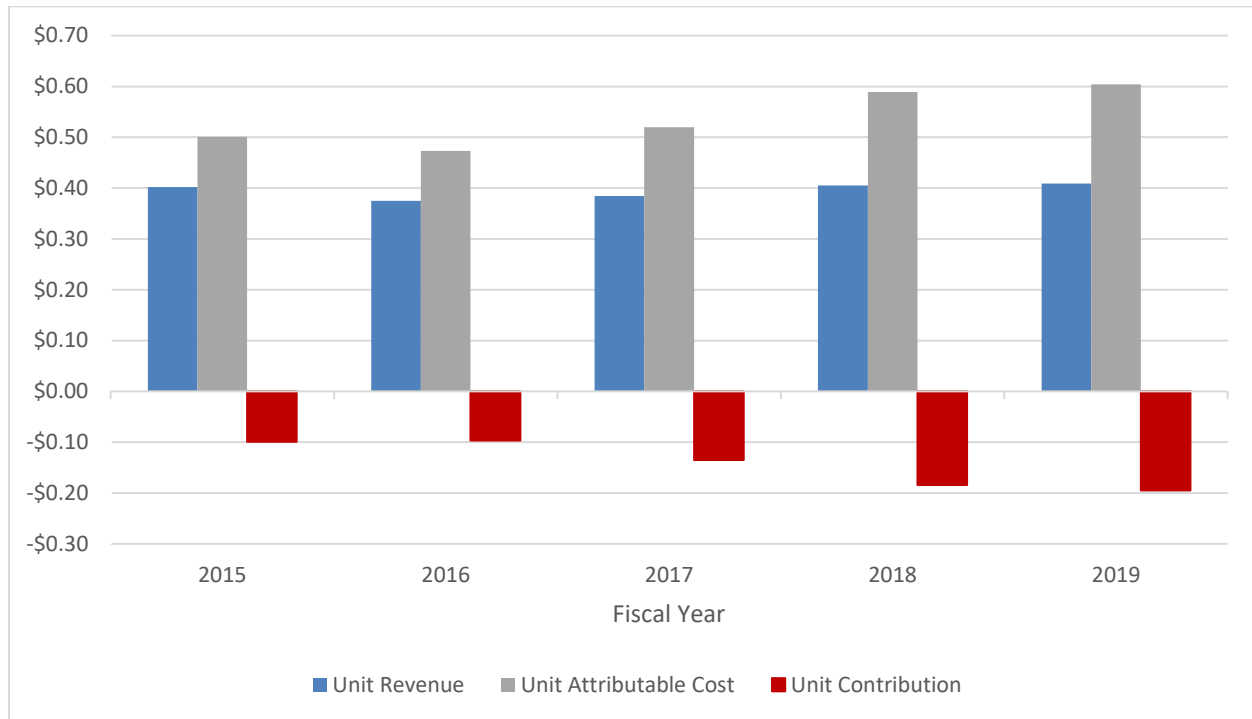
In this section, the Commission analyzes the overall progress the Postal Service has made at improving the cost coverage and unit contribution for USPS Marketing Mail Flats. Cost coverage and unit contribution are both functions of cost and revenue; therefore, the Commission discusses trends in cost and revenue in this section. In sections 3 and 4 below, the Commission more specifically analyzes costs (along with the Postal Service's efforts to reduce costs), as well as revenues (along with 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 was 67.7 percent in FY 2019.⁷³ The FY 2019 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 -19.5 cents in FY 2019, a 1.1 cent decline from FY 2018. However, as Figure III-7 also shows, the Postal Service was successful at increasing unit revenues by 1.1 percent, or 0.4 cents, in FY 2019. Nevertheless, this slight increase was eclipsed by an increase in unit attributable cost of 1.5 cents. This most recent unit contribution is the lowest ever for USPS Marketing Mail Flats.

⁷² See Order No. 5337, Attachment A at 15 (§ 3010.127(b)), 20 (§ 3010.129(g)), 38 (§ 3010.221) (Order No. 5337).

⁷³ Library Reference PRC-LR-ACR2019-4.

Figure III-7
USPS Marketing Mail Flats Unit Revenue, Attributable Cost, and Contribution,
FY 2015–FY 2019⁷⁴



Source: Library Reference PRC-LR-ACR2019-4.

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 and FY 2018 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.”⁷⁵ The Commission issued the FY 2010 ACD directive with the intent of reducing the contribution gap between these products.⁷⁶

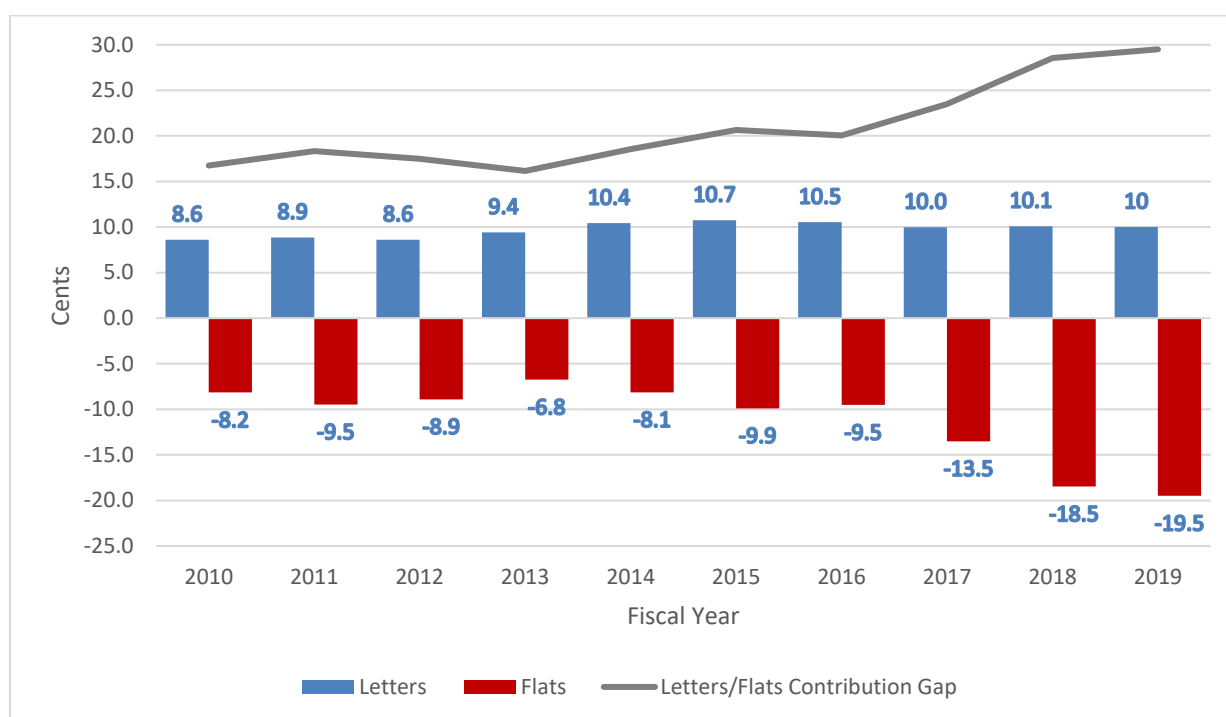
⁷⁴ Complete FY 2008 to FY 2019 USPS Marketing Mail Flats data can be found in Library Reference PRC-LR-ACR2019-5.

⁷⁵ 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 *USPS v. Postal Regulatory Comm’n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012).

⁷⁶ 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.

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 \$0.168. In FY 2019, the contribution gap between these two products increased to \$0.295. From FY 2010 to FY 2019, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats increased more than 76 percent.

Figure III-8
USPS Marketing Mail Flats and Letters Unit Contribution
and Contribution Gap, FY 2010–FY 2019



Source: Library Reference PRC-LR-ACR2019-4.

Since the Commission issued the FY 2010 directive 9 years ago, cost coverage has plummeted 14.1 percentage points to 67.7 percent. From FY 2008 to FY 2019, the cumulative negative contribution totals \$6.7 billion; and the unit contribution of USPS Marketing Mail Flats has decreased 17 cents. During the same period, the unit contribution for USPS Marketing Mail Letters grew 1 cent: the cumulative positive contribution over the years FY 2008 through FY 2019 was over \$55.3 billion.

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 possess an unacceptable deficient cost coverage that continues to constitute an intra-class subsidy, unfairly burdening other mailers within the USPS Marketing Mail class.

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

As shown above in Figure III-8, from FY 2018 to FY 2019 the unit cost of USPS Marketing Mail Flats increased 1.5 cents, or 2.6 percent. From FY 2010 to FY 2019, unit costs have increased 15.6 cents, or 34.8 percent. *See* Library Reference PRC-LR-ACR2019-4. 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 6 of this Report, the Commission reviews the operational changes/initiatives the Postal Service has identified for flat-shaped mailpieces in general, including USPS Marketing Mail Flats.

The Commission finds that the Postal Service's cost-reduction efforts with regard to USPS Marketing Mail Flats have been unsuccessful. In Chapter 6, the Commission explains its continued concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flat-shaped mail products, including USPS Marketing Mail Flats.

(4) Unit Revenue and Above-Average Price Adjustments

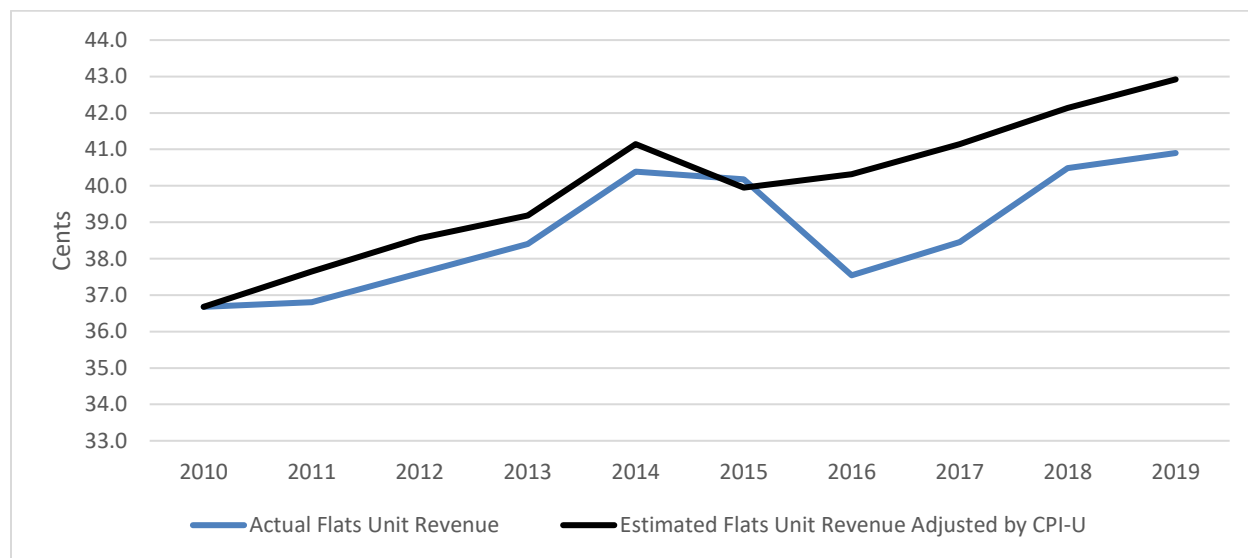
Despite the Commission's recent directives, the cumulative shortfall in contribution for USPS Marketing Mail Flats from FY 2008 through FY 2019 has grown to \$6.7 billion. As discussed above, the Postal Service has been unsuccessful at reducing the costs of USPS Marketing Mail Flats. In this section, the Commission reviews the Postal Service's 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. R2020-1 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 FY 2010 ACD directive. However, those price increases have been just barely above-average, and, combined with changes in the mail mix, they have not translated to above-average unit revenue increases.⁷⁷ Figure III-9 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 Consumer price index for all urban consumers (CPI-U) each year following the FY 2010 ACD directive.

⁷⁷ The price increase for USPS Marketing Mail Flats has averaged just 0.5 percentage points above the price increase for the USPS Marketing Mail class as a whole since Docket No. R2012-3. *See* PRC-LR-ACR2019-4.

Figure III-9
USPS Marketing Mail Flats Actual Versus Estimated Unit Revenue,
FY2010–FY 2019



Source: Library Reference PRC-LR-ACR2019-4.

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 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. R2020-1 Price Adjustment and Other Scenarios

In Docket No. R2020-1, the Postal Service proposed, and the Commission approved, a price increase of 3.893 percent for USPS Marketing Mail Flats. *See* Order No. 5321 at 9. This increase was 2.033 percentage points above the class average. *Id.* Price adjustments from Docket No. R2020-1 took effect in January 2020; hence, the actual impact from these price adjustments will not be seen until FY 2020 data become available. However, 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.⁷⁸ Table III-1 shows the contribution estimates provided by the Postal Service for FY 2020.⁷⁹ These estimates show the negative contribution for USPS Marketing Mail Flats improving by \$67.4 million as a result of this price increase.

⁷⁸ Chairman's Information Request No. 4 and Notice of Filing Under Seal, January 17, 2020, question 38 (CHIR No. 4).

⁷⁹ Responses of the United States Postal Service to Questions 1-41 of Chairman's Information Request No. 4, January 24, 2020, question 38 (Response to CHIR No. 4).

Table III-1
USPS Marketing Mail Flats FY 2020
Estimated Contribution

	Estimated USPS Marketing Mail Flats FY 2020 Contribution (Millions)	Improvement Over Base Year (Millions)
No FY 2020 Price Adjustment (Base Year)	(\$539.8)	
Docket No. R2020-1 Price Adjustment	(\$472.4)	\$67.4

Source: Library Reference PRC-LR-ACR2019-4.

Based on these projections, the Commission reaffirms its finding from the FY 2018 ACD that the Postal Service has the capability to propose a more-than-minimal above-average price increase for USPS Marketing Mail Flats that will improve unit revenues and contribution in a meaningful way.

(5) FY 2019 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. In addition, the Commission's analysis 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 have been insufficient to outweigh unit cost increases. The Postal Service has also been unable to provide the Commission with insight into the impact of cost reduction initiatives undertaken in FY 2019.

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 the likelihood that a price increase of at least 2 percentage points above the class average will have a positive cost coverage effect on the product. Postal Service forecasts show that it anticipates further positive impacts on contribution as a result of the Docket No. R2020-1 price adjustment. Response to CHIR No. 4, question 38. 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 recognizes the concerns of PostCom and ACMA that further price increases risk driving 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 product remains noncompensatory for a prolonged period. Since FY 2008, this product has contributed negative \$6.7 billion to the institutional costs of the Postal Service. The Commission has directed the Postal Service to address these issues repeatedly to no avail. Based on the Commission's experience with this and other noncompensatory products, the Commission has proposed uniform regulations to systematically address the contribution losses stemming from such products in Docket No. RM2017-3. Under the Commission's current proposal, the Postal Service would be required in future rate adjustment proceedings to increase the rate for any noncompensatory product by at least 2 percentage points above class average, and the Postal Service would be prohibited from reducing rates for such products.⁸⁰ This is the same remedy that the Commission ordered for USPS Marketing Mail Flats last year, and the Commission continues that approach this year.

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 2019, the cost coverage for USPS Marketing Mail Flats has decreased 14 percentage points. In addition, the Postal Service remains 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. In the meantime, the actual impact from the Commission's FY 2018 ACD directive on revenues will not be seen until FY 2020 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 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. 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 ACRs. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter 6 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 2018 ACD, the Commission strongly recommended that the Postal Service increase Parcels' prices by at least 2 percentage points above the

⁸⁰ See Order No. 5337, Attachment A at 15 (§ 3010.127(b)); *id.* at 20 (§ 3010.129(g)); *id.* at 38 (§ 3010.221).

class average in the next Market Dominant price adjustment, which the Postal Service did.⁸¹ The actual results of the Docket No. R2020-1 price adjustment will not be seen until FY 2020 data become available. Nevertheless, the cost coverage and contribution for USPS Marketing Mail Parcels continued to decline in FY 2019. Similar to last year's ACD, the Commission remains concerned about the cost coverage trends for this product. *See* FY 2018 ACD at 78.

b. FY 2019 Results

In FY 2019, USPS Marketing Mail Parcels had a cost coverage of 56.9 percent, down 1.6 percentage points from FY 2018. FY 2019 ACR at 16. The Postal Service explains that while revenue per piece increased 5.6 percent⁸² in FY 2019, cost per piece increased 8.7 percent. FY 2019 ACR at 16. The Postal Service notes that it followed the Commission's recommendation as part of the FY 2018 ACD directive that the Postal Service increase prices for USPS Marketing Mail Parcels by at least 2 percentage points above the class average. *Id.* at 16-17. Specifically, in Docket No. R2020-1, the Postal Service proposed, and the Commission approved, a price increase of 3.913 percent for this product. Order No. 5321 at 9, Table III-1.

c. Comments on USPS Marketing Mail Parcels

The Public Representative confirms that in Docket No. R2020-1, the Postal Service increased the price for USPS Marketing Mail Parcels as recommended by the Commission. PR Comments at 35. Nevertheless, she concludes that the Postal Service did not make any progress at improving the cost coverage for this product in FY 2019. *Id.* She "encourages the Postal Service to continue to raise USPS Marketing Mail Parcels prices." *Id.* She "suggests that even larger rate increases may be necessary to improve the product's cost coverage." *Id.* At the same time, she "recognizes that, because other USPS Marketing Mail products have cost coverage concerns, the Postal Service is limited in its ability to increase prices above the class average." *Id.* She "concurs with the Commission's prior recommendation that the Postal Service continue its efforts to decrease USPS Marketing Mail Parcels unit costs." *Id.* (citation omitted).

d. Commission Analysis

In FY 2019, 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 2018 ACD, the Commission recommended that the Postal Service increase Parcels' prices by at least 2 percentage points above the class average, and the Postal Service did so.⁸³ The results of the Docket No. R2020-1 price adjustment will not be seen until FY 2020 data become available. However, both the cost

⁸¹ FY 2018 ACD at 78; Order No. 5321 at 9, Table III-1.

⁸² The Commission's percentage change in revenue differs from the Postal Service's calculation (7.5 percent) because the Commission includes fees in the revenue for each product and the Postal Service does not.

⁸³ FY 2018 ACD at 78; Order No. 5321 at 9, Table III-1.

coverage and the contribution of USPS Marketing Mail Parcels have continued to decline. The Commission analyzes the Postal Service's progress in FY 2019 toward improving cost coverage for USPS Marketing Mail Parcels below.

The Commission reviews trends in unit revenue, unit cost, weight, and volume. Table III-2 displays the unit revenue, unit attributable cost, unit contribution, volume, and average weight-per-piece for USPS Marketing Mail Parcels from FY 2015 through FY 2019.

Table III-2
USPS Marketing Mail Parcels Financial Comparison,
FY 2015–FY 2019⁸⁴

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Percent Change FY 2015 to FY 2019	Percent Change FY 2018 to FY 2019
Unit Revenue	\$1.09	\$1.20	\$1.16	\$1.24	\$1.31	20.2%	5.7%
Unit Attributable Cost	\$1.48	\$1.86	\$1.79	\$2.12	\$2.30	55.6%	8.7%
Unit Contribution	\$(0.39)	\$(0.66)	\$(0.64)	\$(0.88)	\$(0.99)	-154.6%	-12.8%
Volume (thousands)	60,420	44,767	40,582	34,650	36,861	-39.0%	6.4%
Average Weight Per Piece (ounces)	5.997	6.134	5.634	5.971	6.447	7.5%	8.0%

Source: Library Reference PRC-LR-ACR2019-4.

As demonstrated in Table III-2, both unit revenue and unit attributable cost for USPS Marketing Mail Parcels increased from FY 2018 to FY 2019. However, unit revenue increased 7.10 cents, while unit cost increased 18.4 cents, resulting in unit contribution decreasing 11.4 cents to an all-time low of -99.3 cents. The unit revenue increase in FY 2019 was correlated with an increase in average weight-per-piece. Unit revenue and average weight have changed in the same direction every year except FY 2015. Because prices are higher for heavier pieces, changes in average weight-per-piece are a driver of changes in unit revenue.⁸⁵

In this year's ACD proceeding, a CHIR was issued asking the Postal Service to provide estimates of the impact of the Docket No. R2020-1 price increase for USPS Marketing Mail Parcels. CHIR No. 4, question 39. Table III-3 shows the improved contribution estimates provided by the Postal Service for FY 2020. *Id.* These estimates show the negative contribution for USPS Marketing Mail Parcels improving by \$2.2 million as a result of this price increase.

⁸⁴ Complete FY 2008 to FY 2019 USPS Marketing Mail Parcels data can be found in Library Reference PRC-LR-ACR2019-5.

⁸⁵ While changes in average weight-per-piece are a driver of changes in unit revenue, the Postal Service states that increases in average weight-per-piece "probably ha[ve] a minimal impact on attributable costs,' because '[i]n relative terms, more origin entry and less presorting likely ha[ve] much more of an effect on . . . increase[s] in attributable costs . . . [than] increase[s] in unit weight.'" See FY 2018 ACD at 73.

Table III-3
USPS Marketing Mail Parcels FY 2020
Estimated Contribution

	Estimated USPS Marketing Mail Parcels FY 2020 Contribution (Millions)	Improvement Over Base Year (Millions)
No FY 2020 Price Adjustment (Base Year)	(\$31.6)	
Docket No. R2020-1 Price Adjustment	(\$29.5)	\$2.2

Source: Library Reference PRC-LR-ACR2019-4.

The Commission is concerned about the repeated failure of USPS Marketing Mail Parcels to cover its costs. The Commission recognizes the steps the Postal Service has taken to improve the cost coverage of this product. Nevertheless, the fact remains that there is an ongoing cost coverage shortfall that has existed for a significant period of time, and the Postal Service's approach to improving cost coverage has to date been inadequate. At this time, the Commission concludes that USPS Marketing Mail Parcels' prices, like those of USPS Marketing Mail Flats, violate 39 U.S.C. § 101(d). The Commission finds that USPS Marketing Mail Parcels have an unacceptable deficient cost coverage that constitutes an intra-class subsidy, unfairly burdening other mailers within the USPS Marketing Mail class. As such, the Commission deems it necessary to make its FY 2018 directive to increase Parcel's prices at least 2 percentage points above the class average a requirement, rather than a recommendation.

The Commission finds that FY 2019 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 2018 directive will not be seen until FY 2020 data are available. Nevertheless, based on projections which show the likely impact on revenue to be positive, the Commission finds it appropriate to make the FY 2018 directive, which was a recommendation, mandatory for FY 2020. 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 proportionate to 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 2020 ACR.

4. USPS Marketing Mail Carrier Route

a. Introduction

In FY 2019, USPS Marketing Mail Carrier Route had a cost coverage below 100 percent for the first time since the product was established. Unit attributable costs have been

increasing steadily over the past 5 years, while unit revenues have 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 strongly recommends 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 more aggressive price increases will help prevent this product's contribution from dropping even further into negative territory.

b. FY 2019 Results

In FY 2019, USPS Marketing Mail Carrier Route had a cost coverage of 99.9 percent, down from 108.6 percent in FY 2018.⁸⁶ The Postal Service asserts that “[w]hile revenue per piece decreased slightly . . . [c]ost per piece rose at a higher rate . . .” FY 2019 ACR at 15. In addition, “[b]etween FY 2018 and FY 2019, volume dropped by 9.6 percent, . . . likely reflecting a change in preferences that favored online advertising and the movement of Carrier Route volumes to High Density due to co-mailing.” *Id.* The Postal Service explains that:

In Docket No. R2019-1, the Postal Service gave Carrier Route a below-average increase of 0.734 percent, which the Postal Service deemed appropriate due to the product's price elasticity and the value added by catalogs in the mailbox. However, even with the Docket No. R2019-1 price increase, per-piece revenue declined slightly. The decrease in unit revenue is likely due to a shift in composition of pieces within the product to lower-priced cells.

Id. Furthermore, “Carrier Route pieces mailed at Nonprofit rates also increased from the previous year, from 7.4 percent of total Carrier Route volume to 9.4 percent.” *Id.* The Postal Service attributes this to the 2018 mid-term elections, because “much of the increase in Nonprofit volume was due to political/election mailings.” *Id.* at 15-16.

The Postal Service cites the cause for the increase in unit attributable costs for USPS Marketing Mail Carrier Route as higher mail processing and delivery costs, which it attributes to “declining volumes resulting in the loss of scale economies . . . [and] loss of economies of density.” *Id.* at 16. For delivery specifically, the Postal Service also cites the fact that carrier wages increased 3 percent during FY 2019 compared to FY 2018. *Id.*

c. Postal Service Plan to Improve Cost Coverage

A CHIR was issued asking the Postal Service to provide a plan to improve cost coverage for Carrier Route. CHIR No. 4, question 36. In response, the Postal Service states that if Carrier Route remains noncompensatory in future fiscal years, it intends to recommend to the Board of Governors that they increase prices for Carrier Route above the class average. Response to CHIR No. 4, question 36. In addition, the Postal Service asserts that it “will

⁸⁶ FY 2019 ACR at 14. The Commission's cost coverage calculation differs from the Postal Service's calculation (99.7 percent) because, unlike the Postal Service, the Commission includes fees in the revenue for each product. See Library Reference PRC-LR-ACR2019-1.

endeavor to work cross-functionally to provide efficient pricing signals to mailers in subsequent price change filings.” *Id.* The Postal Service states that while it is not feasible to plan for cost reductions for individual products (because mailpieces are generally processed based on shape, not product category), broader operational initiatives are being implemented to reduce costs for flat-shaped products in general, including USPS Marketing Mail Carrier Route. *Id.*

d. Comments on USPS Marketing Mail Carrier Route

The Public Representative expresses concern that “in FY 2019, an additional USPS Marketing Mail product fell below 100 percent cost coverage.” PR Comments at 40. Nevertheless, she believes that “the January 2020 price increases for USPS Marketing Mail should enable the product to cover costs in FY 2020.” *Id.*

ACMA notes that unit costs for Carrier Route increased an “astonishing” 8.68 percent between FY 2018 and FY 2019. ACMA Comments at 2. ACMA posits that this occurred “despite greater use of pallets and a decrease in weight per piece, though there *was* a slight reduction in dropshipping.” *Id.* (emphasis in original). ACMA asserts that since FY 2008 volume-weighted unit costs for Carrier Route have far outpaced growth in CPI and increases in input costs. *Id.* at 3. ACMA suggests that part of the decline in cost coverage for this product between FY 2018 and FY 2019 was due to the growth of nonprofit mail, as commercial mail migrated to High Density. *Id.* at 2-3. ACMA opines that “[b]ut for the[] political/election mailings [in FY 2019], the cost coverage of Carrier Route would likely be above 100 [percent].” *Id.* at 3 n.5. ACMA also attributes the cost increases to the FSS, arguing that “the cost coverage of the non-FSS component of Carrier Route is significantly above 100 [percent].” *Id.* at 4 n.8. Finally, ACMA suggests that the reported costs for Carrier Route flats appear to be too high. *Id.* at 10. Specifically, ACMA states that the estimate of street time cost per mailpiece is too high. *Id.* at 10-11. ACMA asserts that “[t]he Postal Service should be asked to analyze this matter further.” *Id.* at 10.

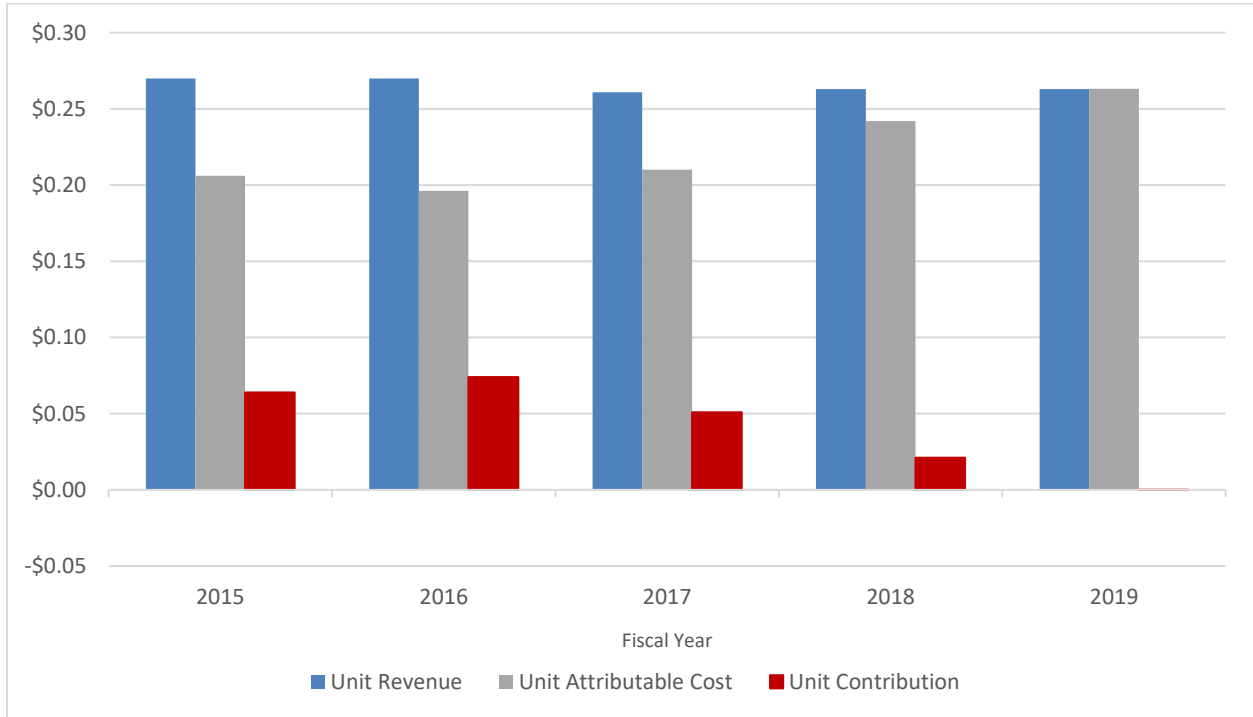
As with USPS Marketing Mail Flats, PostCom notes that unit costs for Carrier Route have been outpacing unit revenue, and that price increases are likely to exacerbate a vicious cycle. PostCom Comments at 7.

e. Commission Analysis

As Figure III-10 shows, unit contribution for Carrier Route has been falling since FY 2016. Since FY 2015, unit revenues have decreased 0.7 cents,⁸⁷ while unit costs have increased 5.7 cents.

⁸⁷ 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-10
USPS Marketing Mail Carrier Route
Unit Revenue, Attributable Cost, and Contribution,
FY 2015–FY 2019⁸⁸

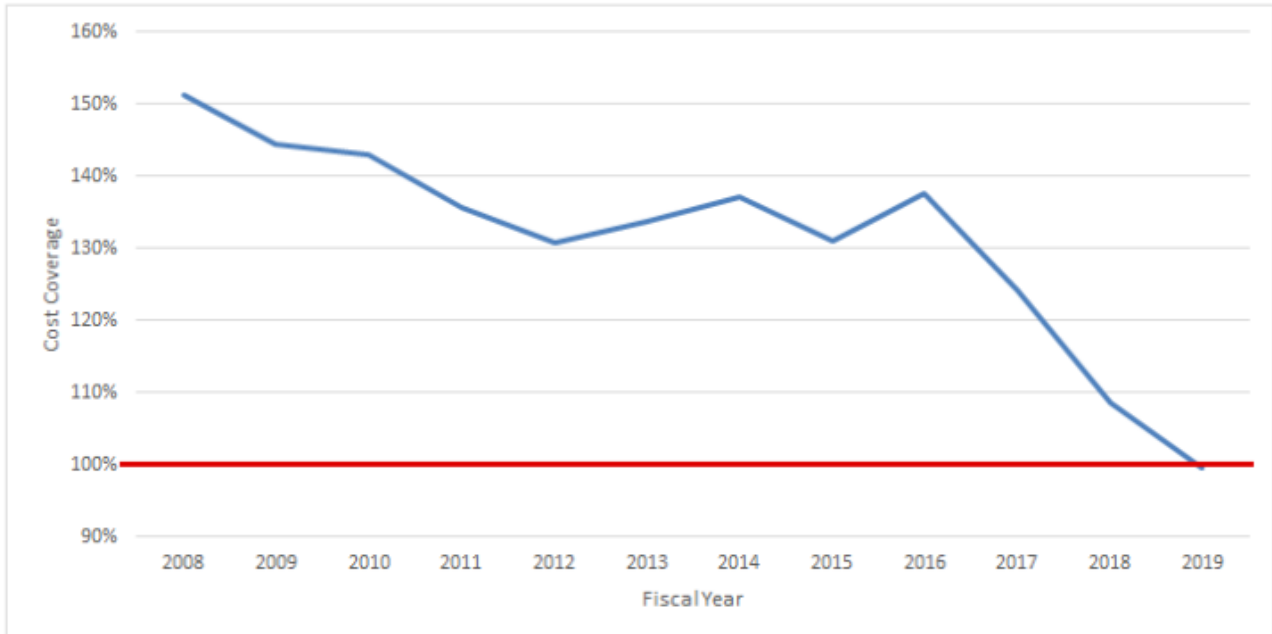


Source: Library Reference PRC-LR-ACR2019-4.

Figure III-11 below 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 51.3 percentage points. The declining cost coverage for USPS Marketing Mail Carrier Route has accelerated since FY 2016, decreasing by an average of 12.5 percentage points each year.

⁸⁸ Complete FY 2008 to FY 2019 USPS Marketing Mail Carrier Route data can be found in Library Reference PRC-LR-ACR2019-5.

Figure III-11
USPS Marketing Mail Carrier Route Cost Coverage,
FY 2008–FY 2019



Source: Library Reference PRC-LR-ACR2019-4.

The Postal Service attributes the slight decline in unit revenue during FY 2019 to a volume migration of Carrier Route mailpieces to lower-priced rate cells.⁸⁹ While the volume migration towards lower-priced rate cells reduced average revenue, it did not simultaneously reduce unit attributable costs, which might ordinarily be expected, due to “adverse productivity changes in several relevant mail processing operations, including FSS and incoming bundle sorting operations on both [Automated Parcel Bundle Sorter] [(JAPBS)] and [Automated Package Processing System] [(JAPPS)] equipment.”⁹⁰ Additionally, the Nonprofit proportion of USPS Marketing Mail increased by 2 percentage points, putting further downward pressure on average revenue. FY 2019 ACR at 15-16.

(1) Cost Reduction Efforts

In Chapter 6 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 6, the Postal Service is still unable to quantify the impact of any of its operational initiatives or operational changes. *See* Chapter 6, *infra*.

⁸⁹ FY 2019 ACR at 15. Specifically, the Postal Service asserts that volume within the Carrier Route product moved to the 5-Digit Carrier Route pallet (“Pure CR Pallet”) rate cell. *Id.*

⁹⁰ Responses of the United States Postal Service to Questions 1-25 of Chairman’s Information Request No. 9, February 7, 2020, question 6 (Response to CHIR No. 9).

(2) Estimated Impact of Docket No. R2020-1 Price Adjustment

The Postal Service estimates an improvement in contribution of \$16.7 million as a result of the price adjustment in Docket No. R2020-1. Response to CHIR No. 4, question 37. This estimate assumes no increase in costs over FY 2019 levels.

Table III-4
USPS Marketing Mail Carrier Route FY 2020
Estimated Contribution

	Estimated USPS Marketing Mail Carrier Route FY 2020 Contribution (Millions)	Improvement Over Base Year (Millions)
No FY 2020 Price Adjustment (Base Year)	\$35.4	
Docket No. R2020-1 Price Adjustment	\$52.1	\$16.7

Source: Library Reference PRC-LR-ACR2019-4.

(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 this is the first year that this product failed to cover costs; however, with a steady rise in unit costs and a persistent decline in cost coverage, this product appears to be following the same path that USPS Marketing Mail Flats and USPS Marketing Mail Parcels have been on for years. As the Commission has stated previously, the failure of products to cover their attributable costs threatens the financial integrity of the Postal Service.⁹¹ The Postal Service's plan to only address this issue if cost coverage remains below 100 percent at the end of FY 2020 is inadequate. Based on the Postal Service's schedule of regular and predictable price adjustments, it will likely propose CY 2021 prices before the FY 2020 cost coverage is known.⁹² Therefore, under the Postal Service's proposed plan, it would not be until CY 2022 prices have already been proposed that the issue of any continuing negative cost coverage on the part of Carrier Route could be addressed. Of course, the Postal Service could also 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 6, infra.* The Commission strongly recommends that the Postal Service take

⁹¹ *See, e.g.*, Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017, at 149, 248. (Order No. 4257).

⁹² The Postal Service generally implements price changes in January of each calendar year. *See* United States Postal Service, Filing of Updated Schedule of Regular and Predictable Price Changes, posted October 18, 2011, available at: (<https://www.prc.gov/docs/76/76804/Not.Schedule.Regular.Rate.Adj.pdf>.) In order to provide the requisite 45 days' notice and review required by statute, proposed price increases must therefore be announced in the late fall of the preceding calendar year. *See* 39 U.S.C. § 3622(d)(1)(C). The ACR, in which the Postal Service reports cost coverage for each product, is required by statute to be filed 90 days after the end of each fiscal year, meaning that it is generally filed at the very end of each calendar year, after any proposed rate increases have already been announced. *See* 39 U.S.C. § 3652(a).

corrective action now to improve the revenues and reduce the costs of Carrier Route in order to prevent further erosion of the cost coverage of this product.

The Commission finds that the FY 2019 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable costs. The Postal Service has not provided a specific plan to reduce Carrier Route costs in FY 2020. The Commission strongly recommends that the Postal Service increase USPS Marketing Mail Carrier Route's prices by at least 2 percentage points above the average price increase for the USPS Marketing Mail class. If the Postal Service chooses not to increase USPS Marketing Mail Carrier Route's prices by at least 2 percentage points above average, it must provide an estimate of the impact of the price increase it proposes on the contribution of the USPS Marketing Mail class and the contribution of the USPS Marketing Mail Carrier Route product. 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 6 of this Report.

5. Market Dominant International Mail

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

In FY 2019, Inbound Letter Post and International Registered Mail, a component of International Ancillary Services, did not cover their attributable 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.⁹³ Terminal dues are prices set by the UPU.⁹⁴

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

⁹³ *Mail Classification Schedule (MCS)*, Section 1130. The Inbound Letter Post product refers to international mail that is not classified as Parcel Post or express mail (Express Mail Service (EMS) and Global Express Guaranteed). It consists of mail items similar to domestic First-Class Mail, Periodicals, USPS Marketing Mail, Bound Printed Matter (BPM) Flats/Parcels, and Media Mail/Library Mail, weighing up to 4.4 pounds (2 kilograms). Inbound Letter Post is a distinct product from Inbound LC/AO mail, which refers to international letters, cards, flats, bulky letters, and small packets, whether under the Universal Postal Union (UPU) terminal dues system or bilateral or multilateral agreements. All Inbound Letter Post mail is inbound LC/AO mail.

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

Commission has consistently recommended the Postal Service take actions to improve the cost coverage of this product.

On August 23, 2018, President Donald J. Trump issued a presidential memorandum with the title *Modernizing the Monetary Reimbursement Model for the Delivery of Goods Through the International Postal System and Enhancing the Security and Safety of International Mail*.⁹⁵ Specifically, the memorandum noted that the current terminal dues do not fully reimburse the Postal Service for the cost of delivering foreign-origin mail. Presidential Memorandum at section 2(c)(i)(A). Additionally, the Presidential Memorandum noted that the “current terminal dues rates undermine the goal of unrestricted and undistorted competition in cross-border delivery services because they disadvantage non-postal operators seeking to offer competing collection and outward transportation services for goods covered by terminal dues in foreign markets.”⁹⁶

The Presidential Memorandum then outlined policies relating to inbound international mail and terminal dues. Specifically, the Presidential Memorandum stated that it is the policy of the executive branch to support “a system of unrestricted and undistorted competition between United States and foreign merchants. Such efforts include: (i) ensuring that rates charged for delivery of foreign-origin mail containing goods do not favor foreign mailers over domestic mailers; [and] (ii) setting rates charged for delivery of foreign-origin mail in a manner that does not favor postal operators over non-postal operators[.]” *Id.* section 2(d).

On October 17, 2018, in a statement from the White House Press Secretary, President Donald J. Trump concurred “with the Department of State’s recommendation to adopt self-declared rates for terminal dues as soon as practical, and no later than January 1, 2020.”⁹⁷ The Department of State also filed notice of the withdrawal of the United States from the UPU in 1 year, as set forth in the UPU Constitution. *See id.* The President instructed the Department of State to “negotiate bilateral and multilateral agreements that resolve the problems discussed in the Presidential Memorandum. If negotiations are successful, the Administration is prepared to rescind the notice of withdrawal and remain in the UPU.” *Id.*

⁹⁵ Presidential Memorandum for the Secretary of State, Secretary of the Treasury, Secretary of Homeland Security, Postmaster General, and Chairman of the Postal Regulatory Commission, August 23, 2018 (Presidential Memorandum), available at: <https://www.whitehouse.gov/presidential-actions/presidential-memorandum-secretary-state-secretary-treasury-secretary-homeland-security-postmaster-general-chairman-postal-regulatory-commission/>.

⁹⁶ Presidential Memorandum, section 2(c)(i)(B). The Presidential Memorandum defines “postal operator” to mean a “governmental or non-governmental entity officially designated by a [UPU] member country to operate postal services and to fulfill the related obligations arising out of the Acts of the UPU on its territory.” *Id.* section 1(c). It also defines “non-postal operator” to mean a “private express carrier, freight forwarder, or other provider of services for the collection, transportation, and delivery of international documents and packages, other than a postal operator.” *Id.* section 1(b).

⁹⁷ Statement from the Press Secretary, October 17, 2018, available at: <https://www.whitehouse.gov/briefings-statements/statement-press-secretary-38/>.

In September 2019, members of the UPU held the Third Extraordinary Congress in Geneva, Switzerland.⁹⁸ Through successful negotiations, led by the Administration and the Department of State, the UPU adopted amendments to the Universal Postal Convention that achieved reforms sought by the Presidential Memorandum. Specifically, beginning July 1, 2020, the Postal Service may charge self-declared prices for certain inbound small packets and bulky letters.⁹⁹ Additionally, as a result of the successful negotiations at the Third Extraordinary Congress, the United States will remain a member country of the UPU.¹⁰⁰

In December 2019, the Commission approved specific per-item and per-kilogram self-declared rates for the Inbound Letter Post Small Packets and Bulky Letters product, which the Postal Service plans to implement beginning on July 1, 2020.¹⁰¹ In addition, the Commission approved the transfer of inbound small packets and bulky letters from the Market Dominant Inbound Letter Post product to the Competitive Inbound Letter Post Small Packets and Bulky Letter product on January 1, 2020. Order No. 5372 at 16.

(2) FY 2019 Financial Results

In FY 2019, revenue for Inbound Letter Post did not cover its attributable cost. Cost coverage decreased from 84.9 percent in FY 2018 to 78.5 percent in FY 2019.¹⁰² Total contribution decreased from -\$75.1 million in FY 2018 to -\$164.0 million in FY 2019. *Id.*

The Postal Service states that the Inbound Letter Post product does not include the entirety of revenue flows related to Inbound Letter Post. FY 2019 ACR at 9. According to the Postal Service, if revenues for Inbound International Registered Mail, the PRIME Express Service Agreement, the PRIME Tracked Service Agreement, the PRIME Registered Service Agreement, and the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product were considered with revenue for the Inbound Letter Post product, then Inbound Letter Post would cover its attributable costs in FY 2019.¹⁰³

The Postal Service attributes the Inbound Letter Post product's financial performance to its "unique pricing regime," as it has in past years. FY 2019 ACR at 7. The Postal Service states that it "did not independently determine the prices [paid by foreign postal operators] for processing and delivery of foreign origin mail" in the United States. *Id.* at 7-8. The Postal

⁹⁸ See Docket No. IM2019-1, Notice and Order Establishing Section 407 Proceeding, June 20, 2019, at 1 (Order No. 5127).

⁹⁹ The amendments to the Universal Postal Convention that went into force on January 1, 2020, appear within the Second Additional Protocol to the Universal Postal Convention, available at: http://www.upu.int/uploads/tx_sdownload/actsActsOfTheExtraordinaryCongressGenevaEn.pdf.

¹⁰⁰ The President personally handed written notice to the UPU Director General at the White House on October 15, 2019, to indicate that the United States would remain a member country of the UPU.

¹⁰¹ 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 15 (Order No. 5372).

¹⁰² Supplemental Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 14 – Errata, February 26, 2020, question 1 (Supplemental Response to CHIR No. 14); FY 2019 ACR at 7.

¹⁰³ *Id.*; see Library Reference USPS-FY19-NP9A, December 27, 2019 (revised January 10, 2020).

Service explains that these prices are set according to a UPU terminal dues formula established in the Universal Postal Convention. *Id.* at 8.

The Postal Service provides a table illustrating changes in Inbound Letter Post revenue, volume, cost, and contribution from FY 2018 to FY 2019.¹⁰⁴ The Postal Service attributes the 53.1 percent increase in total Inbound Letter Post costs in FY 2019 to an increase in the volume of small packets and bulky letters; increases in City Delivery In-Office, Vehicle Service Drivers, and Domestic Transportation costs; and an increase in Rural Carrier costs for small packets and bulky letters. Response to CHIR No. 2, question 3.

The Postal Service also asserts that the reporting changes in the International Cost and Revenue Analysis (ICRA), which resulted from the expiration of bilateral negotiated service agreements (NSAs) in FY 2018, also caused the Inbound Letter Post product's cost coverage to decrease.¹⁰⁵ In addition, according to the Postal Service, the change in the exchange rate for the Special Drawing Right (SDR)¹⁰⁶ resulted in approximately a 3 percent decrease in Inbound Letter Post revenue. Response to CHIR No. 2, question 3.

The Postal Service suggests that the financial performance for the Inbound Letter Post product should improve in FY 2020 for two reasons. First, as a result of successful negotiations at the Third Extraordinary Congress, the rates for inbound small packets and bulky letters will increase twice in FY 2020: terminal dues increased on January 1, 2020, and, beginning on July 1, 2020, the Postal Service will be able to charge certain designated operators self-declared rates. *See* FY 2019 ACR at 8. Second, Market Dominant Inbound Letter Post small packets and bulky letters transferred to the Competitive Inbound Letter Post Small Packets and Bulky Letters product on January 1, 2020. *Id.*

The Postal Service states that it detected remail¹⁰⁷ from 14 countries in FY 2018 and FY 2019, and notified these countries that the Postal Service reserved the right to charge higher rates pursuant to Universal Postal Convention Article 12.4.¹⁰⁸ The Postal Service indicates that it did not send all 14 countries invoices with higher rates for these remail

¹⁰⁴ Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 2, January 17, 2020, question 3 (Response to CHIR No. 2).

¹⁰⁵ *Id.* The Postal Service explains that when there is a bilateral NSA in place for inbound LC/AO mail, the ICRA reports the NSA revenue, volume, cost and contribution under the NSA's docket number. *Id.* When a bilateral NSA expires, the mailpieces that the designated operator would send under the NSA are sent as Inbound Letter Post mail and that the revenue, volume, cost, and contribution are recorded under the Inbound Letter Post product and, potentially, applicable PRIME NSAs. The Postal Service asserts that these reporting changes between bilateral NSAs and the Inbound Letter Post product and, potentially, applicable PRIME NSAs, demonstrate the need to include multiple inbound revenue streams when reviewing compliance of the Inbound Letter Post product. *Id.*

¹⁰⁶ A SDR is a reserve asset that the International Monetary Fund (IMF) created to serve as a unit of account for the IMF and some international organizations, including the UPU. Its value is based on a basket of five major currencies: the U.S. dollar, the Euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. On March 20, 2020, the IMF exchange rate for one SDR was 1.34890 U.S. dollars, available at: https://www.imf.org/external/np/fin/data/rms_five.aspx.

¹⁰⁷ Remail is letter post sent from a mailer in an origin country to a destination country through a third country in order to benefit from lower terminal dues than the third country pays to the destination country.

¹⁰⁸ Response to CHIR No. 4, question 16.a. *See* Universal Postal Union (UPU) Convention Manual, available at: http://www.upu.int/uploads/tx_sbdownloader/actInThreeVolumesManualOfConventionEn.pdf.

mailpieces. Response to CHIR No. 9, question 13.a. Instead, the Postal Service states that its primary objective was to stop further remail activity so that future mailpieces would not be routed through countries paying lower rates. *Id.* question 13.b. The Postal Service also indicates that it did not return remail to the designated operator¹⁰⁹ of posting or handle it in accordance with national legislation, pursuant to Universal Postal Convention Article 12.4.¹¹⁰

(3) Comments on Inbound Letter Post

The Public Representative and United Parcel Service, Inc. (UPS) commented on Inbound Letter Post. The Public Representative agrees with the Postal Service that the Inbound Letter Post product does not include the entirety of Inbound Letter Post-related revenue and, therefore, may not present a clear picture regarding the profitability of Inbound Letter Post flows. PR Comments at 31. However, she states that the Postal Accountability and Enhancement Act (PAEA) requires the Commission to evaluate individual products for compliance and does not permit the consideration of other potential sources of revenue. *Id.* Therefore, she concludes that the Inbound Letter Post product failed to cover its costs. *Id.* The Public Representative notes that because the cost coverage for Inbound Letter Post letters and flats exceeds the cost coverage of Inbound Letter Post small packets and bulky letters, cost coverage for Inbound Letter Post should improve in FY 2020 because small packets and bulky letters transferred from the Inbound Letter Post product on January 1, 2020. *Id.* at 32.

In its reply comments, UPS notes that 39 U.S.C. § 407 requires that the “Customs Service and other appropriate Federal agencies shall apply the customs laws of the United States and all other laws relating to the importation or exportation of [inbound Competitive mail] in the same manner to both shipments by the Postal Service and similar shipments by private companies.”¹¹¹ UPS states that the Postal Service should confirm that it is in compliance with this requirement. *Id.* at 15.

(4) Commission Analysis

(a) Compliance review at the product level

The Postal Service argues that when reviewing compliance of the Inbound Letter Post product, the Commission should consider revenue earned by related international products, including the Inbound International Registered Mail component of International Ancillary Services, the PRIME Exprès Service Agreement, the PRIME Tracked Service Agreement, the PRIME Registered Service Agreement, and the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product. FY 2019 ACR at 9.

¹⁰⁹ A designated operator is a “governmental or non-governmental entity officially designated by the member country to operate postal services and to fulfill the related obligations arising out of the Acts of the [Universal Postal Union] on its territory.” Convention Manual, Article 1.12, 2018 (available at: http://www.upu.int/uploads/tx_sbdownloader/actInThreeVolumesManualOfConventionEn.pdf).

¹¹⁰ Response to CHIR No. 9, question 14. See UPU Convention Manual, available at: http://www.upu.int/uploads/tx_sbdownloader/actInThreeVolumesManualOfConventionEn.pdf.

¹¹¹ Reply Comments of United Parcel Service, Inc. on United States Postal Service’s Annual Compliance Report for Fiscal Year 2019, February 18, 2020, at 15 (citing 39 U.S.C. § 407(e)(2)) (UPS Reply Comments) (internal marks omitted).

In Docket No. RM2018-2, the Commission revised its periodic reporting requirements to include Inbound Letter Post data by country group and by shape.¹¹² In that docket, the Postal Service opposed the new reporting requirement and argued that the revised requirement would support an incomplete and inaccurate evaluation of the financial performance of the Inbound Letter Post product because it does not include all revenue streams related to the product.¹¹³ The Commission found the Postal Service's arguments to be unpersuasive. Order No. 4836 at 19. The Commission noted that it reviews each product, including those identified by the Postal Service as related to Inbound Letter Post, for compliance. *Id.* The Commission stated that adopting the Postal Service's suggestion to review compliance for those products collectively would promote less transparency and could be potentially misleading. *Id.* at 20.

The Postal Service repeats the same arguments here and fails to provide any compelling justifications for the Commission to depart from its practice of evaluating compliance for each Market Dominant international mail product at the product level.

Moreover, there is a compelling basis to continue reviewing Inbound Letter Post compliance at the product level. The Postal Service's list of international revenue flows includes mailpieces for which designated operators pay default UPU rates (Inbound Letter Post and Inbound International Registered Mail) and mailpieces for which rates are negotiated between the Postal Service and specific designated operators (the PRIME Express Service Agreement, the PRIME Tracked Service Agreement, the PRIME Registered Service Agreement, and the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product). Mailpieces for which designated operators pay default UPU rates did not cover costs. Meanwhile, mailpieces for which designated operators pay negotiated rates did cover costs. Adopting the Postal Service's approach would allow designated operators who are parties to the PRIME agreements or to a bilateral NSA with the Postal Service to subsidize the default UPU rates for Inbound Letter Post and Inbound International Registered Mail. By continuing to review compliance at the product level, the Commission can analyze Inbound Letter Post's financial performance, identify causes for declines in contribution and cost coverage, and direct the Postal Service to take actions that will move the product towards positive contribution and cost coverage. If the Commission considered additional revenue flows for international products related to Inbound Letter Post when considering Inbound Letter Post compliance, then there would be less transparency and the Commission could miss issues such as UPU default terminal dues failing to cover costs and the distortion in the cross-border delivery service market.

¹¹² Docket No. RM2018-2, Order Amending Rules for Periodic Reporting, September 25, 2018, at 12-21 (Order No. 4836).

¹¹³ Docket No. RM2018-2, United States Postal Service Comments Regarding Order No. 4706, August 17, 2018, at 9 (Docket No. RM2018-2, Postal Service Comments). The Postal Service argued that the Commission should consider revenue from Inbound Letter Post, Inbound International Registered Mail, the PRIME Express Service Agreement, the PRIME Tracked Service Agreement, the PRIME Registered Service Agreement, and the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product. Docket No. RM2018-2, Postal Service Comments at 10-11.

(b) Financial Performance

The Commission is concerned about the decrease in contribution of Inbound Letter Post from -\$75.1 million in FY 2018 to -\$164.0 million in FY 2019.¹¹⁴ The Commission is also concerned with the decrease in cost coverage for Inbound Letter Post from 84.9 percent in FY 2018 to 78.5 percent in FY 2019. *Id.* In its FY 2018 ACR, the Postal Service asserted that the January 2018 and January 2019 increases in terminal dues for Inbound Letter Post should improve its cost coverage in FY 2019.¹¹⁵ However, the cost coverage for this product decreased 6.4 percentage points in FY 2019.¹¹⁶

In December 2019, the Commission approved 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 effective January 1, 2020. *See* Order No. 5372. The Public Representative states that removal of small packets and bulky letters from the Inbound Letter Post product should improve the product's financial performance in FY 2020 because small packets and bulky letters have a lower cost coverage than letters and flats. PR Comments at 32. Although letter and flat-shaped Inbound Letter Post volume has a higher cost coverage than bulky letters and small packets, the transfer of small packets and bulky letters from the Market Dominant Inbound Letter Post product will not automatically improve the cost coverage of the letter and flat-shaped mailpieces remaining in the product. Improvement in cost coverage will also depend on improvement in the quality of service for Inbound Letter Post mail;¹¹⁷ reductions in costs; and SDR/U.S. dollar exchange rate fluctuations.

The Commission reiterates its concern regarding the UPU pricing regime that results in noncompensatory terminal dues.¹¹⁸ The Commission also emphasizes that domestic mailers are subsidizing the entry of Inbound Letter Post by foreign postal operators who use the same postal infrastructure but bear none of the burden of contributing to its institutional costs. *Id.* Because UPU terminal dues were not equivalent to domestic postage rates in the destination country in FY 2019, the Commission considers them discriminatory. *See id.* Copenhagen Economics quantified the impact of the UPU terminal dues negotiated at the 2016 UPU Congress that took effect in January 2018.¹¹⁹ It concluded

¹¹⁴ Response to CHIR No. 14, question 1; FY 2019 ACR at 7.

¹¹⁵ Docket No. ACR2018, United States Postal Service Fiscal Year 2018 Annual Compliance Report, December 28, 2018, at 10 (FY 2018 ACR).

¹¹⁶ Supplemental Response to CHIR No. 14, question 1; FY 2019 ACR at 7.

¹¹⁷ As discussed in section B.5.b, *infra*, terminal dues can be adjusted downward if the Postal Service does not achieve the UPU-established annual service performance target; they can also be adjusted upward if the Postal Service achieves or exceeds the target. The Postal Service reports that it forfeited revenue due to not meeting the UPU service performance target in CY 2018 and in January through October of CY 2019. Library Reference USPS-FY19-NP30, December 27, 2019, file "NONPUBLIC FY19-NP30 Preface.pdf," at 5.

¹¹⁸ FY 2018 ACD at 85; FY 2017 ACD at 68; FY 2016 ACD at 66.

¹¹⁹ *See* Copenhagen Economics, Terminal Dues: Impact on financial transfers among designated postal operators of the Universal Postal Union 2018-2021 cycle agreements, September 22, 2017, available at: https://www.prc.gov/sites/default/files/reports/Terminal%20Dues_Impact%20on%20financial%20transfers_FINAL%2022%20September%202017.pdf.

that these rates would result in a global net financial transfer among designated postal operators that ranges from 2.1 billion to 2.4 billion SDR in 2018 to 2.8 billion to 4 billion SDR in 2021.¹²⁰ However, these figures were calculated before the Third Extraordinary Congress adopted reforms to the terminal dues system, which include permitting the Postal Service and certain other designated operators to self-declare rates for certain small packets and bulky letters, beginning July 1, 2020. As self-declared rates will be based on domestic tariffs, subject to UPU business rules, and should be compensatory, at least for the United States, they should reduce the estimated global net financial transfers.

The Commission appreciates the Administration's participation and leadership at the successful Third Extraordinary Congress, which resulted in the adoption of self-declared rates for certain small packets and bulky letters within the UPU terminal dues system. These self-declared rates should ensure that rates for small packets and bulky letters are compensatory.

However, the Commission notes that terminal dues are only available to designated operators, and that non-designated operators that provide international mailing services similar to Inbound Letter Post 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 consistent with the policies outlined in the Presidential Memorandum, including that the rates do not favor designated operators over non-designated operators.

The Commission finds that revenue for Inbound Letter Post was not sufficient to cover attributable cost in FY 2019. 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. Lastly, the Commission further recommends that the Postal Service work with the Department of State to put forward proposals on compensatory terminal dues to the UPU Congress in August 2020.

(c) Remail

The Postal Service detected potential remail activity from 14 countries. Response to CHIR No. 4, question 16.a. The Postal Service indicates that it did not send invoices to these countries charging these designated operators higher rates for the remailed items. Response to CHIR No. 9, question 13.a. Also, the Postal Service indicates that it did not return the remail items to the designated operator of posting or handle these mailpieces in accordance with national legislation. *Id.* question 14. The Commission notes that by not charging these designated operators higher rates for remail items, the Postal Service forfeited revenue it could rightfully collect in FY 2019.

¹²⁰ A global net financial transfer is the difference between the actual compensation that designated postal operators receive from delivering inbound cross-border letter mail at UPU terminal dues and the compensation that they would require in a situation without the UPU terminal dues system in place (*i.e.*, domestic postage rates).

The Commission recommends that the Postal Service work with the Department of State to ensure that all designated operators pay the same terminal dues in order to eliminate incentives for remail. In the interim, the Commission also urges the Postal Service to improve processes to detect remail and to charge higher rates for remail pursuant to the Universal Postal Convention.

b. Quality of Service Link to UPU Terminal Dues

(1) Background

The Postal Service did not maximize revenue for Inbound Letter Post in FY 2019. Under the UPU Quality Link Measurement System (QLMS), terminal dues can be adjusted downward if the Postal Service does not achieve the UPU-established annual service performance target; they can also be adjusted upward if the Postal Service achieves or exceeds the target. In CY 2018 and January through October of CY 2019, the Postal Service did not achieve the annual target.¹²¹ The Postal Service's service performance results also show a deterioration from CY 2018 to January through October of CY 2019. *Id.*

The Postal Service reports the amount of its forfeited revenue due to not meeting the UPU service performance target in CY 2018 and in January through October of CY 2019.¹²² The forfeited revenue in January through October of 2019 was higher than the forfeited revenue in CY 2018. *Id.*

In its FY 2018 Service Performance Report, the Postal Service identified various steps it was taking to improve service performance for Inbound Letter Post.¹²³ These steps included: "regular communications with key [International Service Centers (ISC)] personnel[;]" individual ISC projects and initiatives to improve performance; and a Black Belt Lean Six Sigma project to improve international letter performance. Docket No. ACR2018, USPS-FY18-29 at 8. The Postal Service states that it "was not able to fully pursue its service performance improvement plans during FY 2019 due to the need to focus on other urgent Postal Service international operational priorities, which hindered the product's service performance." Response to CHIR No. 2, question 5. More specifically, the Postal Service asserts that its "'Terminal Dues Score Improvement' Lean Six Sigma Black Belt Project . . . was 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." *Id.* question 6.

The Postal Service notes that service performance for Inbound Letter Post increased in June and July 2019 following meetings with the ISC and area leadership. *Id.* question 5. The Postal Service also points out that the third-party provider of QLMS data changed from

¹²¹ See Library Reference USPS-FY19-NP30, December 27, 2019, PDF files "NONPUBLIC UPU QS Link Final 2018.pdf" and "NONPUBLIC UPU QS Link to Oct2019.pdf."

¹²² See Library Reference USPS-FY19-NP30, PDF file "NONPUBLIC FY19-NP30 Preface.pdf."

¹²³ Docket No. ACR2018, Library Reference USPS-FY18-29, December 28, 2018, PDF file "FY18-29 Service Performance Report.pdf," at 8 (Docket No. ACR2018, USPS-FY18-29). See Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 3, January 28, 2019, question 16 (Docket No. ACR2018, Response to CHIR No. 3).

2018 to 2019. *Id.* Now that the United States will remain in the UPU, the Postal Service states that it plans to continue its projects and initiatives to improve service performance in FY 2020. *Id.* question 6.

(2) Commission Analysis

The Commission concludes that the service performance for Inbound Letter Post declined in FY 2019. As a result of increased Inbound Letter Post volume in FY 2019, the Postal Service forfeited more revenue than in FY 2018 for not meeting the UPU service performance target. The Postal Service readily admits that its focus was not on improving service performance for Inbound Letter Post in FY 2019. *Id.* questions 5, 6. The Commission acknowledges the Postal Service's intention to continue projects and initiatives to improve service performance for Inbound Letter Post in FY 2020.

The Commission directs the Postal Service to provide both International Mail Measurement System (IMMS) and QLMS CY 2019 and CY 2020 performance reports for Inbound Letter Post, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve service performance in the FY 2020 ACR. The Commission also directs the Postal Service to state in its FY 2020 ACR whether it forfeited revenue in CY 2019 and CY 2020 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2019 and CY 2020, the Commission directs the Postal Service to provide the forfeited amounts for CY 2019 and for CY 2020 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 the following within 120 days of issuance of this ACD: service performance reports for CY 2019 and all available reports for CY 2020; a status update on projects and initiatives to improve service performance, including the "Terminal Dues Score Improvement" Lean Six Sigma Black Belt Project, and their effectiveness in improving service performance; and the amount of Inbound Letter Post forfeited revenue due to not meeting UPU service performance targets in CY 2019 and CY 2020.

c. Inbound Letter Post Data Required by 39 C.F.R.
§ 3050.21(l)

In Docket No. RM2018-2, the Commission revised its periodic reporting requirements codified in 39 C.F.R. part 3050. *See* 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 and by shape for FY 2017 through FY 2019 and provided Inbound

Letter Post data by UPU country group for FY 2015 and FY 2016 under seal in Library Reference USPS-FY19-NP9A.¹²⁴

d. Commission Analysis

As part of the ACD, the Commission analyzes the Inbound Letter Post revenue, volume, attributable cost, and contribution data, by UPU country group and by shape, in Library Reference PRC-LR-ACR2019-NP3. In Library Reference USPS-FY19-NP9A, the Postal Service filed these data under seal, which includes revised FY 2018 revenue, cost, volume, and contribution data that it filed with the FY 2018 ACR.^{125 126}

The Commission's library reference modifies the data provided in Library Reference USPS-FY19-NP9A to exclude data for international mail products other than the Inbound Letter Post product, such as Inbound International Registered Mail and Market Dominant NSAs. The Commission's analysis identifies trends specific to certain shapes and for mailpieces originating from specific UPU country groups.

Because the Postal Service filed the underlying data under seal, the Commission files both the Inbound Letter Post data and the analysis contained in Library Reference PRC-LR-ACR2019-NP3 under seal. However, concurrent with the FY 2019 ACD, the Commission is issuing a preliminary determination to unseal its analysis in Library Reference PRC-LR-ACR2019-NP3.¹²⁷

e. International Ancillary Services

(1) Background

International Ancillary Services consists of International Certificate of Mailing, International Registered Mail, International Return Receipt, and Customs Clearance and Delivery Fee. *Mail Classification Schedule*, Section 1510. In FY 2019, the International Ancillary Services product as a whole covered its attributable cost. FY 2019 ACR at 35. However, one component of the product, International Registered Mail, did not cover its attributable cost. *Id.*

The Postal Service explains that more barcode information for International Registered Mail was used to assign costs to products and services, which resulted in an increase in costs distributed to Inbound International Registered Mail. *Id.* The Postal Service also

¹²⁴ Library Reference USPS-FY19-NP9A. On December 13, 2018, the Postal Service filed a motion requesting a partial waiver of 39 C.F.R. § 3050.21(l). Docket No. ACR2018, Motion of the United States Postal Service for Partial Waiver of Rule 3050.21(l) Regarding Inbound Shape Data, December 13, 2018. The Postal Service requested a partial waiver of the requirement to report Inbound Letter Post revenue, volume, attributable costs, and contribution data by shape for fiscal years prior to FY 2017 as the Postal Service asserted that such data were unavailable. *Id.* at 1. The Commission granted the Postal Service's motion. Docket No. ACR2018, Order Granting Partial Waiver, December 21, 2018, at 1-2 (Order No. 4943).

¹²⁵ Library Reference USPS-FY19-NP9A, Excel file "IB LP Shape by UPU Group FY19.Rev.1.10.20.xlsx," tab "Summary." See Response to CHIR No. 9, question 16.

¹²⁶ The Commission asked the Postal Service to provide these updated FY 2018 data publicly. See CHIR No. 14, question 1. The Postal Service subsequently provided these data publicly. See Supplemental Response to CHIR No. 14, question 1.

¹²⁷ Notice of a Preliminary Determination to Unseal Library Reference PRC-LR-ACR2019-NP3, March 25, 2020 (Order No. 5460).

asserts that cost increases in cost segments related to miscellaneous postal supplies and services and international indemnities, along with indirect costs that are dependent on the direct cost components impacted by the use of the barcodes, contributed to total cost increases for Inbound International Registered Mail. Response to CHIR No. 2, question 10.b.

The Postal Service states that the additional payment per-item for Inbound International Registered Mail increased from 1.1 SDR to 1.2 SDR in CY 2019, increased to 1.3 SDR in CY 2020, and will increase to 1.4 SDR in CY 2021, which should improve cost coverage. FY 2019 ACR at 35. In addition, the Postal Service states that its participation in the voluntary supplementary remuneration program for inbound registered items furnished additional revenue. *Id.* The Postal Service also highlights that during FY 2019, a few more designated postal operators became parties to the Inbound Market Dominant Registered Service Agreement 1 multilateral agreement, which creates another separate source of contribution associated with Inbound International Registered Mail. *Id.* at 35-36.

The Postal Service adds that the Commission found that the proposed prices for the Competitive International Registered Mail service associated with the Inbound Letter Post Small Packets and Bulky Letters product will cover attributable costs. *Id.* at 36.

(2) Comments

Only the Public Representative commented on International Ancillary Services. In her comments, she notes that the International Ancillary Services product as a whole covered its attributable cost; however, the Inbound International Registered Mail component within the International Ancillary Services product did not cover costs. PR Comments at 49.

The Public Representative points out that the Postal Service effectuated the transfer of Inbound International Registered Mail services associated with the Inbound Letter Post Small Packets and Bulky Letters product to the competitive product list on January 1, 2020, along with pricing that will likely permit Inbound International Registered Mail to cover its cost in FY 2020. *Id.* at 50. She opines that it is similarly likely that the Inbound International Registered Mail services associated with the remaining Inbound Letter Post mailpieces will also cover their attributable costs as a result of the price increase. *Id.* Therefore, the Public Representative states that no further action is necessary. *Id.*

(3) Commission Analysis

The Commission finds that the International Ancillary Services product was compensatory in FY 2019. However, International Registered Mail was noncompensatory. Although cost coverage in FY 2018 was also noncompensatory, unlike in FY 2019, it showed an improvement over the cost coverage in FY 2017. FY 2018 ACR at 43. As the Commission noted in its FY 2018 ACD, this improvement was due, in part, to a price increase for Inbound International Registered Mail from 0.67 SDR to 1.10 SDR. However, the percentage price increase in CY 2019 was less than the percentage price increase in CY 2018 as it increased from 1.10 SDR to only 1.20 SDR. FY 2019 ACR at 35. Although the Postal Service anticipated that this price increase should be sufficient to cover costs in

FY 2019, it was not enough to offset cost increases¹²⁸ and International Registered Mail cost coverage decreased.

The Commission reiterates its concern regarding the failure of International Registered Mail to cover cost. *See* FY 2017 ACD at 72. The Commission repeats its recommendation that the Postal Service identify and implement ways to reduce costs for International Registered Mail.

The Commission urges the Postal Service to continue efforts to limit cost increases for International Registered Mail. The Commission also recommends that the Postal Service take steps to improve its service performance for Inbound International Registered Mail in order to receive the full amount of additional revenue under the UPU supplementary remuneration program. In addition, the Commission recommends that the Postal Service work with the Department of State to negotiate higher rates for Inbound International Registered Mail at the UPU Congress in August 2020.

6. Media Mail/Library Mail

In FY 2019, Media Mail/Library Mail had a cost coverage of 71.5 percent, a 5.2 percent decrease compared with FY 2018.¹²⁹ Unit contribution decreased 34.7 cents per piece from FY 2018 to FY 2019.¹³⁰ FY 2019 was the thirteenth consecutive year that Media Mail/Library Mail did not generate sufficient revenue to cover attributable cost. In FY 2019, the cost coverage for Package Services fell to 96.9 percent. The Media Mail/Library Mail product is the only product in the Package Services class with a cost coverage below 100 percent. Table III-5 contains the cost coverage of each Package Services product between FY 2014 and FY 2019.

**Table III-5
Package Services Cost Coverage,
FY 2014–FY 2019**

	Package Services Overall	Alaska Bypass	Bound Printed Matter Flats	Bound Printed Matter Parcels	Media Mail / Library Mail
FY 2014	112.5%	202.3%	151.1%	108.9%	94.0%
FY 2015	104.9%	176.2%	141.0%	119.1%	76.4%
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%

Source: Library Reference PRC-LR-ACR2019-6.

¹²⁸ The Commission previously observed that costs for International Registered Mail are somewhat volatile. FY 2018 ACD at 91.

¹²⁹ *See* FY 2019 ACR at 32; FY 2018 ACR at 39.

¹³⁰ Unit contribution decreased from a loss of \$1.065 per piece in FY 2018 to a loss of \$1.412 per piece in FY 2019. FY 2018 ACR at 39; FY 2019 ACR at 32.

The cost coverage of the Media Mail/Library Mail product has declined 22.5 percentage points since FY 2014. Table III-6 contains the cost coverage of Media Mail/Library Mail since 2014.

Table III-6
Media Mail/Library Mail Cost Coverage,
FY 2014–FY 2019

	Revenues (000s)	Attributable Cost(000s)	Cost Coverage
FY 2014	\$ 308,330	\$ 328,095	94.0%
FY 2015	\$ 274,471	\$ 359,083	76.4%
FY 2016	\$ 266,585	\$ 354,337	75.2%
FY 2017	\$ 267,122	\$ 352,714	75.7%
FY 2018	\$ 276,421	\$ 360,415	76.7%
FY 2019	\$ 284,005	\$ 397,042	71.5%

Source: Library Reference PRC-LR-ACR2019-6.

Several Media Mail/Library mail cost segments increased significantly between FY 2018 and FY 2019. For example, the unit cost of “C/S 3 Clerks and Mailhandlers” increased 10.69 percent, the unit cost of “C/S 8 Vehicle Service Drivers” increased 29.78 percent, and the unit cost of “C/S 10 Rural Carriers” increased 19.66 percent. In response to CHIR No. 12, the Postal Service discusses the changes in unit costs associated with the increase in overall costs. In that response, the Postal Service provides a table highlighting the unit cost changes of the previously identified cost segments and provides a narrative as to why each cost segment changed.¹³¹

Docket No. R2020-1 included an above-average price increase for Media Mail/Library Mail. FY 2019 ACR at 32. 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-7 shows the history of price increases for Media Mail/Library Mail under the PAEA. As detailed in Table III-7, the Postal Service has consistently increased the price of Media Mail/Library Mail above the level of the Package Services class.

¹³¹ Responses of the United States Postal Service to Questions 1-15 of Chairman’s Information Request No. 12, February 14, 2020 , question 1 (Response to CHIR No. 12).

Table III-7
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%

Source: Library Reference PRC-LR-ACR2019-6.

The Public Representative notes that the Postal Service’s R2018-1 price increase of 1.993 percent for Media Mail/Library Mail was above the class average price increase of 1.892 percent. PR Comments at 46. However, she observes that “the Postal Service did not make any progress regarding the cost coverage of Media Mail/Library Mail.” *Id.* For this reason, the Public Representative “encourages the Postal Service to continue to raise Media Mail/Library Mail prices” and “suggests that even larger rate increases may be necessary to improve the product’s cost coverage.” *Id.*

Media Mail/Library Mail did not cover its attributable cost or make a contribution to institutional costs in FY 2019. 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 2018 ACD at 94.

The Commission finds that the FY 2019 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. The Postal Service’s approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate, but it has been historically inadequate. The Commission directs the Postal Service to submit a plan outlining how it will increase cost coverage of Media Mail/Library Mail within 90 days of the filing of this ACD.

7. Stamp Fulfillment Services

The Stamp Fulfillment Services (SFS) product provides for the fulfillment of stamp orders placed by mail, phone, fax, or online to the SFS Center in Kansas City, Missouri. It was added to the MCS as a Market Dominant product in FY 2010. Cost has exceeded revenue and,

consequently, cost coverage has been below 100 percent each year since its introduction. In FY 2019, cost coverage increased to 94.5 percent.

Table III-8
SFS Cost Coverage,
FY 2015–FY 2019

Fiscal Year	Revenue (in Millions)	Attributable Cost (in Millions)	Cost Coverage
FY 2015	\$3.9	\$4.6	85.1%
FY 2016	\$3.7	\$4.3	87.3%
FY 2017	\$3.9	\$4.0	97.2%
FY 2018	\$3.9	\$4.4	87.4%
FY 2019	\$4.1	\$4.3	94.5%

Source: Library Reference PRC-LR-ACR2019-7.

The Postal Service attributes the increase in cost coverage to the above average price increase in Docket No. R2019-1 of 3.456 percent. The Postal Service states that the Docket No. R2020-1 price increase of 0.004 percent was “a very small amount” to balance out the larger than average price increase of the previous rate case. FY 2019 ACR at 34.

The Public Representative “urges the Postal Service to resume above-average price increases until the SFS product is compensatory.” PR Comments at 49.

The Commission finds that FY 2019 revenue for SFS was not sufficient to cover attributable cost. The financial performance of SFS does not entirely capture the value that the Services Center adds to the Postal Service and to other Postal Service products. Although SFS does not cover its attributable cost, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. The Commission urges the Postal Service to continue its efforts to improve cost coverage for SFS. If the Postal Service proposes a below-average price increase in its next Market Dominant price increase, it should explain its rationale.

C. Other Issues

1. Greeting Card Association Complaint

In lieu of filing comments in this ACD docket, the Greeting Card Association (GCA) filed a notice informing the Commission and participants that it filed a complaint, pursuant to 39 U.S.C. § 3662, in Docket No. C2020-2.¹³² In its complaint, GCA requests that the Commission incorporate its complaint and accompanying exhibits by reference into the instant docket

¹³² Greeting Card Association Notice of Filing Complaint and Request for Record Treatment, January 30, 2020, at 1 (GCA Notice). See Docket No. C2020-2, Complaint of the Greeting Card Association, January 30, 2020 (Docket No. C2020-2, Complaint).

and treat them as comments because it believes the complaint overlaps with issues that the Commission considers as part of its annual compliance review. Docket No. C2020-2, Complaint at 1.

By filing a complaint, GCA triggered the commencement of a schedule that provides the Postal Service 20 days to file an answer or a dispositive motion, and the Commission 90 days to determine whether it should begin complaint proceedings. This procedural schedule extends beyond the statutory deadline for when the Commission must issue this ACD. Issuing a determination on whether the complaint is justified in this ACD would unnecessarily constrain the time for the Commission to investigate and consider the factual and legal issues raised by GCA in its complaint. Accordingly, the Commission declines consideration of the GCA complaint within the instant docket but instead will consider GCA's allegations in Docket No. C2020-2, pursuant to the procedural schedule that applies to separate section 3662 complaints.

2. First-Class Mail Product Cost Coverage Disparity

As in previous ACD dockets, Pitney Bowes raises the issue of high cost coverage for First-Class Mail Presort Letters, especially in comparison to other products within First-Class Mail. Pitney Bowes Comments at 2. Specifically, Pitney Bowes suggests that the Postal Service should “rebalance the cost coverage and unit contributions among First-Class Mail products to encourage the growth and retention of more price sensitive and profitable Presort Letters.” *Id.* In addition, Pitney Bowes states that this “will help stimulate and maintain Presort letters volume and help improve the Postal Service’s financial position.” *Id.*

The Commission has previously noted that the Postal Service’s pricing flexibility, subject to the inflation-based cap, can be used to apply non-uniform price adjustments within a class. FY 2018 ACD at 97. With respect to First-Class Mail cost coverage disparities, the Commission continues to encourage the Postal Service to balance its needs with those of its customers within the latitude afforded by Title 39.

3. Status of ACR Docket

PostCom states that it is concerned with the “duration of [the ACR] proceedings” and asserts that “the Commission takes up the ACR while previous ACR dockets remain open.” PostCom Comments at 9. Furthermore, PostCom claims the CHIRs are “left open for years, well after the rates underlying the ACR in question have changed and compliance has been determined.” *Id.* at 10. PostCom submits that if the Commission identifies a serious issue in the ACR docket that it “should open a new docket, aggressively pursue an answer, and order any relief it finds appropriate.” *Id.*

Contrary to PostCom’s assertions, the Commission’s ACD is finished on the date of issuance and there is no unfinished proceeding that continues for years. Within the ACD, the Commission has directed the Postal Service to remedy various issues and report on corrections. As part of those directives to report on corrections and other issues, the Postal

Service files responses in the ACR docket corresponding to the ACD directive. This is to ensure that all information relating to Commission directives and reporting is readily accessible in the related ACR docket as opposed to creating new dockets for each distinct reporting requirement, which would require interested parties to search multiple dockets to view Postal Service responses to the Commission's ACD directives. The Commission's role in ensuring the transparency and accountability of the Postal Service necessitates that interested parties are able to access information as easily as possible. Such concerns offset the concerns raised by PostCom regarding old ACD dockets remaining open.

CHAPTER 4: COMPETITIVE PRODUCTS

A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2019 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 2019 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 2019, thereby Competitive products satisfied 39 U.S.C. § 3633(a)(1).
- Revenues for six 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: two domestic NSAs,¹³³ International Priority Airmail (IPA), International Money Transfer Service—Inbound (IMTS—Inbound), Royal Mail Group Inbound Air Parcel Post Agreement, and Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1.
- Collectively, Competitive products satisfied the requirement that they provide a minimum contribution of 8.8 percent to institutional costs.¹³⁴ As a result, Competitive products satisfied 39 U.S.C. § 3633(a)(3) during FY 2019.

¹³³ An NSA is a written contract between the Postal Service and a mailer, to be in effect for a defined period, which provides for customer-specific rates or fees and/or terms of service in accordance with the terms and conditions of the contract. See 39 C.F.R. § 3001.5(r).

¹³⁴ See 39 C.F.R. § 3015.7(c). The Commission updated this rule on January 3, 2019 to replace the 5.5 percent minimum contribution with one determined by a formula. 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). The minimum contribution for FY 2019 was calculated in that order. Order No. 4963 at 28, Table III-1.

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.¹³⁵

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.¹³⁶ 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 3.

The Public Representative also notes that Competitive product group revenues exceed incremental costs and, similarly, concludes that Market Dominant products did not subsidize Competitive products in FY 2019. PR Comments at 61.

The Taxpayers Protection Alliance (TPA) asserts that the formulas underlying attributable cost estimates are not available to the public and independent analysts to examine.¹³⁷ TPA claims that there is reason to believe the Postal Service is underestimating costs attributable to Competitive products, citing as an example a specific Competitive products line item that lists \$4.49 million in assets. TPA Comments at 2. TPA contrasts this amount with a \$289 million expenditure on vehicles, noting the Postal Service is likely to pay a premium for larger trucks better able to accommodate packages. *Id.*

The Postal Service responds to TPA's claims, noting that the formulas underlying attributable cost calculations are indeed available to the public, and that they are created and modified in publicly litigated proceedings with the Commission that are open to public

¹³⁵ See Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 65 (Order No. 26).

¹³⁶ 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).

¹³⁷ Comments of Taxpayers Protection Alliance, January 27, 2020, at 2 (TPA Comments).

comment.¹³⁸ The Postal Service also points to other line items including much larger asset allocations to Competitive products than the line item cited by TPA. Postal Service Reply Comments at 4.

United Parcel Service (UPS) encourages the Commission to take a fresh look at incremental costs associated with Competitive products.¹³⁹ UPS suggests that calculating incremental costs should require an analysis of costs that could be eliminated by a rational restructuring of the Postal Service's operations were it to hypothetically stop delivering Competitive products, in addition to those costs that would disappear immediately. UPS Comments at 2-3. UPS states that, when the Postal Service makes an operational change, this approach would involve the Commission considering "the factors that drove the Postal Service's decision to make the change in question" when calculating the incremental costs of Competitive products. *Id.* at 3. UPS additionally identifies several costing practices that "may result in insufficient cost attribution to competitive products," including the Enhanced Package Process System, Special Purpose Routes, second runs, vehicle costs, and seasonal cost increases. *Id.* at 3-14.

None of the commenters offer evidence to suggest that the incremental costs of Competitive products exceeded their revenues in FY 2019. As it did in the FY 2018 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 attribution methodologies are appropriately addressed in dockets considering changes to those methodologies.¹⁴⁰ As FY 2019 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 2019, the incremental costs of Competitive products were \$16 billion and the total revenues of Competitive products were \$24.2 billion.¹⁴¹ Accordingly, in FY 2019, revenues from Competitive products exceeded incremental costs.

The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2019.

¹³⁸ Reply Comments of the United States Postal Service, February 18, 2020, at 4 (Postal Service Reply Comments).

¹³⁹ Reply Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2019, February 18, 2020, at 2 (UPS Reply Comments).

¹⁴⁰ 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).

¹⁴¹ See Library Reference PRC-LR-ACR2019-1 Excel file "19 Summary_LR1.xlsx," tab "Appendix A (Incremental Costs)," cells C21:D21.

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 2019 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

1. Competitive Domestic Products with Rates of General Applicability

In FY 2019, there were 12 competitive domestic products with rates of general applicability: Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services;¹⁴² Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

In FY 2019, every competitive domestic product with rates of general applicability covered its attributable cost and, thereby, satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2).

2. Competitive Domestic Products Consisting of NSAs

As shown in Table IV-1, in FY 2019, there were 975 competitive domestic products consisting of NSAs.¹⁴³

¹⁴² The Competitive Ancillary Services product consists of the following services: Adult Signature and Package Intercept Service. See Mail Classification Schedule, § 2645 (MCS).

¹⁴³ The 975 products include agreements that were extended via amendment.

**Table IV-1
Competitive Domestic NSA Products in Effect during FY 2019**

Competitive Domestic NSA Product Groupings	Number of Products ^a
First-Class Package Service Contracts	45
Parcel Return Service Contracts	12
Parcel Select & Parcel Return Service Contracts	6
Parcel Select Contracts	21
Priority Mail—Non-Published Rates ^b Contracts	309
Priority Mail & First-Class Package Service Contracts	93
Priority Mail Contracts	321
Priority Mail Express & Priority Mail Contracts	73
Priority Mail Express Contracts	39
Priority Mail Express, Priority Mail & First-Class Package Service Contracts	50
Priority Mail & Parcel Select Contracts	2
Priority Mail Express & First-Class Package Service Contracts	4
Total	975

^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 agreements with the Commission for pre-implementation review.

Source: Library Reference USPS-FY19-NP27, December 27, 2019.

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 two Competitive domestic NSAs covered their attributable costs and complied with this statutory requirement. The competitive domestic NSAs that did not cover their attributable costs were Priority Mail Contract 433 and Priority Mail Contract 460. Library Reference USPS-FY19-NP27. The Postal Service states that both contracts have been terminated. FY 2019 ACR at 64.

When the Commission approved Priority Mail Contract 433, it required quarterly reporting to permit the “Commission to confirm that the Postal Service’s financial models contain reasonable cost assumptions and accurately account for all costs associated with [this contract].”¹⁴⁴ The contract failed to cover its attributable costs in FY 2018, and the Commission ordered the Postal Service to increase its reporting frequency to monthly.

¹⁴⁴ Docket Nos. MC2018-149 and CP2018-215, Order Adding Priority Mail Contract 433 to the Competitive Product List, May 30, 2018, at 5-6 (Order No. 4626).

FY 2018 ACD at 103. The Postal Service terminated Priority Mail Contract 433 several weeks later.¹⁴⁵

For Priority Mail Contract 460, the Commission notes that the cost coverage reported to the Commission in the FY 2019 ACR did not fully account for the costs related to Sunday delivery. Response to CHIR No. 12, question 13. The Postal Service filed a revised cost coverage calculation for this contract. *Id.* The Commission is concerned with the accuracy of the revised calculation.

Eight other agreements had components that failed to cover their attributable costs, but still covered those costs as a whole. FY 2019 ACR at 64. The Public Representative is concerned that these agreements could potentially become out of compliance if the product mix changes in an unfavorable way. PR Comments at 64-65.

The Commission finds that Priority Mail Contract 433 and Priority Mail Contract 460 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2019. Because both contracts are no longer active, no further action is required. The Commission will closely review the cost models used to calculate cost coverage for agreements providing Sunday delivery. The Commission will also closely track the product mix of agreements with underwater components.

b. Failure to Report NSA Terminations

Since 2009, the Commission has consistently required the Postal Service to promptly notify the Commission when NSAs terminate prior to their scheduled expiration date.¹⁴⁶ The Postal Service's failure to comply with this requirement has been a recurring issue.¹⁴⁷

In its ACR, the Postal Service did not report data for 127 NSAs which, based on their original expiration dates, would have been active in FY 2019. Response to CHIR No. 4, question 4. A CHIR was issued asking why no data were reported for these NSAs.¹⁴⁸ The Postal Service responded that each of these NSAs were terminated prior to FY 2019. Response to CHIR No. 4, question 4. The Postal Service further explained that these NSAs

¹⁴⁵ Docket Nos. MC2018-149 and CP2018-215, USPS Notice of Termination of Priority Mail Contract 433, May 10, 2019 (showing termination date as April 30, 2019).

¹⁴⁶ See Docket Nos. MC2009-13 and CP2009-17, Order Concerning Express Mail & Priority Mail Contract 3 Negotiated Service Agreement, January 16, 2009, at 6 (Order No. 172) ("The Postal Service shall promptly notify the Commission if the contract terminates, earlier than 3 years from the effective date of the contract.").

¹⁴⁷ See Docket No. MC2014-8, *et al.*, Order Requiring Notice of Termination and Certification, February 2, 2017 (Order No. 3770) (addressing the failure to file termination notices for five Competitive domestic NSAs); Docket No. MC2014-8, *et al.*, Notice of the United States Postal Service and Certification Provided in Response to Order No. 3770, February 16, 2017, Attachment A (Docket No. MC2014-8 Response to Order No. 3770) (identifying 53 additional Competitive domestic NSAs where the Postal Service failed to file the required Notice of Termination); Docket No. MC2016-20, *et al.*, Order Requiring Additional Information, April 10, 2019 (Order No. 5053) (addressing the failure to file termination notices for seven domestic NSAs); Docket No. MC2016-20, *et al.*, USPS Notice in Response to Order No. 5053, May 10, 2019 (Docket No. MC2016-20 Response to Order No. 5053) (describing remedial procedures).

¹⁴⁸ CHIR No. 4. The Commission originally asked about 128 NSAs, but the Postal Service was able to identify where data for one of those NSAs was reported in the ACR. *See id.*

terminated prior to the remedial procedures described in Docket No. MC2016-20 Response to Order No. 5053 and it is confident that timely notices have been filed since then. *Id.*

Another CHIR was issued asking why one of its remedial procedures—the quarterly comparison of the NSAs listed on the MCS with the Postal Service’s records—failed to identify any of these 127 NSAs.¹⁴⁹ The Postal Service replied that its quarterly comparison of the MCS to its own records was limited to NSAs that terminated that quarter. Response to CHIR No. 9, question 20.

The Commission finds that the remedial procedures described in Docket No. MC2016-20 Response to Order No. 5053 were ineffective at ameliorating previous non-compliance, but appear to have been effective at ensuring ongoing compliance beginning in the latter half of FY 2019. To ensure that all previous examples of non-compliance have been identified, the Commission directs the Postal Service to compare the domestic competitive NSAs currently listed in the MCS with its own records and file a report in this docket within 90 days of the issuance of this ACD identifying any additional NSAs that were terminated prior to the contract’s expiration date. The Postal Service shall attach to this report a certification signed by a senior manager stating that the list is complete and accurate.

The Postal Service shall indefinitely continue the remedial procedures described in Docket No. MC2016-20 Response to Order No. 5053. The Postal Service shall additionally implement any additional remedial procedures necessary to ensure that there are no further instances of failure to file a required Notice of Termination. The Commission will remove the 127 terminated NSAs from the MCS.

c. Reliance on Estimated Customer Profiles to Calculate Cost Coverage

The Postal Service identified seven NSAs for which the data collected are insufficient to determine the weight and zone of the customer’s pieces.¹⁵⁰ For these contracts, the Postal Service relied on the initial customer profile submitted for pre-implementation review to calculate cost coverage. Response to CHIR No. 4, question 1. This issue was previously addressed by the Commission in its FY 2017 ACD, and the Commission concluded at the time that the data used to calculate cost coverage were the best available to assess compliance.¹⁵¹ The Commission also stated that it would continue to evaluate on an ongoing basis whether the data provided by the Postal Service are sufficient to assess compliance. FY 2017 ACR at 85.

The Postal Service identifies a variety of obstacles to collecting sufficient actual weight and zone data to calculate cost coverage for these contracts.¹⁵² The Postal Service also indicates

¹⁴⁹ Chairman’s Information Request No. 9 and Notice of Filing Under Seal, January 31, 2020, question 20 (CHIR No. 9).

¹⁵⁰ Response to CHIR No. 4, question 1. *See also* Response to CHIR No. 9, question 18.

¹⁵¹ Docket No. ACR2017, *Annual Compliance Determination*, March 29, 2018, at 85 (FY 2017 ACR).

¹⁵² *See* Response to CHIR No. 4, question 1; Response to CHIR No. 9, question 18.

that once the Package Platform system is fully deployed, it expects to collect actual weight data on 50 percent of packages and actual zone data on all packages. Response to CHIR No. 4, question 2.

The Commission finds the identified contracts to be in compliance. In the future, the Postal Service shall identify contracts where the initial customer profile will be used to calculate the cost coverage for its Annual Compliance Report by including a prominent disclosure in the financial workpapers filed during pre-implementation review.

3. Competitive International Products with Rates of General Applicability

Ten Competitive International mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; International Priority Airmail (IPA); International Surface Air Lift (ISAL); Outbound Single-Piece First-Class Package International Service (FCPIS); Inbound Parcel Post (at UPU rates); International Direct Sack—M-Bags; IMTS—Outbound; IMTS—Inbound;¹⁵³ and International Ancillary Services.¹⁵⁴

The Commission finds that two products, IPA and IMTS—Inbound, did not satisfy 39 U.S.C. § 3633(a)(2).

a. International Priority Airmail

In FY 2019, the IPA product¹⁵⁵ did not cover its attributable cost. FY 2019 ACR at 65. However, the Postal Service notes that the IPA product's cost coverage improved from FY 2018 to FY 2019. *Id.* The Postal Service attributes this improvement to three factors:

- A new costing methodology (Proposal Three) that the Commission approved in October 2019, ensures that NSA-specific PRIME costs are not allocated to the IPA product. *See* Order No. 5269.
- A new costing methodology (Proposal Four) that the Commission approved in November 2019, treats the IPA product and NSA IPA separately and eliminates the possibility that NSA IPA settlement costs are attributed to the IPA product. *See* Order No. 5305.
- The Postal Service raised prices for the IPA product by 19.9 percent in January 2019. FY 2019 ACR at 65-66.

¹⁵³ IMTS—Inbound consists of bilateral and multilateral agreements with foreign postal operators.

¹⁵⁴ International Ancillary Services consists of International Certificate of Mailing; Outbound Competitive International Registered Mail; Outbound International Return Receipt; Restricted Delivery; Outbound International Insurance; and Customs Clearance and Delivery Fee.

¹⁵⁵ IPA service is available as both the IPA product with prices of general applicability and through NSAs (referred to in this section as NSA IPA).

The Postal Service expects that the additional 5.9 percent increase in the IPA product prices that took effect in January 2020 will help improve the IPA product's cost coverage in FY 2020.¹⁵⁶

The Commission observes that Proposal Three and Proposal Four contributed to a more appropriate cost attribution between the IPA product and NSA IPA. The Commission also concurs with the Postal Service that the January 2019 price increase for the IPA product generated revenue that contributed to the improved cost coverage of the IPA product. However, the Commission is concerned that an average price increase of 5.9 percent may not be sufficient to improve the IPA product's cost coverage in FY 2020. The IPA product's prices differ by the shape of the mailpiece (letters/postcards, flats, small packets and rolls, and M-bags), the amount of work-sharing (full service and ISC drop-shipment; presort and worldwide nonpresort mail), and the distance the mailpiece travels (price groups 1–19). The Commission notes that the impact of the price increase for the IPA product will depend on the actual volumes entered by mailers.

The Commission finds that the IPA product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to provide, in the next price increase for this product, supporting documentation explaining how price increases for all price categories of the IPA product are determined.

b. International Money Transfer Service – Inbound

In FY 2019, the International Money Transfer Service – Inbound product did not cover its attributable cost. FY 2019 ACR at 66. The Postal Service asserts that cost coverage for IMTS—Inbound improved from FY 2018. *Id.*

The Postal Service notes that in FY 2019 there were only two In-Office Cost System (IOCS) tallies for the IMTS—Outbound and IMTS—Inbound products as compared to four IOCS tallies for the two products in FY 2018.¹⁵⁷ The Postal Service also points out that, in FY 2019, it distributed the IMTS costs to IMTS—Outbound and IMTS—Inbound based on transaction volume as there were no IMTS—Inbound tallies. FY 2019 ACR at 66. This unique methodology for distributing costs is based on the Commission's approval of Proposal Five in Order No. 2825.¹⁵⁸ This change was a result 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 2019 ACR at 66. The Postal Service concludes that IMTS costing remains subject to variation. *Id.* at 67.

The Postal Service acknowledges that the way to address the IMTS—Inbound cost coverage issues is by termination or modification of IMTS—Inbound agreements. *Id.* IMTS agreements are legacy agreements that the Postal Service concluded with foreign

¹⁵⁶ *Id.*; Postal Service Reply Comment at 5.

¹⁵⁷ FY 2019 ACR at 66-67; FY 2018 ACR at 71.

¹⁵⁸ *Id.* See Docket No. RM2015-13, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 19, 2015 (Order No. 2825).

governments prior to the enactment of the PAEA in 2006. The PAEA transferred the power to conclude postal treaties, conventions, and amendments related to international postal services from the Postal Service to the Secretary of State, while allowing the Postal Service to retain the authority to enter into commercial or operational contracts. Therefore, the Postal Service requires delegation of authority from the Department of State to terminate or renegotiate these agreements. The Postal Service reiterates that it took a step toward this goal by requesting a delegation of authority from the Department of State to terminate the agreements that comprise the IMTS—Inbound product under the Circular 175 process, and it is awaiting a response.¹⁵⁹ The Postal Service explains that it has been in frequent communication with the Department of State regarding this request since the summer of 2018. FY 2019 ACR at 67.

The Postal Service points out that the international postal money order agreement with Canada was terminated on August 30, 2019 and, as of December 2019, Japan Post is no longer issuing international postal money orders to the United States. *Id.*

The Public Representative comments that the Postal Service “has taken the appropriate steps to remedy the cost coverage for IMTS—Inbound.” PR Comments at 63. She concludes that until the delegation of authority issue is determined by the Department of State, “the product’s cost coverage shortfall will most likely continue.” *Id.*

The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633 (a)(2) in FY 2019. The Commission directs the Postal Service to provide an update on the status of the request for a delegation of authority under the Circular 175 process from the Department of State to terminate or renegotiate the agreements that comprise the IMTS—Inbound product 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.¹⁶⁰ Functionally equivalent international NSAs are also collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

¹⁵⁹ *Id.* See Docket No. ACR 2017, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2017 Annual Compliance Determination, July 26, 2018.

¹⁶⁰ See, e.g., Docket Nos. CP2011-34, *et al.*, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

The Postal Service reports volume, revenue, and cost data for each competitive international NSA comprising competitive international products.¹⁶¹ For FY 2019, the Postal Service provided these data for 793 international NSAs, 785 of which include negotiated rates for outbound mail and 8 of which include negotiated rates for inbound mail. *See* Library Reference PRC-LR-ACR2019-NP2. Of the 793 International NSAs, 20 did not cover their attributable costs. Response to CHIR No. 4, question 5.

The Public Representative comments that the number of non-compliant international NSAs is “significant” and recommends that the Postal Service identify issues in financial models that need adjustments in order to prevent future cost coverage failures of international NSAs. PR Comments at 64.

The Postal Service responds that while it can project cost coverage based on traditional factors such as inflation or currency exchange rates, variability caused by small sample sizes is not easily estimated in advance. Postal Service Reply Comments at 7.

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 the outbound negotiated service agreements, mailers must commit to tendering specified minimum volume and/or revenue on an annual basis in exchange for reduced rates from the Postal Service.¹⁶² Additional postal services may be available for products with rates and fees not of general applicability. Table IV-2 shows the FY 2019 product category for each of these products for which the Postal Service reports FY 2019 financial results.¹⁶³

¹⁶¹ Library Reference USPS-FY19-NP2, December 27, 2019; Library Reference USPS-FY19-NP2 (revised) January 10, 2020.

¹⁶² The Commission has previously expressed concern that the Postal Service does not always enforce customers' minimum volume commitments. *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). The Commission continues to monitor compliance with statutory requirements regardless of adherence to contractual minimums.

¹⁶³ The Postal Service does not report FY 2019 financial results for the following competitive outbound international products: Global Bulk Economy Contracts, Priority Mail International Regional Rate Boxes – Non-Published Rates, Outbound Competitive International Merchandise Return Service Agreement with Royal Mail Group, Ltd., 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 Contracts 1, Alternative Delivery Provider Reseller Contracts 1, GEPS 5, GEPS 6, GP 1C, GP 2C, GREPC 1, GREPC 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, and GEPS-NPR 11.

Table IV-2
Competitive Outbound International Products by Category (FY 2019)¹⁶⁴

Product Category	Product Name
Global Expedited Package Services (GEPS) Contracts	GEPS 3 GEPS 7 GEPS 8 GEPS 9 GEPS 10 GEPS 11
Global Expedited Package Services (GEPS)—Non-Published Rates	Global Expedited Package Services (GEPS)—NPR 12 Global Expedited Package Services (GEPS)—NPR 13 Global Expedited Package Services (GEPS)—NPR 14
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 International Regional Rate Boxes (PMI RRB) Contracts	Priority Mail International Regional Rate Boxes Contracts 1

Source: MCS § 2510.

The Postal Service reports financial results for each outbound international NSA within these products. While each outbound competitive international product covered its attributable cost in FY 2019, revenues of 16 outbound international NSAs did not exceed their attributable costs. Response to CHIR No. 4, question 5. Of those, 15 have expired and 1 NSA will expire in March 2020. *Id.*

The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633 (a)(2) because revenue exceeded attributable cost for each product. The Commission recommends that the Postal Service continually monitor the financial performance of each contract and take aggressive steps on an ongoing basis to terminate any agreements that are not compensatory.

b. Competitive Inbound International Products Consisting of NSAs

Competitive inbound international products with negotiated rates are classified on the Competitive product list. The Postal Service provides inbound services and prices that are available only to mailers meeting defined eligibility requirements, such as tendering

¹⁶⁴ This table presents outbound international products by product category as they appear in the MCS.

minimum volume or revenue. Table IV-3 below shows the Competitive inbound international products for which the Postal Service reports FY 2019 financial results.¹⁶⁵

Table IV-3
Competitive Inbound International Products by Category (FY 2019)¹⁶⁶

Product Category	Product Name
International Business Reply Service (IBRS) Competitive Contracts	International Business Reply Service 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 § 2515.

The Postal Service reports financial results for each inbound Competitive NSA within these products. The revenues of four inbound international NSAs did not cover their attributable costs.¹⁶⁷ The four non-compliant NSAs are discussed below.

(1) International Business Reply Service Competitive Contract 3

Two IBRS agreements included in the International Business Reply Service Competitive Contract 3 product did not cover their attributable costs in FY 2019. Response to CHIR No. 4, question 5. Both IBRS agreements have expired.¹⁶⁸

Included in IBRS agreements is an option for the contract partner's foreign customers to return mailpieces to the United States for reasons such as "recycling, refurbishment, repair, or other value-added processing."¹⁶⁹ Because the foreign customers may return the mailpieces after the agreement has expired, the agreements contain contingency pricing provisions to ensure cost coverage after contract termination. *See, e.g.*, Order No. 2413 at 5. The Commission is concerned that the Postal Service may not be taking full advantage of

¹⁶⁵ The Postal Service does not report FY 2019 financial results for the following competitive inbound international products: International Business Reply Service Competitive Contracts 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.

¹⁶⁶ This table presents outbound international products by product category as they appear in the MCS.

¹⁶⁷ FY 2019 ACR at 68; Response to CHIR No. 4, question 5. The four NSAs are: two agreements included in the International Business Reply Service Competitive Contract 3 product, the Royal Mail Group Inbound Air Parcel Post Agreement, and the only agreement included in the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product.

¹⁶⁸ *Id.* (showing expiration date of the contract in Docket No. CP2018-161 as January 31, 2020); Docket No. CP2015-52, Order Approving Additional International Business Reply Service Competitive Contract 3 Negotiated Service Agreement, March 26, 2015, at 7 (Order No. 2413) (showing expiration date of March 31, 2017).

¹⁶⁹ *See, e.g.*, Docket No. CP2015-52, Notice of the United States Postal Service Filing of a Functionally Equivalent International Business Reply Service Competitive Contract 3 Negotiated Service Agreement, March 16, 2015, at 5.

such provisions to ensure continued cost coverage after contract termination. *See* CHIR No. 9, question 22.

The Commission finds that two IBRS agreements did not comply with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to, within 60 days of issuance of this ACD, provide an update on the measures it is taking to ensure efficient monitoring and accurate post-termination pricing for IBRS agreements.

(2) Royal Mail Group Inbound Air Parcel Post Agreement

The Royal Mail Group Inbound Air Parcel Post Agreement establishes rates for the delivery of inbound air parcel post from the United Kingdom of Great Britain and Northern Ireland to the United States.¹⁷⁰ In FY 2019, this product did not cover its attributable cost. FY 2019 ACR at 67-68. In its Annual Compliance Report, the Postal Service suggested that new, shape-based data collection procedures may have contributed to “a shift among parcels costs.” *Id.* at 68. Upon further investigation, the Postal Service identified two factors that have contributed to the increase in costs for the product:

- A change in distribution of mixed mail tallies for city carriers in-office in IOCS
- A long-haul trip between two Network Distribution Centers (NDCs) that was incorrectly classified as a trip between Sectional Center Facilities (SCFs)

Response to CHIR No. 4, question 6. In FY 2019, the Postal Service introduced shape questions when collecting data on in-office city carrier direct labor activities related to handling mixed mail.¹⁷¹ The newly added shape questions aided in a more accurate attribution of city carrier in-office direct costs to products of all shapes of mail. Response to CHIR No. 11, question 1. However, the Postal Service claims that “[i]n most tallies . . . carriers were frequently handling only parcel-shaped pieces” which resulted in costs being redistributed to parcel-shaped products. *Id.* question 1.c. Among parcel shaped products affected were Inbound Parcel Post (at UPU rates) and the Royal Mail Group Inbound Air Parcel Post Agreement.

Regarding the increase in transportation costs in FY 2019, the Postal Service asserts that the mail sampled from the anomalous trip contained several air parcel post parcels. Response to CHIR No. 4, question 6. The Postal Service further claims that the sampled pieces’ cube “was quite large compared to average [a]ir [p]arcel [p]ost.” *Id.* The Postal Service states that the long distance of the trip for an inter-SCF mode “gave all mail on this trip much greater than average weight.” *Id.* The Postal Service concludes that these factors

¹⁷⁰ MCS § 2515.8. Unlike most other international NSAs, the Royal Mail Group Inbound Air Parcel Post Agreement is its own product. *See id.* It is the only product in the Inbound Air Parcel Post (at non-UPU rates) group in the MCS. *Id.* The Commission interprets CHIR questions and CHIR responses mentioning the “Inbound Air Parcel Post (at non-UPU rates) product” as referring to the Royal Mail Group Inbound Air Parcel Post Agreement.

¹⁷¹ Responses of the United States Postal Service to Questions 1–7 of Chairman’s Information Request No. 11, February 11, 2020, question 1 (Response to CHIR No. 11).

combined led to a significant increase in transportation cost attributed to Inbound Parcel Post (at UPU rates) and the Royal Mail Group Inbound Air Parcel Post Agreement. *Id.*

The Postal Service subsequently filed alternative transportation costing with the Commission, removing the data from the one anomalous trip and producing a new set of Transportation Cost System (TRACS) Highway distribution factors.¹⁷² While the cost coverage of the Royal Mail Group Inbound Air Parcel Post Agreement improved with the new set of TRACS Highway distribution factors, it did not improve enough for the product to satisfy the conditions of 39 U.S.C. § 3633(a)(2). *Id.*

The Postal Service states that it is currently conducting negotiations with postal operators relating to rates for Inbound Letter Post Small Packets and Bulky Letters, which will become effective on July 1, 2020. Response to CHIR No. 9, question 22. The Postal Service claims to take into account the increased cost for air parcel post and to roll negotiations for inbound air parcel post rates from the United Kingdom of Great Britain and Northern Ireland into the negotiations for Inbound Letter Post Small Packets and Bulky Letter rates with the Royal Mail Group. *Id.*

The Commission finds that the Royal Mail Group Inbound Air Parcel Post Agreement was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to either terminate or renegotiate prices for the Royal Mail Group Inbound Air Parcel Post Agreement, and to update the Commission on the status of negotiations within 90 days of the issuance of this ACD.

(3) Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1

In FY 2019, the Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 product consists of one agreement with Canada Post Corporation. MCS § 2515.10.5. This agreement did not cover its costs in FY 2019. FY 2019 ACR at 68.

The Postal Service filed Docket No. CP2018-96 Modification Three to the rates in the agreement with the Commission on December 10, 2019.¹⁷³ The Commission reviewed the proposed rates and approved Modification Three based on FY 2018 costs, which were the most accurate cost data available at the time.¹⁷⁴ The new rates were to be in effect between January 1, 2020 and June 30, 2020. Docket No. CP2018-96 Modification Three, Attachment 1 at 2.

¹⁷² Docket No. ACR2019, Library Reference USPS-FY19-NP36, Nonpublic Materials Relating to the Responses to Question 6 of Chairman's Information Request No. 4, January 31, 2020.

¹⁷³ See Docket No. CP2018-96, Notice of the United States Postal Service of Filing Modification to an Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 Negotiated Service Agreement, December 10, 2019 (Docket No. CP2018-96 Modification Three).

¹⁷⁴ See Docket No. CP2018-96, Order Approving Modification Three to an Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement, December 31, 2019 (Order No. 5386).

In its FY 2019 ACR, the Postal Service stated that the new rates filed with the Commission “should improve cost coverage for the agreement in FY 2020.” FY 2019 ACR at 68. However, as evidenced by non-public materials filed in the FY 2019 ACR docket, the FY 2019 costs for the agreement differed significantly from the FY 2018 costs. Consequently, the Commission asked the Postal Service to update the financial workpapers pertaining to Docket No. CP2018-96 Modification Three, using FY 2019 costs, and to summarize the impact on the cost coverage of the agreement. CHIR No. 9, question 23. The Postal Service calculated that using the FY 2019 costs, the projected cost coverage of Docket No. CP2018-96 Modification Three prices is below 100 percent. Response to CHIR No. 9, question 23.b.

The Postal Service states that it is reviewing the data to better understand the costs, as cost data can vary due to the small sample sizes of international mail. *Id.* question 23.c. The Postal Service also states that it can include inbound air parcel post and inbound Express Mail Service (EMS) rates governed by the agreement in its ongoing negotiations with the contract partner related to rates for Inbound Letter Post Small Packets and Bulky Letters. *Id.* However, considering the effective date of self-declared prices for Inbound Letter Post Small Packets and Bulky Letters of July 1, 2020, it is likely that renegotiated prices for air parcel post and EMS would not be implemented before the expiration date of the agreement on June 30, 2020.

The Commission finds that the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product did not comply with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to renegotiate prices for inbound air parcel post and EMS. The Commission further directs the Postal Service to provide evidence that renegotiated prices will generate sufficient revenue to cover the attributable costs of the agreement, by mail component, in all future filings of financial workpapers in support of the agreement.

5. Competitive Nonpostal Services

In FY 2019, Competitive nonpostal services¹⁷⁵ generated \$150.9 million in revenue and incurred \$40.0 million in expenses, which resulted in a net revenue of \$110.9 million. Library Reference USPS-FY19-NP27 Preface. This figure represents a 1 percent decrease compared to FY 2018, but an overall cost coverage of 377.3 percent.

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

¹⁷⁵ The seven Competitive nonpostal service products are: (1) Licensing of Intellectual Property Other Than Officially Licensed Retail Products; (2) Mail Services Promotion; (3) Officially Licensed Retail Products (OLRP); (4) Passport Photo Service; (5) Photocopying Service; (6) Rental, Leasing, Licensing or Other Non-Sale Disposition of Tangible Property; and (7) Training Facilities and Related Services. Docket No. MC2010-24, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11, 2012, at 4 (Order No. 1575).

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 five 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.¹⁷⁶ 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.¹⁷⁷

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. *See* Order No. 4963. Under this approach, the appropriate share is updated annually as part of the ACD. *Id.* at 27. FY 2019 was the first year to which the new methodology was applicable. FY 2018 ACD at 112. The appropriate share for FY 2019 was 8.8 percent. *Id.* at 116.

1. Comments on Appropriate Contribution Provision

The Postal Service asserts that the total Competitive product contribution for FY 2019 was \$8.247 billion, or 23.4 percent of total institutional costs, which surpasses the 8.8 percent threshold of \$3.098 billion. FY 2019 ACR at 69.

The Public Representative and Pitney Bowes concur that Competitive products’ contribution to institutional costs in FY 2019 surpassed the 8.8 percent that was required. PR Comments at 65; Pitney Bowes Comments at 3-4.

TPA asserts that “the current 8.8 percent requirement is an inadequately-low bar for the [Postal Service], at a time when packages account for more than 47 percent of total mail weight.” TPA Comments at 2. SBE Council likewise expresses the view that the Commission should “seek out fiscal evaluations of [the Postal Service’s] broad array of service lines independently, which would reveal compelling evidence for revising the greatly insufficient 8.8 percent appropriate share requirement.” SBE Council Comments at 1. In its reply comments, the Postal Service argues that such comments are outside the scope of an ACD proceeding. Postal Service Reply Comments at 4.

¹⁷⁶ See Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 90-92 (Order No. 43).

¹⁷⁷ See Docket No. RM2012-3, Order Reviewing Competitive Products’ Appropriate Share Contribution to Institutional Costs, August 23, 2012, at 24-25 (Order No. 1449).

The Commission agrees with the Postal Service on this issue. As stated above, the purpose of the ACD is to determine compliance with existing regulations using established methodology. Recommendations for improving specific cost attribution methodologies are appropriately addressed in separate dockets considering changes to those methodologies.

2. Commission Analysis

a. FY 2019 Appropriate Share

In FY 2019, the total institutional costs of the Postal Service were \$35.199 billion.¹⁷⁸ To comply with 39 U.S.C. § 3633(a)(3) for FY 2019, Competitive products collectively must have contributed at least \$3.098 billion toward the Postal Service's institutional costs. *Id.* tab "Income_C," cell I25. In FY 2019, the total contribution made by Competitive products collectively to institutional costs was \$8.247 billion¹⁷⁹ (approximately 23 percent of total institutional costs), which exceeds the 8.8 percent requirement. Therefore, the Postal Service was compliant with 39 U.S.C. § 3633(a)(3).

The Commission finds that in FY 2019 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs.

b. FY 2020 Appropriate Share

The formula used by the Commission is recursive. Each year when conducting its annual compliance review, the Commission determines what the appropriate share will be for the upcoming fiscal year.¹⁸⁰ In conducting its annual compliance review for FY 2018, which was carried out during FY 2019, the Commission applied the formula and determined that the appropriate share for FY 2020 would be 8.8 percent. FY 2018 ACD at 116-117.

c. FY 2021 Appropriate Share

In this section, the Commission applies the formula to determine what the appropriate share will be for FY 2021. 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.

¹⁷⁸ Library Reference PRC-LR-ACR2019-1, tab "Appendix A (Incremental Costs)," cell D79.

¹⁷⁹ *Id.* tab "Appendix A (Incremental Costs)," cell F21.

¹⁸⁰ See Order No. 4963 at 26-27; Docket No. RM2017-1, Revised Notice of Proposed Rulemaking, August 7, 2018, at 38-40 (Order No. 4742); Docket No. RM2017-1, Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, February 8, 2018, at 30 (Order No. 4402).

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

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

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, as represented in the following equation:

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

Id. at 25 n.54. “*%ΔRevenue_{USPS}*” refers to the percentage change in the Postal Service’s total real Competitive product revenue compared to the previous year. *Id.* at 25. “*%ΔRevenue_{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:

$$\begin{aligned} AS_{t+1} &= AS_t * (1 + \% \Delta CCM_{t-1} + CGD_{t-1}) \\ \textit{If } t = 0 &= \textit{FY 2007, } AS = 5.5\% \end{aligned}$$

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 2019, but is being conducted in FY 2020, and, as it relates to the formula, is being used to determine what the appropriate share will be in FY 2021. “*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 2019). “*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 2021).

For the Competitive Contribution Margin, in FY 2019, the total Competitive product revenue was \$24.207 billion. The FY 2019 total attributable cost incurred in producing Competitive products was \$15.960 billion. Therefore, the Competitive Contribution Margin value was $\frac{\$24.207 \text{ billion} - \$15.960 \text{ billion}}{\$24.207 \text{ billion}} = 0.341$, representing a 3.5 percent increase from FY 2018.¹⁸¹

For the Competitive Growth Differential, the Commission calculates the growth rates for both the Postal Service and its competitors in FY 2019. In FY 2018, the Postal Service's total real Competitive product revenue was \$19.040 billion, while in FY 2019 it was \$19.633 billion. The percentage change from FY 2018 to FY 2019 was 3.1 percent. In FY 2018, the total real revenue earned by the Postal Service's competitors collectively was \$77.848 billion, while in FY 2019 it was \$81.071 billion. The percentage change from FY 2018 to FY 2019 was 4.1 percent. The Postal Service's market share was 19.5 percent. The Competitive Growth Differential value for FY 2019 was thus $19.5\% * (3.1\% - 4.1\%) = -0.2\%$. See Library Reference PRC-LR-ACR2019-10.

When the component values are plugged into the formula, the result is $8.8\% * (1 + 3.5\% + (-0.2\%)) = 9.1\%$. Therefore, the appropriate share requirement for FY 2021 will be 9.1 percent.

¹⁸¹ The following calculations can also be found in a library reference accompanying this Report. See Library Reference PRC-LR-ACR2019-10.

CHAPTER 5: 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.¹⁸² 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.¹⁸³ The PAEA also requires the Postal Service 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 2007.¹⁸⁴ 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."¹⁸⁵ The Postal Service has since revised these standards, most significantly through its "Mail Processing Network Rationalization" initiative beginning in FY 2012¹⁸⁶ and its "Standard Mail Load Leveling" initiative beginning in FY 2014.¹⁸⁷ The Postal Service proceeded to implement both initiatives, notwithstanding the conclusions

¹⁸² U.S. Government Accountability Office, 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).

¹⁸³ *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).

¹⁸⁴ 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).

¹⁸⁵ *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). "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.*

¹⁸⁶ 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).

¹⁸⁷ See Service Standards for Destination Sectional Center Facility Rate Standard Mail, 79 Fed. Reg. 12,390, 12,393 (March 5, 2014) (codified at 39 C.F.R. pt. 121).

and recommendations by the Commission that the Postal Service should perform additional analysis of the potential effects before proceeding.¹⁸⁸ As required by § 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.¹⁸⁹ 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 report¹⁹⁰ 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.¹⁹¹

The products listed in Table V-1 met or exceeded their annual service performance targets for FY 2019.

¹⁸⁸ *See* Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 45-46 (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.").

¹⁸⁹ *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, U.S. 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.").

¹⁹⁰ "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).

¹⁹¹ FY 2016 ACD at 90. On an annual basis, the Commission compares a product's on-time delivery with the delivery target established by the Postal Service. For Special Services, the Commission evaluates performance data from metrics developed by the Postal Service applicable to each product. *Id.* at 90 n.148. In this ACD, as in past years, the Commission uses the Postal Service's targets because they are a reasonable basis for assessing performance.

Table V-1
Market Dominant Products That Met or Exceeded Annual Service Performance Targets,
FY 2019

Class	Product
USPS Marketing Mail	<ul style="list-style-type: none"> • High Density and Saturation Letters • Parcels
Package Services	<ul style="list-style-type: none"> • Bound Printed Matter Parcels
Special Services	<ul style="list-style-type: none"> • Ancillary Services • International Ancillary Services • Money Orders • Stamp Fulfillment Services

The products listed in Table V-2 did not meet their targets for FY 2019.

Table V-2
Market Dominant Products That Failed to Meet Annual Service Performance Targets,
FY 2019

Class	Product
First-Class Mail	<ul style="list-style-type: none"> • Single-Piece Letters/Postcards (2-Day; 3-5-Day) • Presorted Letters/Postcards (Overnight; 2-Day; 3-5-Day) • Flats (Overnight; 2-Day; 3-5-Day) • Outbound Single-Piece International (Combined) • Inbound Letter Post (Combined)
USPS Marketing Mail	<ul style="list-style-type: none"> • High Density and Saturation Flats/Parcels • Carrier Route • Letters • Flats • Every Door Direct Mail (EDDM) - Retail
Periodicals	<ul style="list-style-type: none"> • In-County • Outside County
Package Services	<ul style="list-style-type: none"> • Bound Printed Matter Flats • Media Mail/Library Mail
Special Services	<ul style="list-style-type: none"> • Post Office Box Service

Section A of this Chapter begins with a summary of the systems the Postal Service uses to measure service performance. The Commission then discusses the Postal Service's responses to past directives related to First-Class Mail Single-Piece Letters/Postcards. Finally, the Commission discusses the Postal Service's FY 2019 service performance results by class of mail and other issues.

2. 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. Currently, the Postal Service uses a variety of measurement systems to measure service performance for Market Dominant products.

Table V-3 identifies systems previously and presently used to measure those Market Dominant products reported in the Postal Service's FY 2019 *Annual Compliance Report*. The Commission uses the following acronyms and abbreviations: EXFC for "External First-Class Measurement," iMAPS for "Intelligent Mail Accuracy and Performance System," IMb for "Intelligent Mail barcode," IMMS for "International Mail Measurement System," PTR for "Product Tracking and Reporting System," and SPM for "Internal Service Performance Measurement."

Table V-3
Changes to Service Performance Measurement Systems, FY 2019

Class or Category	Single-Piece			Presorted		
	Letters	Flats	Parcels	Letters	Flats	Parcels
First-Class Mail	Internal Service Performance Measurement [†]	Internal Service Performance Measurement [†]	No such Market Dominant category exists	Internal Service Performance Measurement [∞]	Internal Service Performance Measurement [∞]	No such Market Dominant category exists
Periodicals	No such Market Dominant category exists			Internal Service Performance Measurement [∞]	Internal Service Performance Measurement [∞]	No such Market Dominant category exists
USPS Marketing Mail	No such Market Dominant category exists			Internal Service Performance Measurement [∞]	Internal Service Performance Measurement [∞]	Product Tracking and Reporting System
Package Services	No such Market Dominant category exists		Product Tracking and Reporting System	No such Market Dominant category exists	Internal Service Performance Measurement [∞]	Product Tracking and Reporting System
International Mail	International Mail Measurement System	International Mail Measurement System	Proxy*	No such Market Dominant category exists		
Special Services	Custom-designed measurement systems					

Notes:

[†] Previously measured by External First-Class Mail Measurement (EXFC).

[∞] Previously measured by Intelligent Mail Accuracy and Performance System (iMAPS).

* Actual census data serves as a proxy for parcel-shaped Inbound Letter Post (commonly referred to as "packets"). Library Reference USPS-FY19-29, December 27, 2019, file "FY19-29 Service Performance Report.pdf," at 6 (FY 2019 Service Performance Report).

Source: Library Reference USPS-FY19-29, file "FY19-29 Methodologies Report.pdf" (FY 2019 Methodologies Report); Docket No. PI2019-1, Library Reference USPS-LR-PI2019-1/1, May 21, 2019, file "iSPM RevPlan RED-LINE 52119.pdf," at 18, 116-119 (May 20, 2019 Postal Service SPM Plan).

a. Internal SPM Systems

On July 5, 2018, the Commission conditionally approved the Postal Service's proposal to use internal SPM systems to generate data to fulfill the statutory and regulatory requirements for measurement of several Market Dominant products, beginning in FY 2019, Quarter 1.¹⁹² As a result, for Docket No. ACR2019, data generated from the new internal SPM systems replace data previously generated by the two legacy external measurement systems of EXFC and iMAPS. Accordingly, service performance results for the affected products in FY 2019 are not directly comparable to results for previous fiscal years.¹⁹³

First, data generated from the internal SPM systems replace data previously generated by the legacy EXFC system, which used test mailpieces inducted by external droppers and delivered to external receivers. Order No. 4697 at 16-17. This change affects the reported service performance results for First-Class Mail Single-Piece Letters/Postcards and single-piece First-Class Mail Flats. *See id.* at 15-16. The internal SPM systems measure service performance for these mailpieces in three independent segments: First Mile (measures the time between collection and the first processing operation); Processing Duration (measures the time between the first processing operation and the last processing operation); and Last Mile (measures the time between the last processing operation and final delivery).¹⁹⁴

Second, data generated from the internal SPM systems for the Last Mile segment replace data previously generated by the legacy iMAPS system, which used external reporters to record delivery (via an IMb scan).¹⁹⁵ This change affects the reported service performance results for First-Class Mail Presorted Letters/Postcards, presorted First-Class Mail Flats, Periodicals, letter- and flat-shaped USPS Marketing Mail, and Bound Printed Matter (BPM) Flats. *See* Order No. 4697 at 21.

Approval of both changes was conditioned upon the Postal Service continuing its external auditing program and filing quarterly audit reports with the Commission. *See id.* at 67. Where appropriate, the Postal Service was required to explain in the FY 2019 ACR any significant discrepancies between the results from the new systems versus the legacy systems and propose a method of comparing data from the two systems. *See id.*

¹⁹² Order No. 4697 at 66-67. The Commission resolved the Postal Service's motion for clarification of Order No. 4697. Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771).

¹⁹³ *See* Docket No. PI2015-1, Order Approving Use of Internal Measurements Systems, July 5, 2018, at 62-63, 66 (Order No. 4697); Postal Service Reply Comments at 8.

¹⁹⁴ *Id.* at 17-19. Mailpieces for which the first processing scan is the same event as the last processing scan may be included in measurement of Processing Duration. *Id.* at 19 n.40.

¹⁹⁵ *See* Order No. 4697 at 21; May 20, 2019 Postal Service SPM Plan at 40, 44. The SPM application of the Full-Service Seamless Acceptance and Service Performance system served as the data source for iMAPS. United States Postal Service, *Quarterly Service Performance Report*, Quarter 4, November 9, 2018, file "fy2018-q4-marketing-mail-service-variance.pdf."

On November 5, 2018, the Commission conditionally approved changes to the Postal Service's SPM documentation that removed references to the legacy systems and updated the descriptions to reflect current operations.¹⁹⁶ Approval of all changes was conditioned upon the Postal Service making certain additional corrections to its documentation or providing explanations for why those corrections were unnecessary. Order No. 4872 at 2. On December 27, 2018, after review of the Postal Service's narrative explanations and revised SPM documentation, the Commission acknowledged that the Postal Service had satisfied the directives appearing in Order No. 4872 and provided instructions concerning future filings.¹⁹⁷

On July 17, 2019, in addition to authorizing further updating of the Postal Service's SPM documentation, the Commission conditionally authorized changes to the SPM systems for three additional products/services, which are planned for implementation in future fiscal years.¹⁹⁸ For Outbound Single-Piece First-Class Mail International, Inbound Letter Post, and the Green Card option of the Return Receipt service¹⁹⁹ data generated from the existing external measurement systems will be replaced by data generated by the internal SPM systems. Order No. 5157 at 9-13. This replacement is conditioned upon the Postal Service's: (1) provision of two consecutive quarters of data at the national level comparing measurements obtained by the existing systems against measurements obtained by the conditionally authorized systems; (2) explanation of any differences in measurement between the two sets of systems; (3) validation that the conditionally authorized systems are producing accurate, reliable, and representative data; and (4) inclusion of the conditionally authorized systems within the auditing program previously required by the Commission. *See id.* at 14. In the FY 2019 ACR, the Postal Service continues to report the FY 2019 service performance results for these three products/services using data generated from the existing external measurement systems. *See* FY 2019 Service Performance Report at 2-3, 25-26.

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. FY 2019 Service Performance Report at 15. PTR is based on over-the-counter and delivery confirmation scans of retail products, as well as barcode scans of

¹⁹⁶ Docket No. PI2018-2, Order Conditionally Approving Modifications to Market Dominant Service Performance Measurement Systems, November 5, 2018, at 6-11 (Order No. 4872). For mailpieces inducted into the Postal Service network on Non-Airlift Days, the start-the-clock date of measurement was changed from the acceptance day to the date following the applicable acceptance day. *Id.* at 5. This modification classifies each day before four major holidays (Thanksgiving, Christmas, New Years' Day, and Independence Day) as a Non-Airlift Day to align the description of internal SPM with the operational reality that limited air lift is available for transportation of mail to mail processing points due to the approaching holiday. *Id.* This modification affects letters, cards, and flats in First-Class Mail, USPS Marketing Mail, and Periodicals. *Id.*

¹⁹⁷ Docket No. PI2018-2, Order Closing Docket, December 27, 2018, at 2 (Order No. 4945).

¹⁹⁸ Docket No. PI2019-1, Order Conditionally Authorizing the Postal Service to Proceed with Changes to its Market Dominant Service Performance Measurement Systems, July 17, 2019, at 2, 14 (Order No. 5157).

¹⁹⁹ The hard copy option of Return Receipt, an Ancillary Service that provides evidence of delivery, is commonly referred to as the Green Card. Order No. 5157 at 4 n.7.

parcels that utilize the Postal Service's tracking service.²⁰⁰ PTR uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock). *See id.*

c. International Mail Measurement System (IMMS)

Based on a system similar to the legacy EXFC system, IMMS measures the domestic leg of transit time for international First-Class Mail using test mailpieces. *See* FY 2019 Service Performance Report at 3-4. 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.*; May 20, 2019 Postal Service SPM Plan at 30, 50.

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.²⁰¹

Mailpieces excluded from 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.²⁰² 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.²⁰³

Figure V-1 displays the percentage of mailpieces measured by Full-Service IMb since FY 2017.

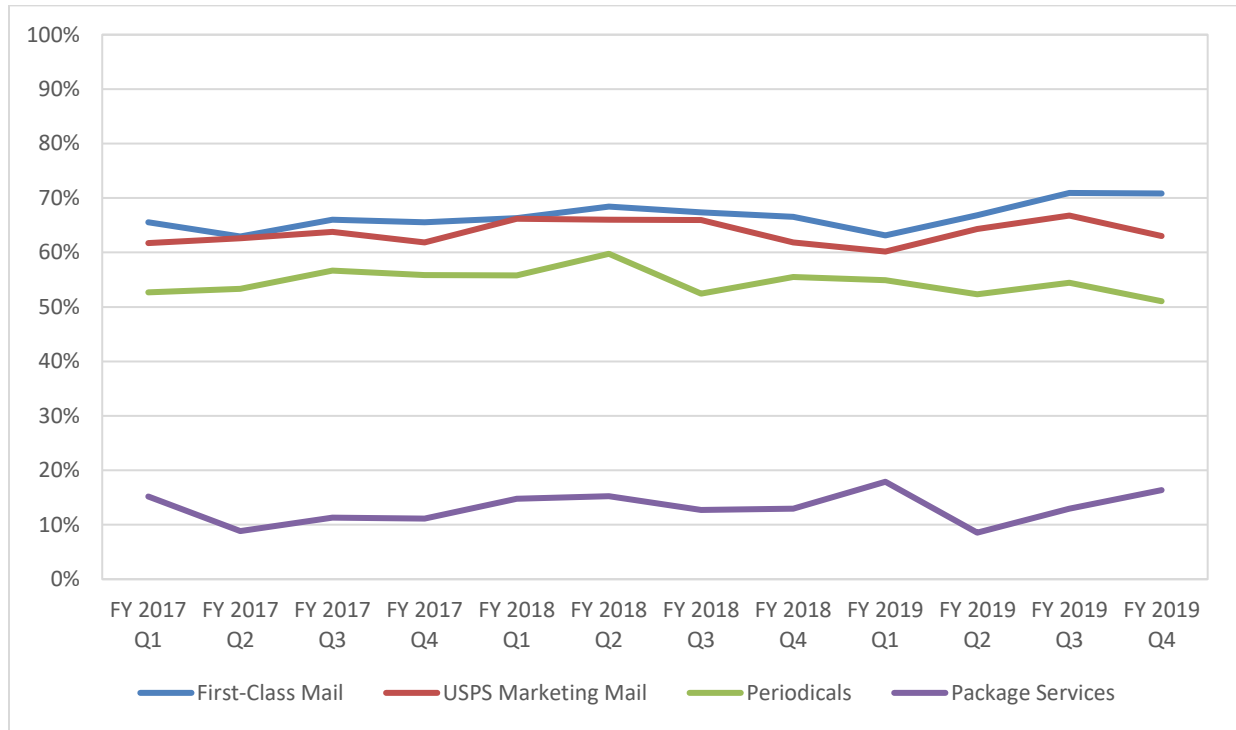
²⁰⁰ Docket No. ACR2016, Responses of the United States Postal Service to Questions 2-4 and 7-13 of Chairman's Information Request No. 16, February 17, 2017, question 3.

²⁰¹ *See* United States Postal Service, Mailing Standards of the United States Postal Service, Domestic Mail Manual, October 7, 2019, § 507.10.0.

²⁰² *See, e.g.*, FY 2015 ACD at 99-102; FY 2016 ACD at 96-99; FY 2017 ACD at 103-106; FY 2018 ACD at 133-136.

²⁰³ *See* Docket No. PI2016-1, Order Enhancing Service Performance Reporting Requirements and Closing Docket, August 26, 2016, at 28-35 (Order No. 3490).

**Figure V-1
 Nationwide Market Dominant Mail Measured by Full-Service IMb,
 by Percentage, by Quarter,
 FY 2017–FY 2019**



Note: BPM Flats is the only Package Services product measured using IMb; the remaining Package Services products are measured using PTR. FY 2019 Service Performance Report at 20-21.

Source: Responses of the United States Postal Service to Questions 1-22 of Chairman’s Information Request No. 3, January 21, 2020, question 21 (Response to CHIR No. 3); 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 49 (Docket No. ACR2018, January 11 Response to CHIR No. 1); Docket No. ACR2017, Library Reference USPS-FY17-42, December 29, 2017; Docket No. ACR2016, Library Reference USPS-FY16-42, December 29, 2016; FY 2016 through FY 2017 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: <http://www.prc.gov/documents/quarterly-performance>).

As illustrated by Figure V-1, the percentage of mailpieces measured by IMb has remained relatively consistent since 2017 and, except for Periodicals, has generally increased. Table V-4 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 2017.

Table V-4
Mail in Measurement and Excluded from Measurement, by Percentage,
FY 2017–FY 2019

Class/Product(s)	Percentage of Mail in Measurement			Percentage of Mail Entered at Full-Service IMb Prices and Included in Measurement			Percentage of Mail Processed as Full-Service IMb, but Excluded from Measurement		
	FY 2017	FY 2018	FY 2019	FY 2017	FY 2018	FY 2019	FY 2017	FY 2018	FY 2019
First-Class Mail									
Presorted Letters/Postcards**	64.89	67.19	67.83	72.18	74.00	73.75	27.82	26.00	26.25
Flats	54.53	56.05	58.14	69.57	69.02	70.51	30.43	30.98	29.49
USPS Marketing Mail*									
High Density and Saturation Letters	72.46	75.59	73.35	78.97	80.76	77.99	21.03	19.24	22.01
High Density and Saturation Flats/Parcels	37.39	37.68	37.42	60.44	68.09	65.64	39.56	31.91	34.36
Carrier Route	72.39	73.21	71.19	79.72	76.86	74.70	20.28	23.14	25.30
Letters	72.62	75.98	73.90	80.79	82.81	80.12	19.21	17.19	19.88
Flats	61.36	64.62	64.55	73.87	76.78	75.52	26.13	23.22	24.48
Every Door Direct Mail–Retail	63.93	63.89	62.78	Not Applicable					
Parcels	45.09	50.88	53.01	Data Not Available					
Total USPS Marketing Mail**	66.72	69.23	67.44	79.19	81.20	78.63	20.81	18.80	21.37
Periodicals									
In-County	7.88	9.94	11.00	Data Not Available					
Outside County	60.94	62.02	59.68	Data Not Available					
Total Periodicals	55.77	56.74	54.43	71.18	71.50	70.92	28.82	28.50	29.08
Package Services									
Bound Printed Matter Flats	11.81	13.96	13.59	42.62	45.53	49.37	57.38	54.47	50.63

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.

* The total number of Full-Service IMb mailpieces was unavailable at the product level for USPS Marketing Mail in FY 2017 Quarter 1. Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 11, February 7, 2018, question 8 (Docket No. ACR2017, Response to CHIR No. 11).

** 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. Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 13, February 19, 2020, questions 2.a.-b. (February 19 Response to CHIR No. 13).

Source: Response to CHIR No. 3, question 22; Docket No. ACR2018, January 11 Response to CHIR No. 1, question 50; Docket No. ACR2017, Response to CHIR No. 11, question 8.

As illustrated by Table V-4, USPS Marketing Mail Carrier Route reported the largest increase of mailpieces processed as Full-Service IMb that was excluded from measurement since FY 2017, although the Postal Service maintains that the primary reason for the increase observed during FY 2019 was due to the software issues experienced by a large mailer in FY 2019 Quarter 1, which resulted in the affected mailpieces being included in Full-Service IMb total volume but excluded from measurement. *See* FY 2019 Response to CHIR No. 13, question 2.b. The Commission notes the generally decreasing trend in mailpieces excluded from measurement. It will continue to monitor the rate of decrease and the reasons for exclusion.

For each class of mail, Table V-5 displays the top two reasons that a mailpiece was excluded from measurement in FY 2019 and the corresponding percentages.

Table V-5
Reasons for Mailpiece Exclusions, by Percentage, by Quarter, FY 2019

Class	Exclusion Reason	Exclusion Description	Q1	Q2	Q3	Q4
First-Class Mail	No Start-the-Clock*	Lack of a container unload scan or inability to identify the Facility Access and Shipment Tracking appointment associated to the container	30.26	25.08	31.35	38.84
	Long Haul	Mail verified at a Detached Mail Unit, then transported by USPS to a mail processing facility in a different district than the Detached Mail Unit	38.60	37.32	27.60	27.35
USPS Marketing Mail	No Start-the-Clock	Lack of a container unload scan or inability to identify the Facility Access and Shipment Tracking appointment associated to the container	38.69	44.08	44.89	45.76
	No Piece Scan	No automation scan observed for the mailpiece	33.84	28.76	28.91	27.99
Periodicals	No Piece Scan	No automation scan observed for the mailpiece	54.20	54.41	56.47	57.28
	No Start-the-Clock	Lack of a container unload scan or inability to identify the Facility Access and Shipment Tracking appointment associated to the container	13.66	11.89	11.57	12.79
Package Services	No Piece Scan	No automation scan observed for the mailpiece	78.55	71.11	80.56	75.12
	Invalid Entry Point for Discount Claimed	Entry Point for Entry Discount claimed in eDoc** is invalid for the entry point and destination of the mail	10.39	14.46	7.10	12.94

Source: United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 12, 2019, Excel file "AttachA_ExclusionReasonBreakdown_FY19_Q4.xlsx," tab "Exclusions."

Note: The reference point for the percentages is the subset of mailpieces excluded from measurement.

* Without an initial scan or an identified Facility Access and Shipment Tracking (FAST) appointment, the Postal Service cannot decipher when the measuring process should begin and therefore excludes these mailpieces from measurement. See FY 2018 ACD at 135.

** "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>).

As illustrated by Table V-5, for First-Class Mail and USPS Marketing Mail, the most common reason for mailpiece exclusion 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.²⁰⁴ Without an initial scan or an identified FAST appointment, the Postal Service cannot decipher when the measuring process should begin and therefore excludes these mailpieces from

²⁰⁴ United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 12, 2019, Excel file "AttachA_ExclusionReasonBreakdown_FY19_Q4.xlsx," tab "Exclusions."

measurement. *See* FY 2018 ACD at 135. 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.²⁰⁵ The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2018 ACD at 135.

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

a. Introduction

(1) Procedural Background

In FY 2015, service performance results for First-Class Mail Single-Piece Letters/Postcards declined more rapidly than they had in prior fiscal years—particularly for the 3-5-Day service standard. FY 2015 ACD at 132. This decline was concerning because “[f]or the first time since the Postal Service began reporting service performance of all Market Dominant mail products, no First-Class Mail product met or exceeded its service performance target[.]” *Id.* at 131. In responses to CHIRs, the Postal Service identified issues related to the FY 2015 results and reported that it planned to continue its existing remediation strategy, which involved using root cause failure analysis to identify lower performing facilities and correct operational issues. *Id.* at 136. The Commission expressed concern regarding the absence of (1) a link between the use of root cause diagnostic tools and actions to improve service performance and (2) a quantitative link between the identified issues and the results. *Id.* Determining that Single-Piece Letters/Postcards was not in compliance in FY 2015, the Commission issued directives to improve transparency regarding the Postal Service’s remediation plans. *Id.* at 136-138. These directives required the Postal Service to provide certain data and discuss its service performance improvement initiatives. *Id.* at 138.

During the FY 2016 and FY 2017 annual compliance reviews, the Postal Service’s responses to the directives and CHIRs described available data and analytical tools used to identify service performance failures. FY 2016 ACD at 101-103; FY 2017 ACD at 106. Single-Piece Letters/Postcards results improved for 2 consecutive years; however, the results remained below target and did not return to the level reported before FY 2015. FY 2016 ACD at 130, 133; FY 2017 ACD at 147. Determining that Single-Piece Letters/Postcards remained out of compliance, the Commission directed the Postal Service to provide updated data. FY 2016 ACD at 133-135; FY 2017 ACD at 147-149. The Commission found that these data, provided consistently year over year, may increase the accuracy of evaluating what actions contribute to improving service performance results and the relative significance of those actions. FY 2017 ACD at 108.

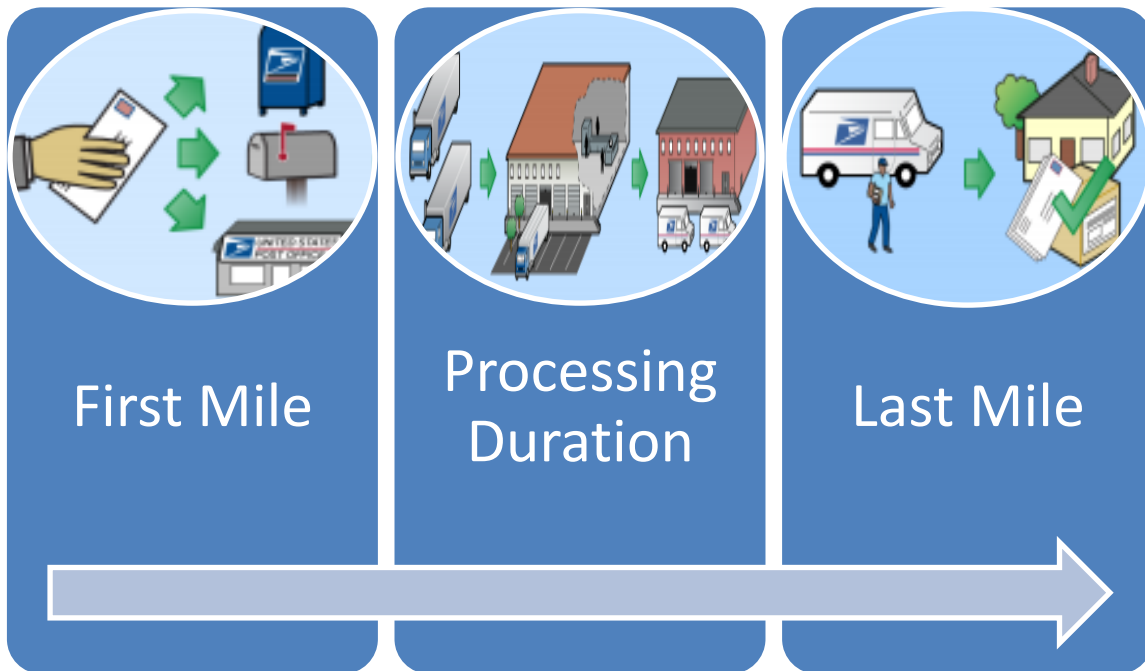
²⁰⁵ United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 12, 2019, Excel file “AttachA_ExclusionReasonBreakdown_FY19_Q4.xlsx,” tab “Exclusions.”

During FY 2018, service performance results for Single-Piece Letter/Postcards declined, and the Commission determined that the product remained out of compliance. FY 2018 ACD at 174. The Postal Service attributed the decline in performance for all First-Class Mail (including all products, shapes, and service standards) to local facilities' failure to adhere to the Postal Service's existing multi-year national data-driven strategies. *Id.* at 173. To evaluate the Postal Service's plan to correct this issue, the Commission directed the Postal Service to provide narrative reports from each of the seven geographic Postal Service Areas. *Id.* at 174.

(2) Root Causes Analysis and Point Impact Data

The Postal Services uses its internal SPM systems to monitor the mail flow, assign root causes of failure, and quantify the impact of the failure of a mailpiece to clear a particular processing action. Measurement of the mail flow is divided into three segments: First Mile, Processing Duration, and Last Mile. Order No. 4697 at 17. Figure V-2 illustrates the mail flow along with the corresponding measurement segments.

Figure V-2
Mail Flow and Measurement



Source: Graphics are from U.S. Government Accountability Office, *U.S. Postal Service: Offering Nonpostal Services Through its Delivery Network Would Likely Present Benefits and Limitations*, published December 17, 2019, reissued with revisions December 18, 2019, at 6 (available at: <https://www.gao.gov/assets/710/703324.pdf>) (GAO-20-190).

Notes:

First Mile refers to the time between:

- collection (when the carrier scans the mailpiece at the collection point) and
- the first processing operation (the first scan of the mailpiece on mail processing equipment).

Processing Duration refers to the time between:

- the first processing operation and
- the last processing operation (the last scan of the mailpiece on mail processing equipment).

Last Mile refers to the time between:

- the last processing operation and
- final delivery (when the carrier scans the mailpiece at the delivery point).

See Order No. 4697 at 17-19.

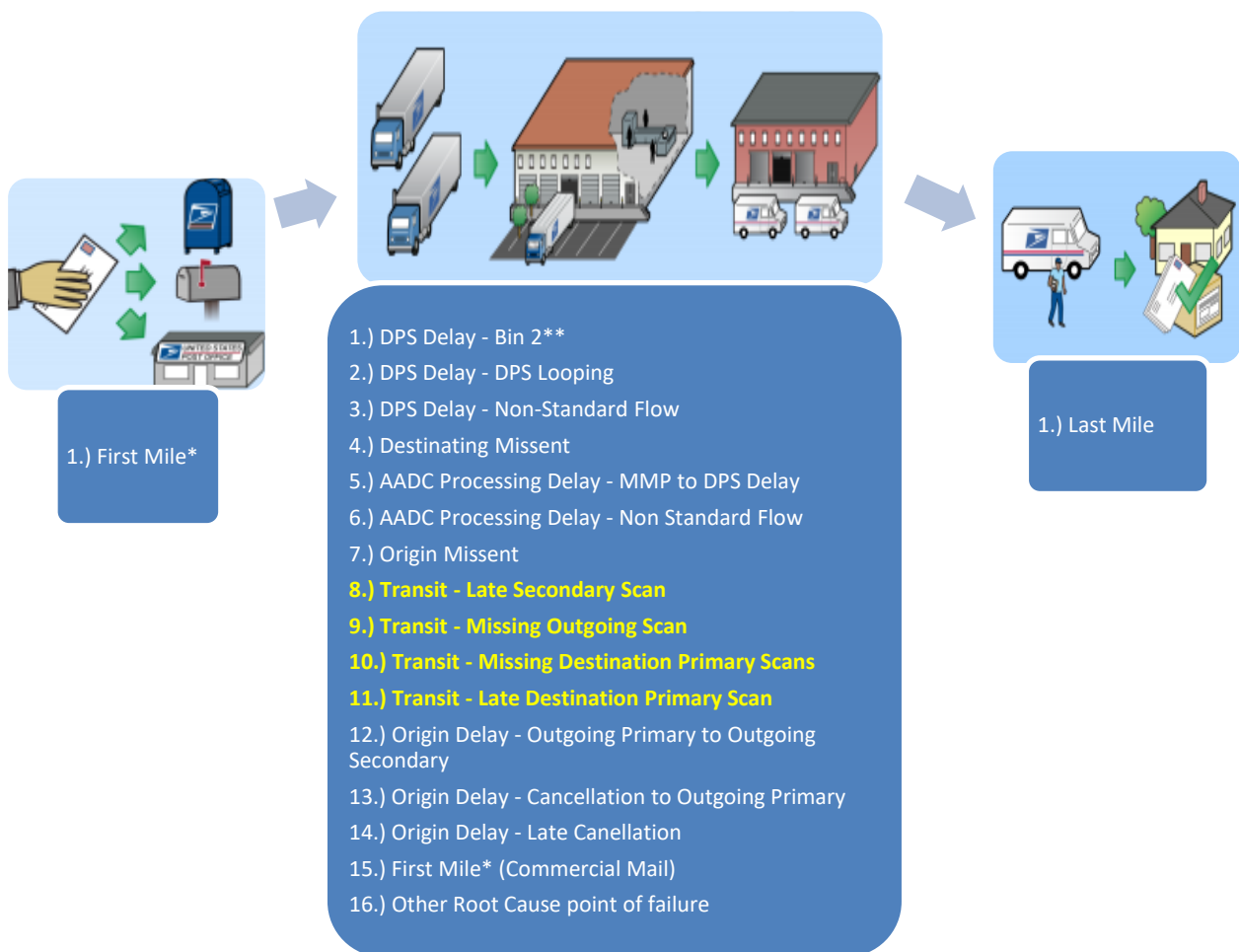
Evaluating the significance of failures occurring in particular segments is important to assessing the relative success of the Postal Service's improvement efforts. To monitor and quantify the impact of such failures, the Postal Service uses root cause diagnostic tools. The Postal Service assigns a single root cause indicator to a mailpiece that is delivered after the applicable service standard. Response to CHIR No. 3, questions 3.e., 3.f., 4.e., 4.f., 7.f., and 7.g.

The Postal Service uses these indicators for three First-Class Mail products (Single-Piece Letters/Postcards, Presorted Letters/Postcards, and Flats) and three USPS Marketing Mail

products (Carrier Route, Letters, and Flats). *See id.* questions 3.c., 4.c., 7.c., and 7.d. Each root cause indicator corresponds with the failure to receive a correct and/or timely scan of a mailpiece corresponding with a specific processing action. *See id.* Failures occurring during the First Mile or Last Mile segments are assigned a particular indicator. *See id.* Failures occurring during the Processing Duration segment are assigned various indicators based on incoming or outgoing mailpiece scans. *See id.*

Figure V-3 illustrates the hierarchy of how the Postal Service assigns an indicator to a failed mailpiece.

**Figure V-3
Root Cause Hierarchy**



Notes:

* Because commercial mailpieces tend to bypass First Mile (collections and cancellation), there are minor differences in the definitional criteria and hierarchy of assignment for single-piece (retail) versus commercial mailpieces. *See Response to CHIR No. 3, questions 3.c., 4.c., and 7.c.*

** Because of processing differences between letter- and flat-shaped mailpieces, the Postal Service does not assign the DPS Delay - Bin 2 indicator to flat-shaped mailpieces. *See id.*

Source: Response to CHIR No. 3, questions 3.c., 4.c., and 7.c. Graphics are from GAO-20-190 at 6.

The Postal Service quantifies the number of percentage points by which on-time service performance decreased due to each specific root cause indicator. Response to CHIR No. 3, questions 3.a., 4.a., and 7.a. These point impacts were calculated using the following formula:

$$\text{Point Impact} = \left[\frac{\text{Failed Volume Attributed to Specific Root Cause}}{\text{Total Failed Volume Attributed to All Root Causes}} * \text{Failure Rate} \right] * 100$$

Id. questions 3.d., 4.d., and 7.e.

In addition to isolating the most impactful root causes, the point impact data represent an opportunity to evaluate whether service performance is improving over time. Increases in service performance results and decreases in failures as the fiscal year progresses is consistent with seasonal trends and does not necessarily signify that improvement will be maintained into the next fiscal year. Seasonality within a fiscal year continues to be evident in the service performance results and the point impact data. Consistent with observations in prior fiscal years, service performance results during the second half of the fiscal year (Quarters 3 and 4) generally exceed results observed for the first half of the fiscal year (Quarters 1 and 2).²⁰⁶ Similarly, failures (measured through point impact data) are lower during the second half of the fiscal year compared to the first half. *See, e.g.*, FY 2018 ACD at 148, 150, 160.

Accordingly, the most useful data to evaluate whether the Postal Service is improving its service performance is to compare data from the same period during the prior fiscal year. However, point impact data for FY 2019 was not collected or calculated in the same manner in prior years and is therefore not directly comparable to prior years.²⁰⁷ The lack of directly comparable data from the same period during the prior fiscal year renders it difficult to ascertain if the Postal Service has improved performance for this product from FY 2018 to FY 2019. The consistent collection and calculation of the point impact data using the internal SPM systems again in FY 2020 will facilitate quantitative analysis of service performance trends.

²⁰⁶ This trend is also observable in product level results for most products, including Single-Piece Letters/Postcards. *See* FY 2015 through FY 2019 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 are available at: <http://www.prc.gov/documents/quarterly-performance>.

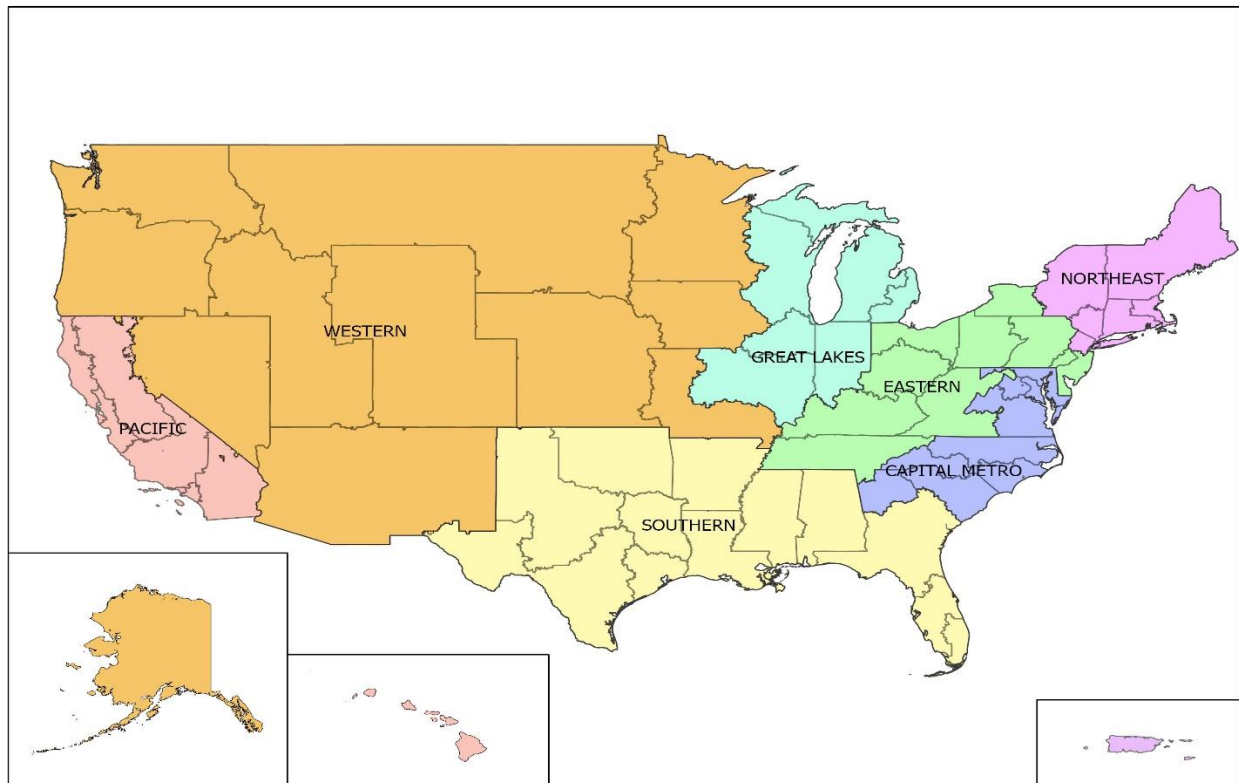
²⁰⁷ *Compare* Response to CHIR No. 3, questions 3.c., 3.d., 4.c., 4.d., 7.c., and 7.e., with Docket No. ACR2018, Response to CHIR No. 3, question 10.c., and Docket No. ACR2018, January 11 Response to CHIR No. 1, question 24.a., and Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 2, January 17, 2018, question 8.a. (Docket No. ACR2017, January 17 Response to CHIR No. 2), and Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-10 of Chairman's Information Request No. 11, February 15, 2019, question 7.c.

b. Top Root Causes and Remediation Actions

(1) Top Root Causes

Compliance is measured at a national level for each product offered by the Postal Service. The Postal Service plans to address service performance issues by driving local facilities' adherence to the Postal Service's existing multi-year national data-driven strategies.²⁰⁸ Therefore, the Commission focuses on driving transparency and accountability by assessing whether the Postal Service's national headquarters is setting appropriate operational targets for the local facilities, providing local facilities with sufficient resources and education to meet those targets, measuring local performance in a meaningful and consistent manner, and holding local facilities accountable for gaps between the target and performance. To monitor this connection between the Postal Service's national headquarters and its local facilities, the Commission obtained data and explanations below the national level: specifically at the Postal Service administrative area (Area) level. As illustrated in Figure V-4, the Postal Service subdivides the nation into 7 Areas and 67 districts.

Figure V-4
Postal Service Areas and Districts, FY 2019



Source: Map generated from the Office of Inspector General and Postal Service available data.

²⁰⁸ See FY 2019 Service Performance Report at 6-9; Docket No. ACR2018, January 11 Response to CHIR No. 1, question 26.

Generally, the Areas focus on issues related to transit (measured within the Processing Duration segment) and the Last Mile segment as these have the most impact on delivering First-Class Mail on time.²⁰⁹ The national level data confirm that failures in transit and Last Mile are the known root causes that had the most impact on service performance results for First-Class Mail in FY 2019.

Table V-6 displays the root cause indicator with the highest point impact on results in FY 2019, disaggregated by service standard, shape, and whether the mailpiece was single-piece or presorted.

Table V-6
Nationwide Impact of Top Root Causes on Service Performance Results for First-Class Mail, by Percentage Points, FY 2019

Mail Type	Shape	Service Standard	Root Cause Indicator	Point Impact
Single-Piece	Letter/Card	2-Day	Last Mile	2.62
		3-5-Day	Transit Late Destination Primary Scan	4.42
Single-Piece	Flat	2-Day	Last Mile	6.18
		3-5-Day	Last Mile	6.32
Presorted	Letter/Card	Overnight	Last Mile	2.22
		2-Day	Last Mile	2.28
		3-5-Day	Transit Late Secondary Scan	2.47
Presorted	Flat	Overnight	Last Mile	6.59
		2-Day	Last Mile	6.63
		3-5-Day	Last Mile	6.01

Source: Response to CHIR No. 3, question 4.c.; February 19 Response to CHIR No. 13, question 1.

Since transit and Last Mile had the highest point impact on results, after a general discussion of the Postal Service's remediation actions, the Commission focuses on these two root cause indicators below.

(2) Remediation Actions

Generally, the Postal Service reports that it works to correct or abate service performance issues by using its data analytic tools to develop operating plan targets and identify facilities that perform lower relative to others for particular operational targets.²¹⁰ These lower performing facilities are notified, supported, and monitored until better service

²⁰⁹ See generally Library Reference USPS-FY19-29, files "Southern Service Report FINAL.pdf," "Cap Metro Service report FINAL.pdf," "Eastern Service Report FINAL.pdf," "Great Lakes Service Report FINAL.pdf," "NEA Service Report FINAL.pdf," "Pacific Service Report FINAL.pdf," "Western Service Report FINAL.pdf."

²¹⁰ See, e.g., Response to CHIR No. 4, questions 33 and 34 (Response to CHIR No. 4; Library Reference USPS-FY19-29, file "Southern Service Report FINAL.pdf," at 7.

performance results are observed.²¹¹ Then, focus is shifted to the new lower performing facilities.²¹²

For FY 2019, the Postal Service relied principally on the “Grid.” FY 2018 ACR at 39. The Grid, which was first developed and used in the Eastern Area, is a visualization timeline used to indicate where plants are experiencing delays in mail processing. FY 2019 Service Performance Report at 7. The visualization can be used to pinpoint gaps in Work in Process (WIP)²¹³ through scan events and stall points during processing and transportation. FY 2019 Service Performance Report at 7.

The Grid includes a tracking mechanism to ensure that local facilities correct or abate the issues identified. Response to CHIR No. 4, question 29. This tracking mechanism contains all failure points and action items needed to correct the identified service failure patterns and process failures. *Id.* The tracking mechanism contains a log that displays action items, ownership of action (the names of process owners and those at the local level who will be responsible for implementing changes), due dates, and completion dates. *Id.*; FY 2019 Service Performance Report at 7. Instructional meetings train local personnel on how to develop and use facility-specific Grid tools and assign ownership. *See* FY 2019 Service Performance Report at 7. Additionally, in FY 2019, the Postal Service resumed deployment of service improvement teams consisting of national headquarters, Area, and district personnel to “work[] with local plant personnel to physically connect the failure data with the [breakdown in] process.” *Id.*

Additionally in FY 2019, the Managers of Operations Support in each Area worked to identify and increase monitoring of the ten vital pairs (origin and destination sites) that had the greatest impact on nationwide service performance.²¹⁴ When a site maintains target-level performance for 6 consecutive weeks, that site is removed from the list and focus shifts to the next most heavily weighted underperforming pair.²¹⁵

Below, the Commission provides additional discussion focused on the two most impactful issues: transit and Last Mile.

(a) Transit

Transit is measured within the Processing Duration segment. Transit refers to the transportation of a mailpiece that is destined for an address outside of the local service area from which the mailpiece was mailed. After completing origin processing, which is

²¹¹ *See, e.g.*, Response to CHIR No. 4, questions 28, 29, and 34.c; Library Reference USPS-FY19-29, files “Eastern Service Report FINAL.pdf,” at 4 and “Southern Service Report FINAL.pdf,” at 10-11.

²¹² *See, e.g.*, Library Reference USPS-FY19-29, file “Eastern Service Report FINAL.pdf,” at 4; Response to CHIR No. 4, question 34.c.

²¹³ “The Work in Process (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.

²¹⁴ *See* Library Reference USPS-FY19-29, file “Eastern Service Report FINAL.pdf,” at 4; Response to CHIR No. 4, question 34.b.

²¹⁵ *See* Library Reference USPS-FY19-29, file “Eastern Service Report FINAL.pdf,” at 4; Response to CHIR No. 4, question 34.c.

measured via outgoing scan(s), the Postal Service tenders mailpieces to surface and/or air transit suppliers for transportation to the destination processing facility.

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.”²¹⁶ This assertion is generally supported by the Postal Service’s reporting related to the transit phase.²¹⁷

For FY 2020, the Postal Service intends to increase its senior leadership’s focus on transit-related issues. *FY 2019 Annual Report* at 22. In September 2019, the Postal Service assigned certain duties of the Vice President of Network Operations to two new senior leaders: (1) the Vice President of Logistics, assigned to improve the air and surface transportation network and (2) the Vice President of Processing and Maintenance Operations, assigned to lead processing operations, operations integration and support, international processing operations, and maintenance operations. *Id.*

To monitor problems with transit, the Postal Service measures whether a mailpiece was processed on time at the origin processing facility, but the primary incoming scan at the destinating processing facility is: late, missing, or occurs at the incorrect destinating processing facility. Each of these three outcomes is assigned a distinct root cause indicator: Transit Late Destination Primary Scan, Transit Missing Destination Primary Scans, and Origin Missent. *See* Response to CHIR No. 3, question 4.c. Notably at the national level, these three indicators make up three of the top five root cause point impacts for 3-5-Day Single-Piece Letters/Postcards in FY 2019.²¹⁸

The narrative reports from the seven Areas provide additional visibility into the common reasons for how transit failures occur and the actions taken to remediate these failures. In general, these reports indicate there are three primary reasons for transit failures: the mailpiece failed to depart the origin facility on time, was not tendered to an air transit supplier on time, and/or experienced delays en route.²¹⁹ The reports describe three major improvement initiatives aimed at addressing these issues: ensuring on-time departures, ensuring timely tender to air transit suppliers, and minimizing en route delays.

²¹⁶ 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).

²¹⁷ *See* Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tabs “Q1_PFCM” and “Q1_SPFC;” February 19 Response to CHIR No. 13, question 1.

²¹⁸ *See* Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tabs “Q1_PFCM” and “Q1_SPFC;” February 19 Response to CHIR No. 13, question 1.

²¹⁹ The operational coding associated with the root cause failure indicator does not correspond with the reason(s) for that particular failure. *See* Response to CHIR No. 3, questions 3.c., 4.c., and 7.c. For instance, a Transit Late Destination Primary Scan indicates only that the mailpiece departed the origin facility on time and that the First Incoming Primary Scan at the expected destination facility was late; this scan does not indicate whether the mailpiece was tendered to an air transit supplier on time and/or experienced delays en route. *See id.*

Table V-7 summarizes the identified actions corresponding with these initiatives.

Table V-7
Improvement Initiatives for Transit Failures, FY 2019

Improvement Initiatives	Remediation Actions
Ensure On-Time Departures	<ul style="list-style-type: none"> • Drive adherence to operating plan targets to avoid holding trips for departure (have all available mail on the dock and ready to depart on time) • Expand use of the Network Operations Control Center to confirm that freighthouses are clear of mail on a daily basis • Review of late trips on a daily basis • Require an after-action plan for any site from which a late trip departs
Ensure Timely Tender to Air Transit Suppliers	<ul style="list-style-type: none"> • Identify specific air stops and air couriers with issues via measurement and reporting • Hold Area-level meetings with air transit suppliers to ensure timely communication that mail is ready to be picked up • Use Postal Service liaisons and all-clear messaging at commercial airline destinating freighthouses • Provide checklists to ramp clerks and transportation personnel to help correctly identify when volume has arrived and when it is ready to depart for air transit
Minimize En Route Delays	<ul style="list-style-type: none"> • Analyze and review delayed trips • Develop more efficient routes • Validate network routings by shape on a quarterly basis • Implement and update service agreements between origin processing facilities and their servicing Surface Transfer Centers²²⁰ to match operational realities • Identify and communicate with origin processing facilities sending excessive volumes through Surface Transfer Centers for the potential to generate direct routes that bypass Surface Transfer Centers • Enhance visibility regarding the chain of custody of containers of mail using the Container Details Report • Review air transit suppliers for adherence to required delivery times • Track unplanned directional dispatching using IV

Source: Library Reference USPS-FY19-29, files "Southern Service Report FINAL.pdf," at 7-8, 11; "Cap Metro Service report FINAL.pdf," at 4; "Eastern Service Report FINAL.pdf," at 2-3; "Great Lakes Service Report FINAL.pdf," at 3, 5; "NEA Service Report FINAL.pdf," at 3-4, 7-8; "Pacific Service Report FINAL.pdf," at 8-9; "Western Service Report FINAL.pdf," at 2, 6-7.

In addition to these initiatives, the Commission reviews the Postal Service's progress in addressing two transit problems identified by the Postal Service as significant in prior fiscal years: insufficient air capacity and late highway contract trips.

With respect to securing adequate air capacity, the Postal Service appears to have made progress by reducing the air capacity gap from the levels observed in FY 2015, which the Postal Service had identified as one of the primary reasons for the dramatic decline in First-

²²⁰ Surface Transfer Centers (STCs) are Postal Service facilities that accept, re-process, and dispatch mailpieces currently in transit to destination facilities. Specifically, "STCs distribute, dispatch, consolidate and transfer First-Class Mail, Priority [M]ail and Periodicals within a specialized surface transportation network." 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.

Class Mail service performance results in FY 2015.²²¹ However, the Postal Service remains unable to quantify the impact of the air capacity gap on service performance results. Response to CHIR No. 3, question 6.

With respect to minimizing late highway contract trips, the Postal Service designates surface trips that arrive more than 4 hours late as Critically Late Trips (CLTs).²²² The Postal Service identifies a CLT by comparing the actual arrival scan to the scheduled arrival scan at the destination facility.²²³ The Postal Service states that it uses its Surface Visibility (SV) diagnostic tool to identify the route, the trip, and the destinating area and district.²²⁴ The Postal Service remains unable to quantify the impact of CLTs on service performance results. Response to CHIR No. 3, question 6. Table V-8 shows that the number of CLTs reported for all Areas and nationwide increased in FY 2019, with the Eastern Area reporting the largest number of CLTs in FY 2019 and the Western Area reporting the greatest year-over-year increase.

Table V-8
CLTs, by Area and Nationwide, FY 2018–FY 2019

Area	FY 2018	FY 2019	Percentage Change
Capital Metro	1435	2523	75.8
Eastern	1716	3169	84.7
Great Lakes	2089	2715	30.0
Northeast	1971	2636	33.7
Pacific	556	1012	82.0
Southern	1316	2127	61.6
Western	789	2852	261.5
National	9872	17034	72.6

Source: Library Reference USPS-FY18-29, December 28, 2018, Excel file "ACD.FCM.FY18Q3Q4.public - v01.xlsx," tab "Q4c;" Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q4."

The Postal Service attributes this increase solely to "increased scanning performance" and states that improving SV scanning performance "resulted in the capture of a larger data pool; in turn, that enabled the Postal Service to identify and report more . . . CLTs[] in FY 2019 than in the prior years." Response to CHIR No. 4, question 30.c; Response to CHIR No. 12, question 11. The Commission encourages the Postal Service to collect data in a consistent manner in order to better identify which of the Postal Service's efforts to reduce CLTs is most effective. By the end of June 2020, the Postal Service plans to have completed

²²¹ See Library Reference USPS-FY19-NP30, Excel file "NONPUBLIC FCM Q3 Air Capacity.xlsx" (recasting prior fiscal years data using FY 2019 methodology); FY 2015 ACD at 133 (observing that the Postal Service asserted that Phase 2 of Network Rationalization resulted in insufficient air carrier capacity and was one of the primary reasons for the dramatic decline in First-Class Mail service performance results in FY 2015).

²²² 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.a.

²²³ See Response to CHIR No. 3, question 30.b.; Docket No. ACR2017, January 17 Response to CHIR No. 2, question 7.b.iii.

²²⁴ See Response to CHIR No. 3, question 30.b.; Docket No. ACR2017, January 17 Response to CHIR No. 2, question 7.b.iii.

the redesign of its surface network, which aims to optimize surface transit by realigning transportation at its eleven existing STCs and opening two new STCs.²²⁵

The Postal Service has existing multi-year national data-driven strategies and targets for transportation. The Postal Service uses operational plans set by the Run Plan Generator (RPG), which uses forecasted data to develop a facility-specific machine schedule (including start times and throughputs) to enable the correct and timely tender of mailpieces for air or surface transportation.²²⁶ The Postal Service is working to address resource issues related to transit such as narrowing the air capacity gap and providing field personnel with appropriate training on handling mailpieces and using the data analytic tools. The myriad of data analytic reports provide the tools to identify failures, notify the applicable facility personnel, and monitor facility-level performance. Transit failures disrupt actions at multiple facilities (origin, destination, and various intermediary facilities) and the Postal Service's explanations and data confirm that there are opportunities to improve service performance by focusing on transit issues. The Commission recognizes that the Postal Service plans to increase its national focus on transit at a senior leadership level and is realigning its surface transportation network in FY 2020. Given the interconnected nature of the Postal Service network, the Commission encourages the Postal Service to coordinate its efforts with national, Area, district, and facility stakeholders to correct and abate transit failures.

(b) Last Mile

Last Mile refers to the movement of a mailpiece after the final processing operation until delivery. The Postal Service assigns the Last Mile indicator if the mailpiece passes all processing and First Mile operations, but was not delivered by its service standard. *See* Response to CHIR No. 3, questions 3.c., 4.c., and 7.c. Last Mile failures are the top root cause for letter-shaped First-Class Mail with overnight and 2-Day service standards and for all flat-shaped First-Class Mail. *See* February 19 Response to CHIR No. 13, question 1.

The narrative reports from the seven Areas provide additional visibility into the common reasons for how Last Mile failures occur and the actions taken to remediate these failures.²²⁷ In general, these reports indicate that there are two primary reasons for Last Mile failures: failure to follow scanning procedures and/or failure to meet operational

²²⁵ *See* FY 2019 Annual Report at 23; Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 10, February 11, 2020, question 6.b. (Response to CHIR No. 10).

²²⁶ *See* Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, Service Improvement Plan, at 7.

²²⁷ *See, e.g.*, Library Reference USPS-FY19-29, files "Southern Service Report FINAL.pdf," at 7, 10-11; "Cap Metro Service report FINAL.pdf," at 4-5; "Eastern Service Report FINAL.pdf," at 3, 5; "Great Lakes Service Report FINAL.pdf," at 3, 5; "NEA Service Report FINAL.pdf," at 3, 7; "Pacific Service Report FINAL.pdf," at 2-3, 7; "Western Service Report FINAL.pdf," at 2, 7-8.

clearance targets.²²⁸ The reports describe that consistent education and accountability have been most effective in addressing both of these issues.²²⁹

Table V-9 summarizes the identified actions corresponding with these initiatives.

Table V-9
Improvement Initiatives for Last Mile Failures, FY 2019

Improvement Initiatives	Remediation Actions
Ensure Facilities Have Proper Education	<ul style="list-style-type: none"> • Reissue all Standard Work Instructions for SPM • Disseminate video training of the entire SPM sampling process, including a step-by-step example, to districts • Provide delivery units with 15-minute “microburst” (short, intensified, targeted) training sessions on SPM sampling • Reeducate employees concerning reporting classifications • Reiterate adherence to load leveling for USPS Marketing Mail to reduce Monday delivery workload • Conduct delivery operations education symposiums to teach field managers better methods for improving operational clearance and letter carrier departure times • Train supervisors on scanning, service, and the tools to drive both • Train supervisors and management on analytics tools using the USPS Analytics University
Ensure Facilities are Held Accountable	<ul style="list-style-type: none"> • Ensure all mail is cleared daily via delivery managers’ midday and evening facility walks • Identify delivery units with largest reports of “ignored scans” and “no pieces to scan” • Identify field employees who scan “stale”²³⁰ mailpieces • Review Standard Operating Procedures for scanner configurations • Conduct daily teleconferences between Area and district leadership (Voice of the Process) • Review of delivery units with the greatest Last Mile Impact scores by district leadership • Develop after-action plans for delivery units with the greatest Last Mile Impact scores • Perform Kaizen events (5-day facility observations) and Lean Six Sigma Projects focused on improving Last Mile Impact scores • Replicate facility-specific findings district-wide • Provide training, support, and feedback from Area leadership to districts with the greatest Last Mile Impact scores • Link district managers National Performance Assessment goals to Last Mile Impact scores

Source: Library Reference USPS-FY19-29, files “Southern Service Report FINAL.pdf,” at 7, 10-11; “Cap Metro Service report FINAL.pdf,” at 4-5; “Eastern Service Report FINAL.pdf,” at 3, 5; “Great Lakes Service Report FINAL.pdf,” at 3, 5; “NEA Service Report FINAL.pdf,” at 3, 7; “Pacific Service Report FINAL.pdf,” at 2-3, 7; “Western Service Report FINAL.pdf,” at 2, 7-8; Response to CHIR No. 4, question 33.b.

²²⁸ See, e.g., Library Reference USPS-FY19-29, files “Southern Service Report FINAL.pdf,” at 7, 10-11; “Cap Metro Service report FINAL.pdf,” at 4-5; “Eastern Service Report FINAL.pdf,” at 3, 5; “Great Lakes Service Report FINAL.pdf,” at 3, 5; “NEA Service Report FINAL.pdf,” at 3, 7; “Pacific Service Report FINAL.pdf,” at 2-3, 7; “Western Service Report FINAL.pdf,” at 2, 7-8.

²²⁹ See, e.g., Library Reference USPS-FY19-29, files “Southern Service Report FINAL.pdf,” at 7, 10-11; “Cap Metro Service report FINAL.pdf,” at 4-5; “Eastern Service Report FINAL.pdf,” at 3, 5; “Great Lakes Service Report FINAL.pdf,” at 3, 5; “NEA Service Report FINAL.pdf,” at 3, 7; “Pacific Service Report FINAL.pdf,” at 2-3, 7; “Western Service Report FINAL.pdf,” at 2, 7-8.

²³⁰ “Stale” refer to a mailpiece that is incorrectly scanned by the carrier because the mailpiece was previously placed in the mail receptacle and had not been removed by the addressee. Library Reference USPS-FY19-29, file “Pacific Service Report FINAL.pdf,” at 2.

Education and accountability are largely interconnected: after-the-fact review often identifies issues that require education of a wider pool of employees. For instance, Area reviews revealed that delivery units did not understand the differences between various reporting classifications and therefore misclassified mailpieces.²³¹ Specifically, delivery units misclassified mail as “delayed” (mail committed for delivery that day which arrived at least 15 minutes after the regularly scheduled arrival of the Dispatch of Value) rather than as “curtailed” (mail kept in the delivery operation for delivery within the service commitment). *See id.*; Response to CHIR No. 4, question 32.a. The Postal Service explains that such misclassification can hinder identification of failures; whereas proper identification can lead to correction and abatement of the problem. *See* Response to CHIR No. 4, question 32.b.

The Postal Service has existing multi-year national data-driven strategies for the Last Mile.²³² The Postal Service uses operational plans with time targets for carrier dispatch, carrier return, and P.O. Box Up time²³³ to enable the correct and timely delivery of mailpieces to the addressee.²³⁴ The Postal Service is working to provide field personnel with appropriate training on scanning and classifying mailpieces and using the data analytic tools.²³⁵ These analytic tools are used to identify failures, notify the applicable facility personnel, and monitor facility-level performance.²³⁶

The Postal Service’s explanations and data confirm that there are opportunities to improve service performance by developing best practices for the Last Mile and educating other facilities regarding those best practices. The Commission recognizes that the Area and district leadership are working to foster open dialogues in which facilities can share knowledge and best practices with each other. The Commission also recognizes that the Postal Service has put into place accountability measures to correct and abate problems specific to the Last Mile.

²³¹ *See* Library Reference USPS-FY19-29, file “Southern Service Report FINAL.pdf,” at 7.

²³² *See, e.g.*, Library Reference USPS-FY19-29, files “Southern Service Report FINAL.pdf,” at 7, 10-11; “Cap Metro Service report FINAL.pdf,” at 4-5; “Eastern Service Report FINAL.pdf,” at 3, 5; “Great Lakes Service Report FINAL.pdf,” at 3, 5; “NEA Service Report FINAL.pdf,” at 3, 7; “Pacific Service Report FINAL.pdf,” at 2-3, 7; “Western Service Report FINAL.pdf,” at 2, 7-8.

²³³ “P.O. Box Up Time” refers to the time of day at which mail will be finalized and available to Post Office Box customers. *See* United States Postal Service, Postal Bulletin 22289, July 15, 2010, at 10 (citing Postal Operations Manual § 141.423). The local postmaster establishes the local P.O. Box Up time with district approval. *Id.*

²³⁴ *See, e.g.*, Library Reference USPS-FY19-29, files “Southern Service Report FINAL.pdf,” at 7, 10-11; “Cap Metro Service report FINAL.pdf,” at 4-5; “Eastern Service Report FINAL.pdf,” at 3, 5; “Great Lakes Service Report FINAL.pdf,” at 3, 5; “NEA Service Report FINAL.pdf,” at 3, 7; “Pacific Service Report FINAL.pdf,” at 2-3, 7; “Western Service Report FINAL.pdf,” at 2, 7-8.

²³⁵ *See, e.g.*, Library Reference USPS-FY19-29, files “Southern Service Report FINAL.pdf,” at 7, 10-11; “Cap Metro Service report FINAL.pdf,” at 4-5; “Eastern Service Report FINAL.pdf,” at 3, 5; “Great Lakes Service Report FINAL.pdf,” at 3, 5; “NEA Service Report FINAL.pdf,” at 3, 7; “Pacific Service Report FINAL.pdf,” at 2-3, 7; “Western Service Report FINAL.pdf,” at 2, 7-8.

²³⁶ *See, e.g.*, Library Reference USPS-FY19-29, files “Southern Service Report FINAL.pdf,” at 7, 10-11; “Cap Metro Service report FINAL.pdf,” at 4-5; “Eastern Service Report FINAL.pdf,” at 3, 5; “Great Lakes Service Report FINAL.pdf,” at 3, 5; “NEA Service Report FINAL.pdf,” at 3, 7; “Pacific Service Report FINAL.pdf,” at 2-3, 7; “Western Service Report FINAL.pdf,” at 2, 7-8.

c. Conclusion

The Postal Service has made considerable progress in isolating the most impactful root causes of failure to deliver Single-Piece Letters/Postcards on time. The Postal Service is able to assign a specific root cause to the vast majority of Single-Piece Letters/Postcards. These data show that in FY 2019 transit and Last Mile failures were the top root causes for Single-Piece Letters/Postcards. In response, the Postal Service developed initiatives to correct and abate the impact of these failures, particularly for facilities that underperform compared to operational targets. The Commission acknowledges that this approach is largely driven by a need to allocate limited resources across a vast network and is an important component of maintaining performance throughout an interconnected nationwide network.

Generally, the Commission commends the Postal Service for its progress with regard to identifying root causes. New data visualization tools and reports are developed each year. Service improvement teams and data analytics trainers are dispatched to support local facilities' ability to use these new tools and reports. While the new tools and reports can be helpful in identifying the most impactful root causes, the changes implemented each year render it difficult to identify the most impactful solutions.

Because of the seasonal occurrence of service issues, the Commission encourages the Postal Service to strive to measure root causes relatively consistently to enable meaningful comparisons of the same fiscal quarter in a prior fiscal year. The use of the new internal SPM systems again in FY 2020 will allow for such comparisons. Therefore, the Commission directs the Postal Service to provide information that will enable the identification of best practices for driving local facilities' adherence to the existing multi-year national data-driven strategies and targets. The exact requirements of these directives are discussed in section V.A.4.a., *infra*.

4. FY 2019 Service Performance Results by Class

a. First-Class Mail

(1) FY 2018 Directives

Finding that all First-Class Mail products did not meet their FY 2018 service performance targets, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance. FY 2018 ACD at 173-174. Noting some regression of the improvements achieved in FY 2016 and FY 2017 and determining that Single-Piece Letters/Postcards remained out of compliance, the Commission focused on directing the Postal Service to provide more transparency regarding the progress and efficacy of its service performance improvement efforts. *See id.* To evaluate the Postal Service's plan to address service performance issues—driving local facilities' adherence to the Postal Service's existing multi-year national data-driven strategies—the Commission directed the Postal Service to provide narrative reports from each of the seven geographic Postal Service Areas and certain data. *See id.* at 174-176. The Commission's discussion of the Postal Service's filings appears in section V.A.3., *supra*.

(2) FY 2019 Results

Table V-10 shows service performance results compared to the annual on-time percentage targets for all First-Class Mail products for FY 2019.

Table V-10
First-Class Mail
Service Performance Results, by Percentage, FY 2019

Product/Service Standard	FY 2019 Result	Target	Points Away from Target
Single-Piece Letters/Postcards			
2-Day	92.5	96.50	(4.0)
3-5-Day	81.4	95.25	(13.85)
Presorted Letters/Postcards			
Overnight	95.7	96.80	(1.1)
2-Day	94.3	96.50	(2.2)
3-5-Day	92.1	95.25	(3.15)
Flats			
Overnight	81.5	96.80	(15.3)
2-Day	81.5	96.50	(15.0)
3-5-Day	76.6	95.25	(18.65)
Outbound Single-Piece International			
2-Day	81.4	-	
3-5-Day	79.0	-	
Combined	79.7	94.00	(14.3)
Inbound Letter Post			
2-Day	66.8	-	
3-5-Day	63.6	-	
Combined	64.8	94.00	(29.2)

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: FY 2019 Service Performance Report at 3-4.

(3) Postal Service Report

The Postal Service acknowledges that FY 2019 results for all domestic First-Class Mail products are not directly comparable to prior years due to the change in measurement systems. See Postal Service Reply Comments at 8. The Postal Service reports that the top root causes for the failure to meet FY 2019 First-Class Mail targets include: origin sites failing to clear outgoing mail on time, origin sites failing to dispatch network trips on time, transit late destination primary scan, and Last Mile failures. FY 2019 Service Performance Report at 6. The Postal Service highlights its initiatives to use its data analytic tools to identify root causes using IV tools and the Grid. See *id.* at 6-9. As described in section V.A.3.,

supra, the Postal Service provided point impact data quantifying the amount (number of percentage points) by which on-time performance for its domestic First-Class Mail products decreased due to each root cause indicator. The point impact data support and Area narratives confirm that issues occurring during transit and the Last Mile are the most impactful reasons for failing to deliver First-Class Mail on time in FY 2019. The Postal Service asserts that expanding data reporting requirements does not create solutions for longstanding service performance problems and may divert attention and resources away from the development and implementation of solutions. *See* Postal Service Reply Comments at 9.

(4) Comments

The Public Representative and SBEC are concerned that the Postal Service failed to meet each of its First-Class Mail targets. PR Comments at 3; SBEC Comments, Attachment at 2.

Reviewing certain service performance data for single-piece and presorted First-Class Mail,²³⁷ NAPM states that First-Class Mail service performance in FY 2019 declined in every category. NAPM Comments at 10-11. NAPM asserts that the downward trend in First-Class Mail service performance year-over-year demonstrates that the annual compliance review process has not been successful in driving improvement. *Id.* at 11. NAPM asserts that the Postal Service's failure to meet its service standard commitments and inconsistent performance drives users out of the mail or results in mailers and mail service providers incurring additional expense. *Id.* at 12.

Observing that the measurement of domestic First-Class Mail products changed to internal SPM in FY 2019, the Public Representative asserts that the FY 2019 results are not comparable to prior years and that she cannot assess whether service performance for these products improved in FY 2019. PR Comments at 4, 7. Noting that the measurement of international First-Class Mail products did not change, she observes that performance decreased for each category of international First-Class Mail products in FY 2019. *Id.* at 7.

(5) Commission Analysis

For the fifth consecutive year, no First-Class Mail product category achieved its service performance target. *See* Table V-2, *supra*; FY 2018 ACD at 174. Presorted Letters/Postcards results were closest to their targets, while Inbound Letter Post results were the farthest from target. Transit and Last Mile issues were the most impactful known root causes that decreased First-Class Mail service performance results in FY 2019. *See* section V.A.3., *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* section V.A.3.a.2., *supra*. The change to the internal SPM systems means that the FY 2019 data and results for Single-Piece Letters/Postcards, Presorted Letters/Postcards, and Flats are not directly comparable to the data and results from prior years. *See id.*; *see also* Postal

²³⁷ NAPM Comments at 11. The Commission observes that these data are not the product-level results used to measure compliance in the ACD. *See* Table V-10, *supra*.

Service Reply Comments at 8. Obtaining data and results using the new internal SPM systems again in FY 2020 will provide the best quantitative indicators of the efficacy of the Postal Service's improvement initiatives.

To promote transparency and accountability for the Postal Service's service performance and its initiatives aimed at improving local facilities' adherence to the Postal Service's existing multi-year national data-driven strategies, the Commission obtained data and information from the national and Area-levels of the Postal Service. The Commission sought these data and information to bring transparency 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. As described in section V.A.3., *supra*, the Postal Service has been making good faith efforts to set appropriate operational targets (such as by using the RPG plan to set facility-specific operational targets to clear volume), educate local facility personnel and provide adequate resources (such as by securing adequate air capacity), measure local facilities' performance (such as by using IV 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). Additionally, the Postal Service has been making good faith efforts to address the most impactful reasons for failure to deliver First-Class Mail products on-time: transit and Last Mile failures.

The Commission finds that narrative reporting and quantifiable data regarding the Postal Service's FY 2020 progress at addressing the issues it identified is needed to ensure transparency and accountability of the Postal Service's efforts to improve its service performance results. Given the recurring seasonal trends, the Commission continues to require certain information to be reported after the first half of the fiscal year and updated for the second half of the fiscal year.

For FY 2019, service performance results for Inbound Letter Post and Outbound Single-Piece International remained below target and declined from the level reported in FY 2018.²³⁸ Aside from the processing at the ISC, the domestic transit leg for both international products is comparable to their domestic analogs;²³⁹ therefore, the Postal Service's domestic transit improvement efforts apply to its international service performance. Similarly, First Mile and Last Mile improvement efforts apply to outbound and inbound international mailpieces, respectively. The Postal Service is taking steps to address issues specific to ISC processing and handoffs. For instance, observing that certain facilities were not consistently using the correct sort plan for inbound mailpieces in FY

²³⁸ As observed by the Public Representative, the Postal Service continued to use the IMMS system of external measurement and reporting for these products in FY 2019. See section V.A.2., *supra*; PR Comments at 4, 7. While noting some changes to the measurement of inbound packet-shaped mailpieces, the Postal Service acknowledges this decline. Response to CHIR No. 2, question 5.

²³⁹ See FY 2019 Service Report at 3; May 20, 2019 Postal Service SPM Plan at 30, 50.

2019, the Postal Service notified the applicable facilities and continues to monitor this issue.²⁴⁰ Discussion specific to Inbound Letter Post and the QLMS appears in section III.B.5., *supra*.

The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2019 and directs the Postal Service to improve service performance results for its First-Class Mail products in FY 2020. The Commission is concerned that service performance results for Single-Piece Letters/Postcards remain substantially below target and determines that Single-Piece Letters/Postcards is not in compliance for the fifth year in a row. Additionally, the Commission directs the Postal Service to provide information on the following three 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. ACR2019 if necessary.

(a) Nationwide Evaluation of FY 2020 Transit and Last Mile Improvement Efforts

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2020 efforts to improve First-Class Mail service performance through its nationwide efforts to improve transit and Last Mile, as described in items 1 and 2.

- 1. The transit evaluation shall explain how the progress made in FY 2020 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to air transit suppliers, and minimizing en route delays affected on-time service performance for First-Class Mail in FY 2020.*
- 2. The Last Mile evaluation shall explain how the progress made in FY 2020 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance for First-Class Mail in FY 2020.*

The transit and Last Mile evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2020 Quarter 1 to FY 2019 Quarter 1) and provide a narrative explaining the practices observed in FY 2020 best at remediating the underlying problem(s). Where appropriate, the evaluations shall indicate if the reported progress and effect on performance apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluations shall identify a responsible Postal Service representative, with knowledge of these two matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluations shall be filed within 90 days of the issuance of this report. Updated evaluations shall be filed at the time of the FY 2020 ACR.

²⁴⁰ Docket No. PI2019-1, Library Reference USPS-LR-PI2019-1/3, December 18, 2019, files "FY19 Q3 USPS AuditRespAm.pdf," at 3-4 and "FY19 Q4 USPS AuditRespAm.pdf," at 3-4.

(b) Area Progress in Adhering to Nationwide Strategies

Second, the Commission directs the Postal Service to provide information for each of the seven geographic Postal Service Areas on the following matters, described in items 1 and 2.

- 1. For each Area, the Postal Service shall evaluate the efficacy of its FY 2020 efforts to improve First-Class Mail service performance. This evaluation shall describe the Area's progress made toward addressing the top root causes of First-Class Mail service performance failures and explain how the Area's progress (or lack thereof) toward addressing each root cause affected on-time service performance for First-Class Mail in FY 2020. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2020 Quarter 1 to FY 2019 Quarter 1) and provide a narrative explaining the best practices observed in FY 2020 at remediating the underlying problem.*
- 2. For each Area, the Postal Service shall provide a detailed plan to improve First-Class Mail service performance that describes each planned action, identifies the problem that the planned action is expected to remediate, and provides an estimated timeframe for implementation and completion of each planned action.*

Where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The report for each Area shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the Area, who will be available to provide prompt responses to requests for clarification from the Commission. The report for each Area shall be filed within 90 days of the issuance of this report. An updated report from each Area shall be filed at the time of the FY 2020 ACR.

(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, for First-Class Mail. Data shall be provided for FY 2020 Quarter 1, Quarter 2, and "mid-year"²⁴¹ within 90 days of the issuance of this report. Data shall be provided for FY 2020 Quarter 3, Quarter 4, "second-half"²⁴² and annualized for the fiscal year, in the FY 2020 ACR. Where appropriate, the Postal Service shall explain the reasons for any differences in calculation of these data in FY 2020 versus FY 2019, and shall propose a method for comparing the FY 2020 data to the FY 2019 data.

²⁴¹ Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2020.

²⁴² Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2020. Annualized refers to the aggregation of the data for all four quarters of FY 2020.

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.*²⁴³
2. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.*²⁴⁴
3. *The number of CLTs (any HCR that is late more than 4 hours), presented for the nation, each Area, and each district.*²⁴⁵
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.*²⁴⁶
5. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2020. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2020, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2019.*²⁴⁷

b. USPS Marketing Mail

(1) FY 2018 Directives

Finding that five USPS Marketing Mail products did not meet their FY 2018 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 2018 ACD at 183. The Commission directed the Postal Service to provide point impact data, evaluate the efficacy of its FY 2019 efforts to improve service performance, and provide a detailed plan to improve performance of any product that did not achieve its FY 2019 target. *Id.* at 184.

(2) FY 2019 Results

Table V-11 shows the service performance results compared to the annual target of 91.8 percent on-time for USPS Marketing Mail products for FY 2019.

²⁴³ Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tabs "Q1_PFCM" and "Q1_SPFC;" February 19 Response to CHIR No. 13, question 1.

²⁴⁴ Library Reference USPS-FY19-NP30, Excel file "NONPUBLIC FCM Q3 Air Capacity.xlsx."

²⁴⁵ Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q4."

²⁴⁶ *Id.* tab "Q5."

²⁴⁷ Library Reference USPS-FY19-NP30, Excel file "NONPUBLIC FCM Q6 Facility Failures.xlsx."

Table V-11
USPS Marketing Mail
Service Performance Results, by Percentage, FY 2019

Product	FY 2019 Result	Target	Points Away from Target
High Density and Saturation Letters	93.1	91.8	+1.3
High Density and Saturation Flats/Parcels	89.4	91.8	(2.4)
Carrier Route	90.0	91.8	(1.8)
Letters	89.2	91.8	(2.6)
Flats	77.6	91.8	(14.2)
Parcels	97.9	91.8	+6.1
Every Door Direct Mail—Retail	75.7	91.8	(16.1)

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: FY 2019 Service Performance Report at 11.

(3) Postal Service Report

The Postal Service acknowledges that FY 2019 results for USPS Marketing Mail products (other than Parcels) are not directly comparable to prior years due to the change in measurement systems.²⁴⁸ The Postal Service reports that the top root causes for the failure to meet FY 2019 USPS Marketing Mail targets “include failure to process mail in First-In-First-Out (FIFO) order and failure to run to daily processing capacity.” FY 2019 Service Performance Report at 14. The Postal Service discusses its plans to use tools for visualization (the RPG, huddle boards, and heat maps) and to identify opportunities to advance mail (the IV Marketing Mail Advancement tool). *Id.* at 14-15.

The Postal Service also discusses its provision of training and instruction to management and craft personnel regarding the processing of USPS Marketing Mail *Id.* at 14. Rather than deliver training to management employees to address FIFO processing specifically as previously planned, each Area completed a Lean Mail Processing assessment in FY 2019, which evaluated the usage of FIFO lanes and mail flow management.²⁴⁹ Although the Postal Service tracks how many plants were assessed in each Area in FY 2019, the Postal Service is unable to link completion of the assessment with an impact on service performance results and does not plan to continue assessments in FY 2020. *See* February 18 Response to CHIR No. 13, questions 3.a.-b. In early FY 2020, the Postal Service’s national headquarters issued a Processing Operations Management Order (POMO) providing specific guidelines for the Network Distribution Centers on policies and procedures associated with the

²⁴⁸ *See* Postal Service Reply Comments at 8. The Commission interprets this statement to correct the Postal Service’s prior assertion that performance improved for five products from FY 2018 to FY 2019 based on a comparison of the results yielded by the legacy external system iMAPS in FY 2018 versus the results yielded by the new internal SPM system in FY 2019. *See* FY 2019 Service Performance Report at 14; Response to CHIR No. 2, question 20.b.

²⁴⁹ Responses of the United States Postal Service to Questions 3-5 of Chairman’s Information Request No. 13, question 4.a (February 18 Response to CHIR No. 13).

National Color Code Policy²⁵⁰ for USPS Marketing Mail. February 18 Response to CHIR No. 13, question 3.b. The Postal Service monitors whether each plant manager certifies that the POMO was issued to their employees. *See id.*

The Postal Service provided point impact data linking the amount (number of percentage points) by which on-time performance for Letters, Flats, and Carrier Route decreased due to each root cause indicator. *See* Response to CHIR No. 3, questions 7.a. and 7.d. The Postal Service uses the same root cause indicators and calculation methodology for USPS Marketing Mail as First-Class Mail, which is described in section V.A.3., *supra*.

(4) Comments

Reviewing certain service performance data for two categories of USPS Marketing Mail,²⁵¹ NAPM asserts that service performance is below target and trending downward. NAPM Comments at 10-11.

Observing that the measurement of USPS Marketing Mail products (other than Parcels) changed to internal SPM in FY 2019, the Public Representative asserts that the FY 2019 results are not comparable to prior years and that she cannot assess whether most products' service performance improved in FY 2019. PR Comments at 7-8. Noting that the measurement of Parcels did not change, she observes that performance decreased in FY 2019. *Id.* at 8-9.

(5) Commission Analysis

FY 2019 annual service performance results for two USPS Marketing Mail products (Parcels and High Density and Saturation Letters) exceeded the performance 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.

The change to the internal SPM systems means that the FY 2019 data and results for USPS Marketing Mail products (other than Parcels) are not directly comparable to the results from prior years. *See* section V.A.2., *supra*; *see also* Postal Service Reply Comments at 8. Obtaining data and results using the new internal SPM systems again in FY 2020 will provide the best quantitative indicators of the efficacy of the Postal Service's improvement initiatives.

²⁵⁰ The "National Color Code Policy" refers to the system of coding all USPS Marketing Mail with a color tag representing the targeted day for clearing the mailpiece from operations or for delivering it. *See* United States Postal Service, Office of the Inspector General, *Delayed Mail at the Denver, CO, Processing and Distribution Center*, November 21, 2018, at 7, (available at: <https://www.oversight.gov/sites/default/files/oig-reports/NO-AR-19-002.pdf>); United States Postal Service, Postal Bulletin 22062, November 1, 2001, at 29-33 (quoting Postal Operations Manual § 458).

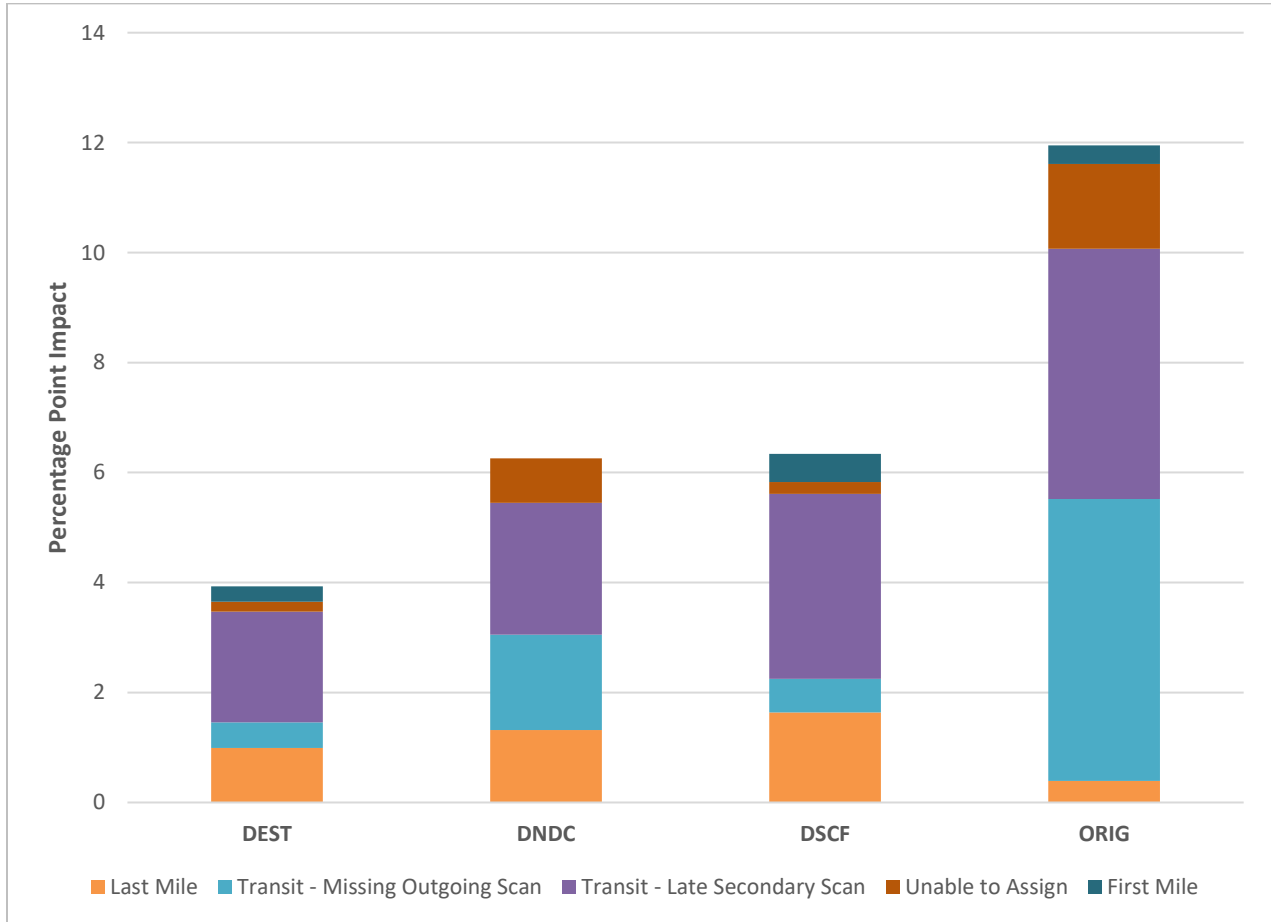
²⁵¹ NAPM Comments at 11. The Commission observes that these data are not the product-level results used to measure compliance in the ACD. *See* Table V-11, *supra*.

The Commission recognizes that the Postal Service has made progress in developing point impact data representing the amount (number of percentage points) by which on-time performance for Letters, Flats, and Carrier Route decreased due to each specific root cause of failure. *See* Response to CHIR No. 3, questions 7.a. and 7.d. The Postal Service states that point impact data for USPS Marketing Mail are differentiated by shape (letter-shaped and flat-shaped mailpieces) rather than product.²⁵²

Figures V-5 and V-6 display the top five point impacts for USPS Marketing Mail letter-shaped and flat-shaped mailpieces in FY 2019.

²⁵² Library Reference USPS-FY19-29, file "USPS-FY19-29.Preface.pdf," at 2.

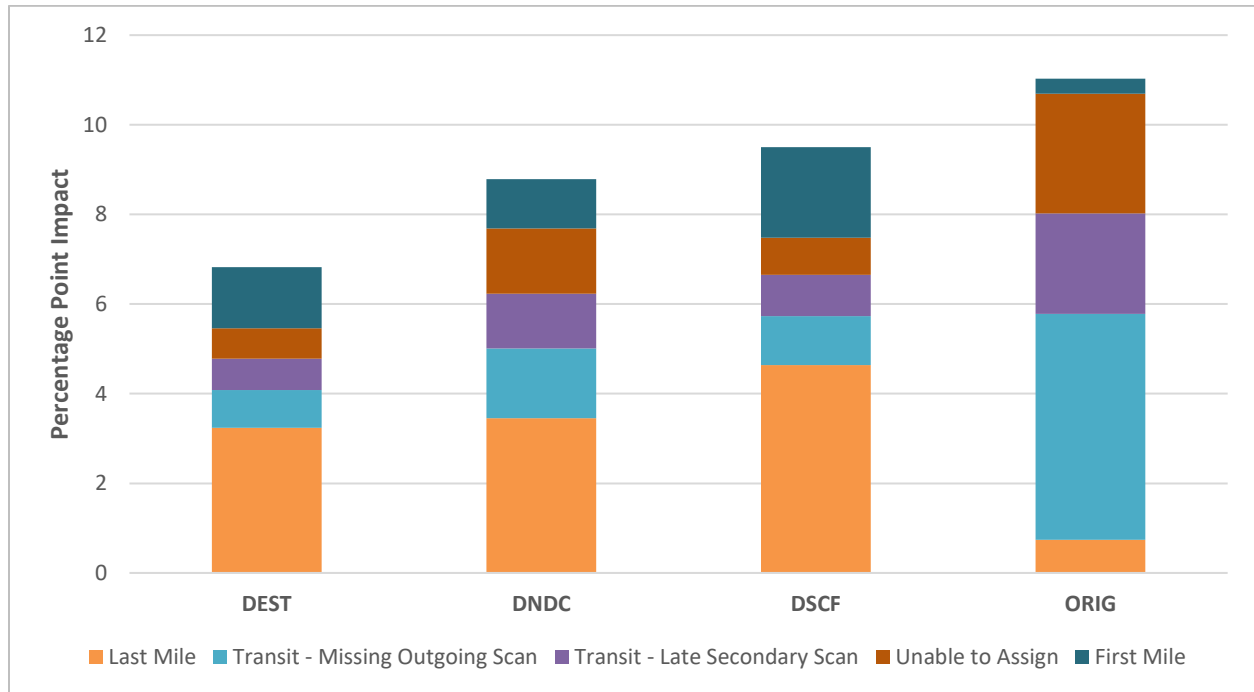
**Figure V-5
 Nationwide Impact of Top Root Causes on Service Performance Results
 for Letter-Shaped USPS Marketing Mail,
 by Entry Type, by Percentage Points, FY 2019**



Notes: DEST refers to mailpieces inducted at the designated Destination Delivery Unit (DDU) for delivery within the DDU area. DNDC refers to mailpieces inducted at the destination network distribution center. DSCF refers to mailpieces inducted at the destination sectional center facility. ORIG 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 (End-to-End).

Source: Response to CHIR No. 4, question 35.

**Figure V-6
 Nationwide Impact of Top Root Causes on Service Performance Results
 for Flat-Shaped USPS Marketing Mail,
 by Entry Type, by Percentage Points, FY 2019**



Notes: DEST refers to mailpieces inducted at the designated Destination Delivery Unit (DDU) for delivery within the DDU area. DNDC refers to mailpieces inducted at the Destination Network Distribution Center. DSCF refers to mailpieces inducted at the Destination sectional center facility. ORIG 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 (End-to-End).

Source: Response to CHIR No. 4, question 35.

As illustrated by Figures V-5 and V-6 and similar to First-Class Mail, transit and Last Mile issues significantly impact the decrease in service performance results for USPS Marketing Mail letter-shaped and flat-shaped mailpieces in FY 2019. Mailpieces that were inducted at origin and therefore transported End-to-End tended to be most impacted by transit issues and less impacted by Last Mile issues than mailpieces of the same shape that were inducted closer to their destination. Moreover, last mile failures were observed to be more problematic for flat-shaped mailpieces than letter-shaped mailpieces. Generally, 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 do not achieve their targets.

The Commission finds that narrative reporting and quantifiable data regarding the Postal Service’s FY 2020 progress at 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.

The Postal Service exceeded its annual service performance targets for USPS Marketing Mail Parcels and USPS Marketing Mail High Density and Saturation Letters in FY 2019.

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 2019 service performance targets will improve in FY 2020. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for these products.

If the service performance results for any USPS Marketing Mail product do not achieve the applicable annual service performance target in FY 2020, then the FY 2020 ACR shall include: (1) the top five root cause point impacts for the product for each quarter and annually for FY 2020, disaggregated by shape/product and entry level/service standard;²⁵³ (2) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve this product's service performance (including any progress toward addressing the failure to process mail in FIFO order and failure to run to daily processing capacity described in the FY 2019 ACR); 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.

c. Periodicals

(1) FY 2018 Directives

Finding that both Periodicals products did not meet their FY 2018 service performance targets, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. FY 2018 ACD at 186. The Commission directed the Postal Service to evaluate the efficacy of its FY 2019 efforts to improve service performance and provide a detailed plan to improve performance. *Id.*

(2) FY 2019 Results

Table V-12 shows the service performance results compared to the annual target of 91.8 percent on-time for Periodicals products for FY 2019.

²⁵³ 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); Response to CHIR No. 4, question 35 (disaggregating data by induction types of "DEST," "DNDC," "DSCF," and "ORIG").

Table V-12
Periodicals
Service Performance Results, by Percentage, FY 2019

Product	FY 2019 Result	Target	Points Away from Target
In-County	85.7	91.8	(6.1)
Outside County	85.4	91.8	(6.4)

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: FY 2019 Service Performance Report at 16.

(3) Postal Service Report

The Postal Service acknowledges that FY 2019 results for Periodicals are not directly comparable to prior years due to the change in measurement systems.²⁵⁴ The Postal Service reports that the top root causes for the failure to meet FY 2019 Periodicals targets “include failure to process mail in . . . [FIFO] order and failure to run to daily processing capacity.” FY 2019 Service Performance Report at 18. The Postal Service does not have root cause point impact data specific to Periodicals. Response to CHIR No. 3, question 11.

The Postal Service describes its focus on ensuring that local sites process Periodicals in FIFO order, run to daily processing capacity, comply with the RPG, use visualization and analytical tools, and minimize WIP cycle time. FY 2019 Service Performance Report at 18. The Postal Service developed a daily report showing if mail is being processed in FIFO using the Mail Condition Visualization tool. Response to CHIR No. 3, question 13. On a daily basis, sites with high on-hand volume and/or delayed volume are reviewed and the top 20 receive notifications from headquarters. *Id.* Additionally, the Postal Service implemented the Grid Initiative, a visualization tool used to identify time gaps in processing, on nationwide basis in FY 2019. FY 2019 Service Performance Report at 18. Beginning in FY 2019 Quarter 3, the Postal Service developed WIP metrics specific to flat-shaped Periodicals processing.²⁵⁵

Rather than deliver training to management employees to address FIFO processing specifically as previously planned, each Area completed a Lean Mail Processing assessment in FY 2019, which evaluated the usage of FIFO lanes and mail flow management. February 18 Response to CHIR No. 13, question 4.a. Although the Postal Service tracks how many plants were assessed in each Area in FY 2019, the Postal Service is unable to link completion of the assessment with an impact on service performance results and does not plan to continue assessments in FY 2020. *See id.* questions 3.a.-b. Rather than perform quarterly audits to ensure sort programs for Periodicals align with the labelling list as

²⁵⁴ See Postal Service Reply Comments at 8. The Commission interprets this statement to correct the multiple statements appearing in other documents filed by the Postal Service asserting that Periodicals performance improved from FY 2018 to FY 2019 based on a comparison of the results yielded by the legacy external system iMAPS in FY 2018 versus the results yielded by the new internal SPM system in FY 2019. *See* FY 2019 Service Performance Report at 18; Response to CHIR No. 2, question 20.b.; February 18 Response to CHIR No. 13, question 3.a.

²⁵⁵ Library Reference USPS-FY19-45, December 27, 2019, Excel file “E4_Public_New_WIP_FY19.Q3.4.xlsx.”

previously planned for FY 2019, the Postal Service's leadership shifted focus to standardizing field operations. *See id.* questions 5.a., 5.c., 5.d., and 5.f. In early FY 2020, the Postal Service's national headquarters issued a POMO updating the Standard Work Instructions for handling and processing Periodicals and is monitoring that each plant manager certifies that the POMO was issued to their employees. *See id.* question 3.b.

During FY 2019, the Postal Service piloted an initiative to provide industry mail preparers with actionable data to correct preparation and/or quality issues. FY 2019 Service Performance Report at 19. Through the participants' mailer scorecard, the Postal Service provided access to data from the Postal Service's Mailer Irregularity Application, which links barcode information with images and descriptions of preparation and quality issues. *Id.* Additionally, in FY 2019 Quarter 4, the Postal Service developed an initiative to improve visibility into manually processed flat bundles. *Id.* at 19-20.

(4) Comments

Observing that the measurement of both Periodicals products changed to internal SPM in FY 2019, the Public Representative asserts that the FY 2019 results are not comparable to prior years and that she cannot assess whether these products' service performance improved in FY 2019. PR Comments at 9-10.

(5) Commission Analysis

Neither Periodicals product met service performance targets in FY 2019. 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.

The change to the internal SPM systems means that the FY 2019 data and results for Periodicals are not directly comparable to the results from prior years. *See* section V.A.2., *supra*; *see also* Postal Service Reply Comments at 8. Obtaining data and results using the new internal SPM systems again in FY 2020 will provide the best quantitative indicators of the efficacy of the Postal Service's improvement initiatives.

In-County and Outside County Periodicals service performance results continued to fall short of performance targets in FY 2019. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. The Commission also directs that the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve service performance for In-County and Outside County Periodicals (including any progress toward addressing the failure to process mail in FIFO order and failure to run to daily processing capacity described in the FY 2019 ACR) and (2) a detailed plan explaining how these products' results will be improved.

d. Package Services

(1) FY 2018 Directives

The Commission found that FY 2018 was the seventh consecutive year that the service performance results for BPM Flats "were substantially below other Package Services

products and the applicable percentage on-time service performance target.” FY 2018 ACD at 189. The Commission also found that service performance results for Media Mail/Library Mail fell below target for the first time. *Id.* With regard to 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 2019 efforts to improve service performance, and provide a detailed plan to improve performance. *Id.*

(2) FY 2019 Results

Table V-13 shows the service performance results compared to the annual target of 90.0 percent on-time for Package Services products for FY 2019.

Table V-13
Package Services
Service Performance Results, by Percentage, FY 2019

Product	FY 2019 Result	Target	Points Away from Target
Bound Printed Matter Flats	55.2	90.0	(34.8)
Bound Printed Matter Parcels	98.5	90.0	+8.5
Media Mail/Library Mail	87.0	90.0	(3.0)

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

The Commission approved a semi-permanent exception for service measurement of Alaska Bypass 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 2019 Service Performance Report at 22.

(3) Postal Service Report

Generally, the Postal Service reports on issues related to the service performance of BPM Flats and Media Mail/Library Mail and describes its efforts to improve results for both products. FY 2019 Service Performance Report at 24-25. The Postal Service does not have root cause point impact data specific to either product. Response to CHIR No. 3, question 14. Approximately 14 percent of total BPM Flats volume and 86 percent of total Media Mail/Library Mail volume was in measurement in FY 2019. *Id.* at 22-23. Although the Postal Service includes continued review of the entry and make-up requirements for both products as an aspect of its remediation plan, no changes were implemented in FY 2019 and none are planned. *See* FY 2019 Service Performance Report at 25; Response to CHIR No. 3, question 17.

With respect to BPM Flats, the Postal Service acknowledges that FY 2019 results are not directly comparable to prior years due to the change in measurement systems. *See* Postal Service Reply Comments at 8. In explaining the failure to meet this product’s target, the Postal Service discusses issues distinct to mailpieces that are machine compatible versus those requiring manual processing. *See* FY 2019 Service Performance Report at 24-25.

First, with respect to machine compatible mailpieces, the Postal Service states that it plans to use its data analytics tools to reduce the time between acceptance and the first automation scan. FY 2019 Service Performance Report at 24-25. Beginning in FY 2019 Quarter 3, the Postal Service developed WIP metrics specific to BPM Flats processing.²⁵⁶ By the end of FY 2020, the Postal Service plans to use the data from its cycle time tool to develop a new report that will measure if sites processed BPM Flats in a timely manner. Response to CHIR No. 3, question 18. In FY 2019, the Postal Service advanced processing to day zero²⁵⁷ for 12.97 percent of measured BPM Flats. 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. 3, question 16. The Postal Service summarizes the revenue, pieces, and weight data relating to the mail characteristics of BPM Flats that affect manual handling (piece weight, entry, and presort level). *Id.* As the Postal Service has previously explained, BPM Flats experience 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 “[h]eadquarters is working with the Area coordinators to identify opportunities to gain more visibility on BPM [Flats].”²⁵⁸

With respect to Media Mail/Library Mail, the Postal Service states that service performance can be improved by using the IV reports for USPS Marketing Mail Flats, which follow the same mail flow. FY 2019 Service Performance Report at 24.

(4) Comments

Reviewing certain service performance data for Package Services,²⁵⁹ NAPM states that service performance is below target and trending downward. NAPM Comments at 10-11.

Observing that the measurement of BPM Flats changed to internal SPM in FY 2019, the Public Representative asserts that the FY 2019 results are not comparable to prior years and that she cannot assess whether this product’s service performance improved in FY 2019. PR Comments at 10-11. Noting that the measurement of BPM Parcels and Media Mail/Library Mail did not change, she observes that performance for both products decreased in FY 2019. *Id.* at 11.

(5) Commission Analysis

Service performance results for BPM Parcels exceeded the applicable service performance target.

²⁵⁶ Library Reference USPS-FY19-45, Excel file “E4_Public_New_WIP_FY19.Q3.4.xlsx.”

²⁵⁷ 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.*

²⁵⁸ United States Postal Service, Transmittal Letter for FY 2019 Q4 Audit Report, Audit Response, and Measured/Unmeasured Volumes Report, November 26, 2019, file “FY19 Q4 USPS AuditResp.pdf,” at 4.

²⁵⁹ NAPM Comments at 11. The Commission observes that these data are not the product-level results used to measure compliance in the ACD. See Table V-13, *supra*.

BPM Flats did not meet its service performance target for FY 2019. The change to the internal SPM systems means that the FY 2019 data and results for BPM Flats are not directly comparable to the results from prior years. *See* section V.A.2., *supra*; *see also* Postal Service Reply Comments at 8. Obtaining data and results using the new internal SPM systems again in FY 2020 will provide the best quantitative indicators of the efficacy of the Postal Service's efforts to improve this product's performance.

The Commission acknowledges the unique characteristics of BPM Flats, which is a commercial rather than a retail offering²⁶⁰ that is offered as "economical ground shipping options" and may be subject to deferred delivery.²⁶¹ "[L]arge 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 are sent as BPM Flats. FY 2019 Service Performance Report at 21.

The Postal Service faces difficulties in monitoring its service performance improvement efforts for both BPM Flats that are machine compatible and those requiring manual processing. The Commission recognizes that the Postal Service intends to leverage its internal SPM systems in FY 2020 to monitor processing of machine compatible mailpieces in a timely fashion. Collecting quarterly WIP metrics specific to BPM Flats using a consistent methodology represents a reasonable approach. The Commission also 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 engage in a meaningful qualitative analysis of its multi-year efforts. For instance, while the Postal Service has identified continued review of the entry and make-up requirements for BPM Flats as part of its remediation plan since FY 2015,²⁶² the Postal Service does not identify any changes resulting from this multi-year review.²⁶³ Although the Postal Service is not obligated to take a particular course of action,

²⁶⁰ *See* FY 2019 Service Performance Report at 21. Mailers must use permit imprint to pay for BPM Flats postage and deposit those mailpieces at the Post Office facility that issued the permit. Postal Regulatory Commission, (*draft*) *Mail Classification Schedule*, effective on January 26, 2020, § 1415.1(c) (available at: <http://www.prc.gov/mail-classification-schedule>) (MCS); United States Postal Service, *Mailing Standards of the United States Postal Service*, Domestic Mail Manual, effective on January 26, 2020, § 604.5.1.11 (DMM).

²⁶¹ United States Postal Service, *Frequently Asked Questions* (available at: <http://faq.usps.com/s/article/What-are-Package-Services>); DMM § 263.3.1.

²⁶² *Compare* FY 2019 Service Performance Report at 25, *with* FY 2018 Service Performance Report at 20-21, *and* FY 2017 Service Performance Report at 23, *and* FY 2016 Service Performance Report at 25, *and* FY 2015 Service Performance Report at 21.

²⁶³ *See* Response to CHIR No. 3, question 17; Docket No. ACR2018, January 11 Response to CHIR No. 1, question 43.

if review does not result in identification of a corrective and/or preventative action other than continued review, the Postal Service may need to refocus its efforts on avenues that lead to active improvement. Given that this product serves a limited subset of commercial users, the operational challenges are recurring, and the Postal Service's proposed remediation strategy remains 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.

For FY 2019, service performance results for Media Mail/Library Mail remained below target and declined from the level reported in FY 2018.²⁶⁴ As the processing flow for this product is the same as USPS Marketing Mail Flats, the Postal Service should leverage similar techniques to improve service performance for Media Mail/Library Mail.

FY 2019 BPM Parcels service performance results continue to exceed the Postal Service's annual service performance target.

FY 2019 BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the eighth consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for BPM Flats. The Commission also directs that the FY 2020 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve service performance for BPM Flats (including an explanation of how any progress made in FY 2020 toward addressing manual processing issues and the cycle time issues for machine compatible mailpieces affected on-time service performance for BPM Flats in FY 2020) and (2) a detailed plan explaining what actions are expected to be taken during FY 2021 that will improve this product's results (including a description of each planned action, the problem that the planned action is expected to remediate, and an estimated timeframe for implementation and completion of each planned action).

FY 2019 Media Mail/Library Mail service performance results were below the service performance target. The Commission expects that the service performance results for Media Mail/Library Mail will improve in FY 2020. If the results for Media Mail/Library Mail do not achieve the service performance target in FY 2020, then the FY 2020 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve service performance for Media Mail/Library Mail (including how any progress made in FY 2020 toward addressing the processing issues described in the FY 2019 ACR affected on-time service performance for Media Mail/Library Mail in FY 2020) and (2) a detailed plan explaining what actions are expected to be taken during FY 2021 that will improve the results for this product (including a description of each planned action, the problem that the planned action is expected to remediate, and an estimated timeframe for implementation and completion of each planned action).

²⁶⁴ No changes were made to the internal system for measuring and reporting for this product from FY 2018 to FY 2019. See FY 2019 Service Performance Report at 20-21.

e. Special Services
(1) FY 2018 Directives

Finding that “[t]he Postal Service exceeded service performance results for all reported Special Services products, except for Post Office Box Service, which was near its service performance target” in FY 2018, the Commission stated its expectation that service performance for Post Office Box Service would improve in FY 2019. FY 2018 ACD at 193. The Commission directed the Postal Service to evaluate the efficacy of the six planned actions identified in its FY 2018 ACR and provide a detailed plan to improve performance if the product’s results did not meet the target in FY 2019. *Id.*

(2) FY 2019 Results

Table V-14 shows the service performance results compared to the annual target of 90.0 percent on-time for Special Services products for FY 2019.

Table V-14
Special Services
Service Performance Results, by Percentage, FY 2019

Product	FY 2019 Result	Target	Points Away from Target
Ancillary Services	90.9	90.0	+9
International Ancillary Services	99.8	90.0	+9.8
Address List Services*	N/A	90.0	N/A
Money Orders	99.4	90.0	+9.4
Post Office Box Service	88.3	90.0	(1.7)
Stamp Fulfillment Services	99.7	90.0	+9.7

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

* There were no orders for Address List Services in FY 2019. FY 2019 Service Performance Report at 27.

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 2019 Service Performance Report at 27.

(3) Postal Service Report

With respect to Post Office Box Service, the Postal Service discusses the status of each of the six actions identified in its FY 2018 ACR. FY 2019 Service Performance Report at 29-32. First, the Postal Service reports that it completed Lean Six Sigma projects in each of the seven Postal Service Areas. *Id.* at 29. As a result of these projects, the Postal Service

realigned staff schedules to reflect volume, updated all Integrated Operating Plans to address late arriving mail, and conducted local trainings. *Id.* at 30. Second, the Postal Service reports that it maintains standardized methods for calculating workload. *Id.* Third, the Postal Service reports conducting over 1,045 on-site Function 4²⁶⁵ level two and three reviews in FY 2019, which include review of Post Office Box operations. FY 2019 Service Performance Report at 31. The Postal Service reiterates its plans to leverage the results of the Lean Six Sigma projects to specifically include review of the P.O. Box Up time in FY 2020.²⁶⁶ Fourth, the Postal Service reports that it has created the new dashboard to display key Post Office Box Service metrics and expects to release it for field use by the end of FY 2020 Quarter 2. FY 2019 Service Performance Report at 31. Fifth, the Postal Service states that each unit is required to update its e1994 scheduling tool in Quarter 4 of each fiscal year (using Quarter 3 data) to align staffing with workload for customer service activities, including Post Office Box services. *Id.* Sixth, the Postal Service reports conducting training in each of the seven Postal Service Areas regarding the Pre-Planning Tool, which seeks to ensure that all units schedule sufficiently for Post Office Box operations. *Id.* at 32.

(4) Comments

The Public Representative observes that all Special Services products achieved their targets for FY 2019, except for Post Office Box Service. PR Comments at 13. She observes that the FY 2019 result for Post Office Box Service increased compared to its FY 2018 result and remains slightly below its target. *Id.* Additionally, she observes that FY 2019 results for all Special Services products, except for a slight decrease of 0.3 percentage points for Ancillary Services, either improved or remained the same compared to their FY 2018 results. *See id.*

(5) Commission Analysis

Service performance results for Ancillary Services, International Ancillary Services, Money Orders, and Stamp Fulfillment Services exceeded the applicable percentage on-time service performance targets for FY 2019.

For FY 2019, service performance results for Post Office Box Service remained below target, but increased from the level reported in FY 2018.²⁶⁷ During FY 2019, the Postal Service made progress on several aspects of its existing improvement plan, particularly with respect to completing Lean Six Sigma projects, realigning staff with the P.O. Box Up time, and conducting training at the local level.

The Postal Service exceeded service performance targets for all reported Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service will

²⁶⁵ "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. United States Postal Service Publication 32, Glossary of Postal Terms, July 2013 (available at: http://about.usps.com/publications/pub32/pub32_terms.htm).

²⁶⁶ Compare FY 2019 Service Performance Report at 31, with FY 2018 Service Performance Report at 26.

²⁶⁷ No changes were made to the internal system for measuring and reporting for this product from FY 2018 to FY 2019. Compare FY 2019 Service Performance Report at 26, 29, with FY 2018 Service Performance Report at 22, and May 20, 2019 Postal Service SPM Plan at 78.

continue to improve in FY 2020. If the results for Post Office Box Service do not achieve the service performance target in FY 2020, then the FY 2020 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts (including the six planned actions described in the FY 2019 ACR) to improve on-time service performance for this product and (2) a detailed plan explaining how this product's results will be improved.

5. Other Issues

Below, the Commission addresses three issues raised in comments that are not specific to any class of mail and describes the findings of the special study regarding offshore service performance.

Asserting that the ACD has not held the Postal Service accountable for its failure to improve service performance, NAPM reiterates its disagreement with the Commission's proposal in Docket No. RM2017-3.²⁶⁸ Issues raised with the Commission's proposal in Docket No. RM2017-3 will be addressed in that proceeding, which remains pending. 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. Specifically, the Commission focuses its directives on ensuring that the Postal Service can link the issues it identifies and its data analytic tools with Postal Service actions that improve results.

NAPM also remarks on the lack of detail provided in the discussion of service performance in the Postal Service's FY 2019 Annual Performance Report and FY 2020 Annual Performance Plan.²⁶⁹ Additional detail was requested.²⁷⁰ Consistent with past practice,²⁷¹ the Commission will publish a separate analysis of the issues identified in the Postal Service's FY 2019 Annual Performance Report and FY 2020 Annual Performance Plan.

The Public Representative expresses concern with the Postal Service's "aggressive" approach to setting service performance targets that are "intended to guide longer-term improvement" and states that they may consistently result in the Postal Service's inability to meet its service performance targets.²⁷² The Postal Service replies that its aggressive target-setting "should temper expectations that the Postal Service can achieve all of its targets in the short term, but it should not warrant lowering its long term goals." Postal Service Reply Comments at 10. Setting service performance targets that are both ambitious and achievable can help to motivate improvement. However, setting an overly ambitious

²⁶⁸ Compare NAPM Comments at 10 (quoting Order No. 5337 at 141), with Docket No. RM2017-3, Comments of the National Postal Policy Council, the Major Mailers Association, the National Association of Presort Mailers, and the Association for Mail Electronic Enhancement, February 3, 2020, at 61-68.

²⁶⁹ NAPM Comments at 12-13 (citing *FY 2019 Annual Report* at 22, 23).

²⁷⁰ See Chairman's Information Request No. 10, February 4, 2020, questions 1-7 (CHIR No. 10).

²⁷¹ See, e.g., Docket No. ACR2018, Analysis of the Postal Service's FY 2018 Annual Performance Report and FY 2019 Performance Plan, May 13, 2019.

²⁷² PR Comments at 13 (quoting FY 2019 ACR at 38-39) (internal marks omitted).

long term target, which produces too large of a gap between the target and the actual obtainable result in the short term, may be counterproductive. Such an approach might discourage improvement in the short term because regularly missing the target by vast margins becomes routine and expected. Although the Commission acknowledges that an aggressive target may be a laudable longer-term goal and responsive to customer demands, the Postal Service should strongly consider setting more achievable interim targets as part of an improvement strategy that builds to the longer-term target.

Every 2 years, pursuant to 39 C.F.R. § 3055.7, the Postal Service files a special study conducted by a third party contractor concerning final delivery service performance to the remote locations of the Alaska, Caribbean, and Honolulu districts.²⁷³ These districts serve remote locations that are less populated than the average continental district, and large portions of these districts are located far from mail processing facilities.²⁷⁴ Each of these districts also serves a more populated area, referred to as a Gateway city, which is Anchorage for the Alaska District, Honolulu for the Honolulu District, and San Juan for the Caribbean District. 2019 Study at 1. The purpose of this special study is to “allow evaluation of the unique aspects of providing service to less populous/more remote areas of these districts, and compare how this service differs from the districts as a whole.”²⁷⁵

The 2019 Study reports service performance results for remote locations, compares those results to service performance for the district’s Gateway city, and presents statistically significant differences between these service performance results. 2019 Study at 2, 6, 23-24. Specifically, the 2019 Study measures performance for 113 remote 3-Digit ZIP Codes and mail class groupings. *Id.* at 23. Of these 113 groupings, the Gateway city had better service performance results than the remote 3-Digit ZIP Codes in 55 instances (49 percent). *Id.* There were 34 instances where the remote 3-Digit ZIP Codes had better service performance results than the Gateway city (30 percent), and 24 instances where there was no statistically significant difference between the Gateway city and the remote 3-Digit ZIP Code (21 percent). *See id.* Accordingly, the 2019 Study asserts that the remote 3-Digit ZIP Codes performed better or the same as the Gateway city 51 percent of the time, from a statistical perspective. *Id.*

The 2019 Study data, which are presented in Library Reference PRC-11, are a subset of the data already subject to the external auditing performed on the internal SPM systems. Response to CHIR No. 4, question 26. The Commission encourages the Postal Service to continue to develop an approach using the internal SPM systems to identify statistically significant differences in future reports. *See id.*; 2019 Study at 6.

²⁷³ Library Reference USPS-FY19-29, file “FY19-29 Offshore Special Study.pdf,” at 1 (2019 Study).

²⁷⁴ 2019 Study at 1. When referring to non-Gateway ZIP Codes, the 2019 Study uses the terms “remote” and “rural” interchangeably.

²⁷⁵ Docket No. RM2009-11, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, May 25, 2010, at 39 (Order No. 465).

B. Consumer Access

1. Introduction

The PAEA requires the Postal Service to report “measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including . . . the degree of customer satisfaction with the service provided.”²⁷⁶ 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. Measuring consumer access to postal services is important in evaluating universal service and customer satisfaction.

The FY 2019 ACR and Library Reference USPS-FY19-33²⁷⁷ contain customer access information responsive to the requirements of Title 39 and the Commission’s regulations. The Postal Service provides additional information in responses to CHIRs.²⁷⁸

The Postal Service also reports the number of retail facilities and delivery points in its *Annual Report to Congress*.²⁷⁹ In the FY 2018 ACD, the Commission directed the Postal Service to ensure that information provided for both retail facilities and delivery points is consistent among the *Annual Report to Congress*, ACR, and CHIR responses. FY 2018 ACD at 196. The number of retail facilities is consistent among the *FY 2019 Annual Report*, FY 2019 ACR, and CHIR responses.²⁸⁰ The total number of delivery points for FY 2018 and FY 2019 is also consistent between the *FY 2019 Annual Report* and FY 2019 ACR.²⁸¹ The number of residential and business delivery points for FY 2018 differs slightly between the two sources.²⁸²

The Commission reiterates the importance of providing consistent information among the Annual Report to Congress, ACR, and CHIR responses. For its FY 2020 filings, the Postal Service must ensure that information provided for both retail facilities and delivery points is

²⁷⁶ 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90.

²⁷⁷ FY 2019 ACR at 58-61; Library Reference USPS-FY19-33, December 27, 2019.

²⁷⁸ See Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 1, January 16, 2020 (Response to CHIR No. 1); Response to CHIR No. 2, question 2; Response to CHIR No. 6, questions 1-5; Response to CHIR No. 9, questions 1-3; Response to CHIR No. 16, question 2.

²⁷⁹ *FY 2019 Annual Report*. Retail facilities include post offices, stations, branches, carrier annexes, contract postal units (CPUs), Village Post Offices (VPOs), and community post offices (CPOs).

²⁸⁰ Compare *FY 2019 Annual Report* at 14, with FY 2019 ACR at 59 and Response to CHIR No. 1, questions 4-6, 7.a. The Postal Service notes that *FY 2019 Annual Report* contains a clerical error regarding the number of CPUs reported for FY 2017. Response to CHIR No. 1, question 7.b. The Postal Service clarifies that the correct number of CPUs in FY 2017 was 2,334. *Id.*

²⁸¹ Compare *FY 2019 Annual Report* at 14, with Library Reference USPS-FY19-33, Excel file “Annual Report DeliveryPointsFY2019_v2.xlsx,” tab “Beginning FY,” cell R10 and tab “End FY,” cell S10.

²⁸² For FY 2018, the number of residential and business delivery points differs between the *FY 2019 Annual Report* (145,792,079 residential and 12,766,177 business) and Library Reference USPS-FY19-33 (145,792,640 residential and 12,765,616 business). Compare *FY 2019 Annual Report* at 14, with Library Reference USPS-FY19-33, Excel file “Annual Report DeliveryPointsFY2019_v2.xlsx,” tab “Beginning FY,” cells R5 and R7.

consistent among the FY 2020 Annual Report to Congress, FY 2020 ACR, and CHIR responses. If there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2020 ACR.

2. Retail Facilities

For each fiscal year, the Postal Service must provide information on the number of retail facilities at the beginning and end of the fiscal year, as well as the number of retail facility closings during the fiscal year. 39 C.F.R. § 3055.91(a)(1) to (3). This information must be disaggregated by type of retail facility and provided at the national and area levels. 39 C.F.R. § 3055.91(a). The Postal Service provides this information for FY 2019 in the *FY 2019 Annual Report*, Library Reference USPS-FY19-33, and CHIR responses.²⁸³

CHIR No. 1 asked for the most up-to-date number of retail facilities for FY 2017, FY 2018, and FY 2019, which the Postal Service provided. Response to CHIR No. 1, question 7. In its response, the Postal Service clarifies that the information provided reflects the best available data. *Id.* This information is included in Table V-15 below. Postal-managed retail facilities consist of post offices, stations and branches, and carrier annexes. Non-postal-managed retail facilities consist of CPUs, VPOs, and CPOs.

Table V-15
Retail Facilities, FY 2017–FY 2019

Facility Type	FY 2017	FY 2018	FY 2019	FY 2019 Change from FY 2018	FY 2019 Change from FY 2017
Post Offices	26,410	26,365	26,362	-3	-48
Classified Stations & Branches and Carrier Annexes	4,967	4,959	4,960	1	-7
Total Postal-Managed	31,377	31,324	31,322	-2	-55
Contract Postal Units	2,334	2,240	2,175	-65	-159
Village Post Offices	821	743	667	-76	-154
Community Post Offices	476	465	449	-16	-27
Total Non-Postal-Managed	3,631	3,448	3,291	-157	-340
Total Retail Facilities	35,008	34,772	34,613	-159	-395

Source: Response to CHIR No. 1, question 7.a.

²⁸³ *FY 2019 Annual Report* at 14; Library Reference USPS-FY19-33, Excel file "PostOfficesFY2019.xlsx," tab "Post Offices;" Response to CHIR No. 1, question 7.a.

The total number of retail facilities in FY 2019 was 34,613, which was 159 fewer than FY 2018. The number of retail facilities for all types except Classified Stations & Branches and Carrier Annexes decreased between FY 2018 and FY 2019. The largest decrease between FY 2018 and FY 2019 was in the number of VPOs, which decreased by 76.

The Public Representative observes that “[i]n FY 2019, the total number of retail facilities decreased by approximately 159 facilities.” PR Comments at 15. She comments that the reduction in retail facilities was smaller compared to FY 2018, when the number of retail facilities decreased by 258 facilities. *Id.* She observes that the largest decrease in retail facilities was for non-postal-managed facilities (CPUs, VPOs, and CPOs). *Id.* at 16. She concludes that the decrease in retail facilities appears to have slowed and notes that the Commission has not expressed concerns over the decrease in the number of retail facilities. *Id.*

As discussed below, in addition to providing products and services over-the-counter at retail facilities, the Postal Service continues to provide access to products and services through alternate channels. *See* section V.B.7., *infra*. The Postal Service reports that there were 2,775 Retail Systems Software-Self Service Kiosks (RSS-SSKs) at the end of FY 2019.²⁸⁴ The decline in retail facilities is mitigated by the availability of products and services through alternate channels. The Commission will continue to monitor the number of retail facilities in the FY 2020 ACD.

3. Post Office Suspensions

For each fiscal year, the Postal Service must provide information on the number of post office suspensions²⁸⁵ at the beginning and end of the fiscal year, as well as the number of post offices suspended during the fiscal year. 39 C.F.R. § 3055.91(a)(4) to (6). Since the FY 2015 ACD, the Commission has expressed concerns about the number of suspended post offices. FY 2015 ACD at 150. At the end of FY 2016, there were 662 suspended post offices. FY 2017 ACD at 162. In FY 2017 and FY 2018, the Postal Service resolved 343 and 69 suspended post offices, respectively. FY 2018 ACR at 62. Of the 662 post offices suspended at the end of FY 2016, 250 remained suspended at the end of FY 2018. *Id.* at 63.

In the FY 2018 ACR, the Postal Service provided an updated timeline for resolving the remaining 250 suspended post offices in FY 2019 and FY 2020:

- FY 2019, Quarter 1: 0
- FY 2019, Quarter 2: 10

²⁸⁴ Response to CHIR No. 1, question 1.a. 2,727 were operational and 48 were non-operational. *Id.*

²⁸⁵ An emergency suspension occurs when the Postal Service suspends operations of a retail facility because an emergency or other condition requires such action. Handbook PO-101, Appendix A at 54. Circumstances that may justify suspending a retail facility include natural disasters, termination of a lease or rental agreement when suitable alternate quarters are not available, lack of qualified personnel to operate the office, 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. *Id.* at 39.

- FY 2019, Quarter 3: 40
- FY 2019, Quarter 4: 100
- FY 2020, Quarter 1: 25
- FY 2020, Quarter 2: 75²⁸⁶

In the FY 2018 ACD, the Commission reiterated the importance of resolving the remaining suspended post offices as soon as possible. FY 2018 ACD at 201. It stated that it expects 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.* The Commission directed the Postal Service to continue filing quarterly reports on the number of suspended post offices and actions taken to resolve them within 40 days after the end of each quarter in FY 2019. *Id.* at 201-202. If the Postal Service was unable to meet the timeline it provided for resolving suspended post offices, the Commission directed the Postal Service to explain in detail why it was unable to do so in the FY 2019 ACR. *Id.* at 202.

In FY 2019, the Postal Service filed quarterly updates on the status of the 250 post offices suspended at the end of FY 2018.²⁸⁷ It resolved suspended post offices by reopening or officially discontinuing them.²⁸⁸ Table V-16 compares targets and results for the number of suspended post offices resolved by quarter during FY 2019.

Table V-16
Post Office Suspension Activity by FY 2019 Quarter
For 250 Post Offices Suspended at the End of FY 2018

FY 2019 Quarter	Target No. of Suspensions Resolved	Actual No. of Suspensions Resolved	No. of Suspended Offices Remaining at End of Quarter
Quarter 1	0	3	247
Quarter 2	10	5	242
Quarter 3	40	3	239
Quarter 4	100	11	228 ^a
Total	150	22	

^a Of the 662 post offices suspended at the end of FY 2016, 228 of them remained suspended at the end of FY 2019. This number does not include 173 other post offices suspended from FY 2017 through FY 2019. FY 2019 ACR at 61; Response to CHIR No. 2, question 2.a.

Source: See Postal Service Quarterly Updates on Post Office Suspensions.

²⁸⁶ *Id.* at 65.

²⁸⁷ Docket No. ACR2017, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY19 Quarter 1, February 7, 2019; Docket No. ACR2018, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY19 Quarter 2, May 7, 2019; Docket No. ACR2018, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY19 Quarter 3, August 9, 2019; see Docket No. ACR2018, Notice of the United States Postal Service of Filing an Erratum, August 14, 2019; Docket No. ACR2018, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY19 Quarter 4, November 12, 2019 (collectively, "Postal Service Quarterly Updates on Post Office Suspensions").

²⁸⁸ FY 2019 ACR at 59-61; Postal Service Quarterly Updates on Post Office Suspensions.

Table V-16 shows that the Postal Service resolved far fewer suspended post offices than planned, especially during Quarters 3 and 4 of FY 2019. In FY 2019, the Postal Service resolved only 22 suspended post offices, 128 fewer than the target of 150. *See* Table V-16. Of the 662 post offices suspended at the end of FY 2016, 228 remained suspended at the end of FY 2019. FY 2019 ACR at 61.

In a CHIR response, the Postal Service explains why it was unable to meet the timeline it provided in the FY 2018 ACR for resolving the remaining suspended post offices. It describes staffing challenges in FY 2019 that contributed to the delay in resolving the remaining suspended post offices. Response to CHIR No. 9, question 1. The Postal Service notes that it experienced high staff turnover in the department responsible for resolving suspended post offices and only had two staff members working to resolve the suspended post offices. *Id.* It describes difficulties in filling open positions and retaining personnel. *Id.* The Postal Service states that these staffing issues have “contributed to the delay in completion of due diligence and records research to resolve the remaining post office suspensions.” *Id.*

To overcome these challenges, the Postal Service states that it implemented several changes in FY 2019, such as investigating the possibility of resolving 80 suspended post offices using an expedited process.²⁸⁹ The Postal Service explains that it committed other necessary resources to resolving suspended post offices, including dedicating one position to help process and track the suspension resolution process. FY 2019 ACR at 60. It states it is also conducting teleconferences with field teams to ensure they submit complete and accurate documentation for the discontinuance process. *Id.* at 60-61. It is also providing additional data and instructions to field management teams on how to complete the tasks required to resolve the remaining suspended post offices. *Id.*

CHIR No. 9 asked the Postal Service to provide a timeline and detailed plan for resolving the remaining suspended post offices. CHIR No. 9, question 2. In its response, the Postal Service states that it expects to resolve the remaining suspended post offices by the end of FY 2020. Response to CHIR No. 9, question 2. To meet the target completion date, the Postal Service explains that it will continue conducting ongoing teleconferences with area and district coordinators and communicate bi-weekly with area coordinators to ensure that proper discontinuance steps are completed on time.²⁹⁰ The Postal Service will also provide in-depth educational sessions on following the proper post office discontinuance process. FY 2019 ACR at 61. During these educational sessions, the Postal Service will conduct deep dive analyses on sites that are not completing the proper discontinuance steps within the recommended time. *Id.*

²⁸⁹ FY 2019 ACR at 59-60. The Postal Service ultimately concluded that it could not apply the expedited process to the suspended post offices. *Id.* at 60; Response to CHIR No. 6, question 2.

²⁹⁰ *Id.*; FY 2019 ACR at 61.

The quarterly post office suspension updates report the status of the 662 post offices that were suspended as of the end of FY 2016. As discussed above, of these 662 suspended post offices, 228 remained suspended at the end of FY 2019. *Id.* This number does not include other post offices suspended during FYs 2017 through 2019. The Postal Service filed data on the total number of suspended post offices in Library Reference USPS-FY19-33.²⁹¹ This library reference also includes data on post offices reopened and closed during FY 2019.

Table V-17 shows post office suspension activity during FY 2019 by facility type. It lists the number of suspended post offices at the beginning and end of FY 2019, as well as the number of post offices suspended, reopened, and closed during FY 2019. The number of suspended post offices at the end of FY 2019 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-17 shows that the total number of suspended post offices increased by 55 in FY 2019. At the end of FY 2019, there was a total of 401 suspended post offices.

Table V-17
Post Office Suspension Activity During FY 2019

Retail Facility Type	Under Suspension at the Start of FY 2019	Suspended During FY 2019	Reopened During FY 2019	Closed During FY 2019	Under Suspension at the End of FY 2019
Post Offices	277	116	65	3	325
Stations/Branches	68	18	10	1	75
Carrier Annexes	1	1	1	0	1
Total	346^a	135	76	4	401^b

^a In Docket No. ACR2018, the Postal Service reported that the total number of post offices suspended at the end of FY 2018 was 344. Docket No. ACR2018, Library Reference USPS-FY18-33, December 28, 2018, folder "FY18.33.Consumer Access Files," Excel file "PostOfficesFY2018.xlsx," tab "Suspension Summary," cell H26. In Docket No. ACR2019, the Postal Service reports that the total number of post offices suspended at the beginning of FY 2019 was 346. Library Reference USPS-FY19-33, Excel file "PostOfficesFY2019.xlsx," tab "Suspension Summary," cell D26. In a CHIR response, the Postal Service clarifies that the correct number of suspended post offices at the end of FY 2018/beginning of FY 2019 is 346. Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 17, February 26, 2020.

^b This number includes the 228 suspended post offices from the original 662 post offices suspended at the end of FY 2016, as well as the additional 173 post offices suspended during FYs 2017, 2018, and 2019.

Source: Library Reference USPS-FY19-33, Excel file "PostOfficesFY2019.xlsx," tab "Suspension Summary;" Response to CHIR No. 2, question 2.a.

The Public Representative comments that she is encouraged by the Postal Service's efforts to resolve suspended post offices and notes that she "will have an opportunity to assess the outcome of those efforts in the next ACD process." PR Comments at 18.

Between FY 2016 and 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. According to the timeline provided in the FY 2018

²⁹¹ Library Reference USPS-FY19-33, Excel file "PostOfficesFY2019.xlsx," tab "Suspension Summary."

ACR, the Postal Service planned to resolve 150 suspended post offices in FY 2019, but only resolved 22 suspended post offices. Of the 662 post offices suspended at the end of FY 2016, 228 remained suspended at the end of FY 2019.²⁹²

The Commission expects the Postal Service to resolve the remaining suspended post offices by the end of FY 2020. Given the substantial number of remaining suspended post offices and the Postal Service's failure to meet its timeline, the Commission finds that individual reporting on each suspended post office is necessary to ensure that the Postal Service resolves the remaining suspended post offices by the end of FY 2020.

The Commission directs the Postal Service to continue filing quarterly updates on the status of the 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 2020. Quarterly updates must continue to include a spreadsheet containing the information provided in the FY 2020, Quarter 1 update.²⁹³ In addition, for each remaining suspended post office, the Postal Service must describe specific steps taken to resolve that suspended post office during that quarter and its anticipated next steps. In the quarterly updates, the Postal Service must explain how the Postal Service will meet the targeted September 2020 completion date for resolving the remaining suspended offices.

If the Postal Service fails to resolve the remaining suspended post offices by the end of FY 2020, the Postal Service must explain in detail in the FY 2020 ACR why it was unable to do so. The FY 2020 ACR must also provide a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended between FY 2017 and FY 2020.

4. Delivery Points

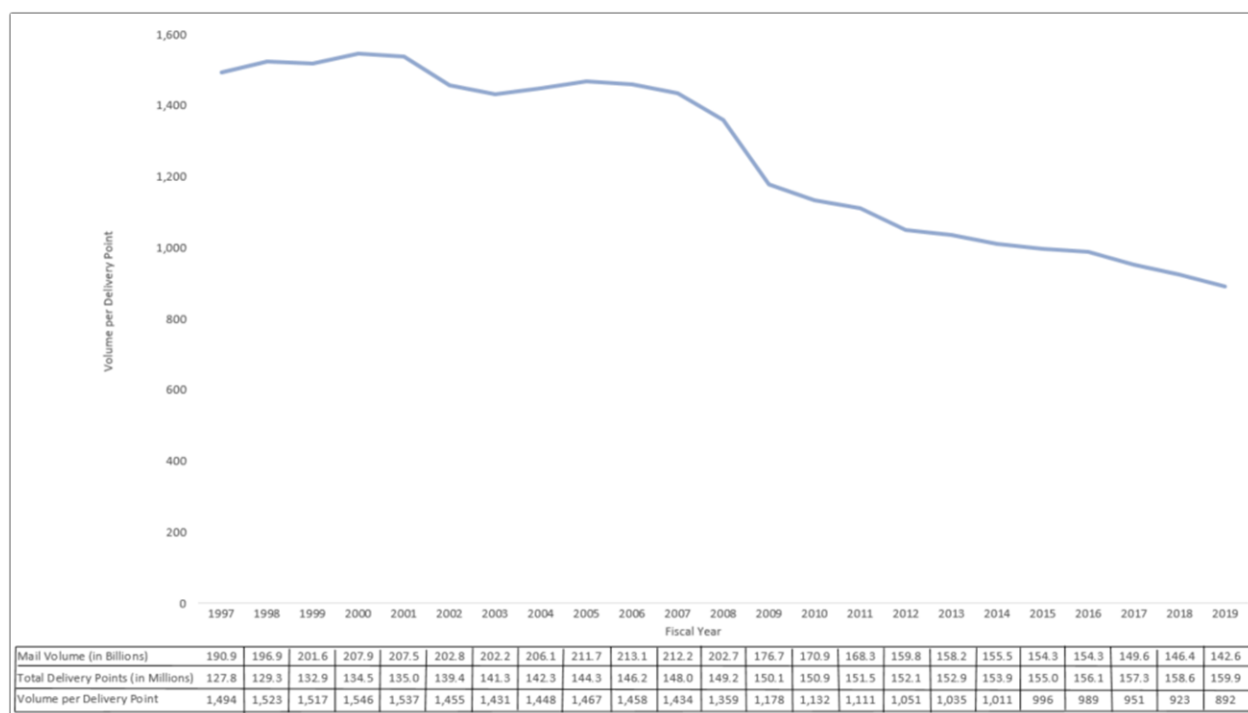
The Postal Service is required to provide information on the number of residential and business delivery points at the beginning and end of the fiscal year. 39 C.F.R. § 3055.91(b). The Postal Service provided this information for FY 2019 in Library Reference USPS-FY19-33 and in the *FY 2019 Annual Report*.²⁹⁴ The total number of delivery points in FY 2019 was 159,901,312, an increase of 1,343,056 from FY 2018. *FY 2019 Annual Report* at 14. Figure V-7 shows the volume per delivery point between FY 1997 and FY 2019.

²⁹² In FY 2020, Quarter 1, the Postal Service resolved four suspended post offices, bringing the remaining number of suspended post offices to 224. 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, at 2 (Docket No. ACR2018, February 10, 2020 Update).

²⁹³ See Docket No. ACR2018, February 10, 2020 Update, Excel file "FY20_Q1_Suspensions_Update (002).xlsx."

²⁹⁴ Library Reference USPS-FY19-33, Excel file "Annual Report DeliveryPointsFY2019_v2.xlsx;" *FY 2019 Annual Report* at 12, 14.

Figure V-7
Volume per Delivery Point, FY 1997–FY 2019



Source: FY 2018 ACD at 202; Commission Calculation Based on *FY 2019 Annual Report* at 12, 14.

Volume per delivery point reached its highest level of 1,546 in FY 2000. Volume per delivery point decreased an average of 1 percent per year from FY 2000 to FY 2007, when it was 1,434. Volume per delivery point declined to 892 in FY 2019, a 42 percent decrease since FY 2000 and a nearly 38 percent decrease from FY 2007.

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 2019 in Library Reference USPS-FY19-33.²⁹⁵ Nationally, there were 142,300 collection boxes at the end of FY 2019, 1,677 fewer than in FY 2018. *Id.* cells C12 and G12.

The Public Representative comments that the number of collection boxes decreased by 1.18 percent in FY 2019 compared to a decrease of 1.54 percent in FY 2018. PR Comments at 19. She states that she assumes that the Postal Service has continued conducting annual density testing of collection boxes as the Commission directed in the FY 2018 ACD “to ensure that the network is both cost-effective and meets the needs of customers. . . .” *Id.* She

²⁹⁵ Library Reference USPS-FY19-33, Excel file “CollectionBoxesFY2019.xlsx.”

states that the decline in the number of collection boxes is minor and notes that potential concerns are mitigated by the Commission's continued monitoring of the number of collection boxes. *Id.* at 20.

The Commission will continue to monitor the number of collection boxes in the FY 2020 ACD. The Commission recommends that the Postal Service continue conducting annual density testing of collection boxes in FY 2020 to ensure that the collection box network is cost-effective while meeting the needs of its customers.

6. Wait Time in Line

The Postal Service must report the average customer wait time for retail service for the beginning of the fiscal year and for the end of each successive fiscal quarter at the national and area levels. 39 C.F.R. § 3055.91(d). The Postal Service provided this information for FY 2019 in Library Reference USPS-FY19-33.²⁹⁶ The national average wait time in line improved from 2 minutes 11 seconds in FY 2018 to 2 minutes 8 seconds in FY 2019. FY 2019 ACR at 59. Table V-18 shows the quarterly national average customer wait time in line for FYs 2015 through 2019.

Table V-18
National Average Wait Time in Line
by Quarter, FY 2015–FY 2019

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Quarter 1	2:33	3:12	2:30	2:18	2:25
Quarter 2	2:43	3:26	2:39	2:28	2:34
Quarter 3	2:40	2:45	2:34	2:04	1:54
Quarter 4	2:36	2:17	2:28	1:53	1:39

Source: Library Reference USPS-FY19-33, Excel file "National Wait Time In Line FY2019.xlsx," tab "Qtr Avg Wait Natl;" FY 2018 ACD at 204.

The Public Representative comments that wait time in line decreased by 3 seconds nationwide in FY 2019 and notes that the national average wait time in line of 2 minutes 8 seconds in FY 2019 is the shortest since FY 2012. PR Comments at 21. She observes that wait time in line for several postal areas decreased by more than 1 minute since FY 2016. *Id.* She commends the Postal Service for continuing to improve wait time in line. *Id.*

National average wait time in line increased slightly in FY 2019, Quarters 1 and 2, but improved significantly in FY 2019, Quarters 3 and 4. The Commission encourages the Postal Service to continue improving wait time in line in FY 2020.

²⁹⁶ Library Reference USPS-FY19-33, Excel file "National Wait Time In Line FY2019.xlsx."

7. Alternative Access

In addition to providing products and services at retail facilities, the Postal Service continues to provide customer access through alternate channels. The Commission previously recommended that the Postal Service continue to expand alternative retail access channels to ensure customers have ready access to essential postal services.²⁹⁷ The Postal Service provided information on retail revenue by channel from FY 2016 through FY 2019 in a CHIR response. Response to CHIR No. 1, question 2. The major retail revenue channels are:

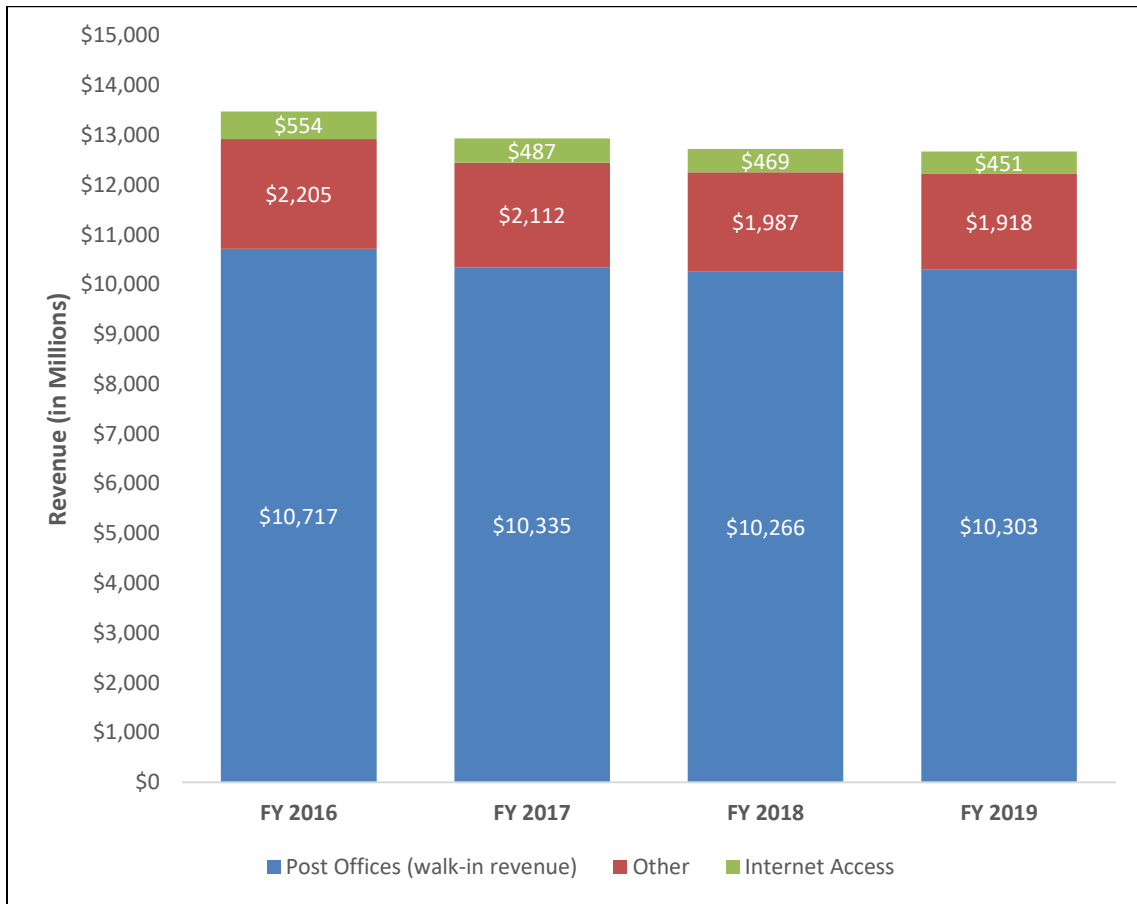
- Post Offices
- CPUs
- Click-N-Ship
- Stamp Sales by Partners
- SSKs/Automated Postal Centers
- Stamps by Mail/Phone/Fax

Figure V-8 compares retail revenue by channel from FY 2016 through FY 2019. Figure V-8 groups these retail revenue channels into three groups:

- Post Offices (walk-in revenue from post offices and CPUs)
- Internet Access (Click-N-Ship)
- Other (including stamp sales by partners, SSKs/automated postal centers, and stamps by mail/phone/fax)

²⁹⁷ Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 37.

Figure V-8
Retail Revenue, by Channel, FY 2016–FY 2019



Source: Response to CHIR No. 1, question 2; 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 7; Docket No. ACR2017, Response of the United States Postal Service to Question 3 of Chairman’s Information Request No. 17, February 20, 2018, question 3; Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-2, 4-9, 11-13, 15-19, 23, 28, and 31-33 of Chairman’s Information Request No. 3, January 13, 2017, question 5.

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 this information in Library Reference USPS-FY19-38.²⁹⁸

In FY 2019, the Postal Service measured customer experience using eight surveys: Business Service Network, Point of Sale, Delivery, Customer Care Center, Enterprise Customer Care, Large Business, Business Mail Entry Unit (BMEU), and USPS.com.²⁹⁹ Each survey measures a customer touchpoint or interaction between the customer and the Postal Service. For example, the BMEU survey measures customer experience at the unit.³⁰⁰ The customer surveys, FY 2019 targets and results, and related issues are discussed in detail in the Commission's forthcoming *Analysis of the FY 2019 Annual Performance Report and FY 2020 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 2019 ACR at 51. The Delivery survey measures customer satisfaction of residential and small/medium business customers.³⁰¹ In FY 2019, 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 2019 ACR at 51. The Large Business survey measures customer satisfaction of large business customers, which are businesses with 250 or more employees.³⁰² A panel of large business customers completed the survey monthly in FY 2019. FY 2019 ACR at 51-52.

²⁹⁸ Library Reference USPS-FY19-38, December 27, 2019.

²⁹⁹ Library Reference USPS-FY19-38, file "USPS-FY19-38 Preface.pdf," at 1 (Preface).

³⁰⁰ Preface at 3. A BMEU is "the area of a postal facility where mailers present bulk, presorted, and permit mail for acceptance." United States Postal Service, "Publication 32 - Glossary of Postal Terms," July 2013 (available at: https://about.usps.com/publications/pub32/pub32_terms.htm). It includes office space, dedicated platform space, and a staging area on the workroom floor. *Id.*

³⁰¹ Preface at 3; Library Reference USPS-FY19-38, file "CX_Surveys_FY19.docx," at 26-37.

³⁰² *Id.*; Library Reference USPS-FY19-38, file "CX_Surveys_FY19.docx," at 47-65.

The surveys group Market Dominant products by mailing service, such as First-Class Mail and Media Mail. In the surveys, residential, small/medium business, and large business customers were asked to rate their level of satisfaction with a Market Dominant mailing service.³⁰³ Customers rated their level of satisfaction with each mailing service using a six-point scale ranging from Very Satisfied to Very Dissatisfied. *Id.* Customer satisfaction results were calculated as the percentage of customers who selected Very Satisfied or Mostly Satisfied. FY 2019 ACR at 52. For each customer type, Table V-19 compares customer satisfaction results for select Market Dominant mailing services for FY 2017, FY 2018, and FY 2019.

Table V-19
Comparison of Customer Satisfaction with Market Dominant Mailing Services, by Percentage
FY 2017–FY 2019

Market Dominant Mailing Service	Residential Customers			Small/Medium Business Customers			Large Business Customers		
	FY 2017	FY 2018	FY 2019	FY 2017	FY 2018	FY 2019	FY 2017	FY 2018	FY 2019
First-Class Mail	89.05%	87.04%	86.41%	84.38%	83.88%	82.79%	77.97%	72.48%	74.36%
Single-Piece First-Class Mail International	85.18%	81.95%	81.61%	82.69%	80.67%	79.21%	69.98%	66.40%	68.18%
USPS Marketing Mail	83.18%	76.90%	75.85%	80.32%	77.67%	77.40%	71.69%	64.50%	66.11%
Periodicals	85.66%	83.88%	83.65%	82.32%	81.96%	80.64%	70.56%	65.84%	66.62%
Media Mail	86.04%	83.21%	83.04%	85.10%	83.31%	83.12%	69.15%	64.87%	65.84%
Library Mail	87.28%	81.24%	79.93%	85.98%	82.89%	81.52%	66.41%	61.89%	63.50%

Results are expressed as the percentage of customers who were Very Satisfied or Mostly Satisfied with a mailing service.

Source: FY 2019 ACR at 53; FY 2018 ACR at 57; FY 2017 ACR at 58.

Table V-19 shows that customer satisfaction of residential and small/medium business customers declined slightly between FY 2018 and FY 2019. However, Large Business customer satisfaction improved during this same time period for each Market Dominant mailing service. Large Business customer satisfaction improved the most for First-Class Mail and Single-Piece First-Class Mail International, which improved by 1.88 and 1.78 percentage points, respectively. For residential and large business customers, First-Class Mail had the highest level of customer satisfaction in FY 2019, with scores of 86.41 percent and 74.36 percent, respectively. For small/medium business customers, Media Mail had the highest level of customer satisfaction in FY 2019 with a score of 83.12 percent.

Between FY 2017 and FY 2018, large business customer satisfaction declined approximately 5 percent across all Market Dominant mailing services. FY 2018 ACR at 58. For this reason, in the FY 2018 ACD the Commission directed the Postal Service to describe in the FY 2019 ACR “results of the Postal Service’s research into how large business customer experiences drive overall satisfaction with Market Dominant mailing services.”

³⁰³ Library Reference USPS-FY19-38, file “CX_Surveys_FY19.docx,” at 29, 35, 48-49, 58.

FY 2018 ACD at 211. The FY 2019 ACR discusses the results of the Postal Service's assessment of large business customer experience in FY 2019. The Postal Service identifies six drivers of large business customer satisfaction with Market Dominant products:

- Service & Product Offerings
- Payment Options
- Building Customer Relationships
- Tracking and Scan Information
- Issue/Claim Resolution
- Ease of Contacting a Representative

FY 2019 ACR at 54. The Postal Service explains that it found that the top drivers of customer satisfaction for large business customers are Service & Product Offerings, Payment Options, and Building Customer Relationships. *Id.* at 55. For First-Class Mail, the top drivers of large business customer satisfaction are Payment Options and Building Customer Relationships. *Id.*

The Postal Service states it found a correlation between large business customer satisfaction and the frequency of using a Market Dominant mailing service. *Id.* High customer satisfaction with a Market Dominant mailing service drives large business customers to use that service more often. *Id.* For example, First-Class Mail products, which have the highest customer satisfaction score of 74.36 percent, are the products large business customers use most often. *Id.* at 56. Conversely, Library Mail, which has the lowest customer satisfaction score of 63.50 percent, is the mailing service large businesses use least often. *Id.* The Postal Service also found that although most large business customers are familiar with Media Mail, Periodicals, and USPS Marketing Mail, many of them do not use these mailing services often. *Id.*

The Postal Service also discovered that increasing customer satisfaction with a Market Dominant mailing service by one level (e.g., from Very Dissatisfied to Mostly Dissatisfied) drives large businesses to use that service more often. *Id.* at 56-57. For example, if a large business customer's satisfaction of Single-Piece First-Class Mail International increased by one level, that customer is 7.37 percent more likely to use that mailing service at least weekly. *Id.* at 57. For First-Class Mail, a large business customer whose customer satisfaction increases by one level is 12.53 percent more likely to use First-Class Mail at least weekly. *Id.*

2. Comments

The Public Representative comments that customer satisfaction with Market Dominant products improved for large business customers, but declined slightly for residential and small/medium business customers. PR Comments at 26. She observes that after large decreases for all customer types in FY 2018, the decline in FY 2019 appears to have stalled for residential and small/medium business customers and reversed course for large business customers. *Id.* Based on the customer satisfaction results, the Public

Representative concludes that “the Postal Service is commendably focusing on customer satisfaction” with Market Dominant products for each customer type.³⁰⁴

NAPM comments on large business customer satisfaction. It explains that BMEUs represent only a portion of the acceptance/verification process and that most large business customers have a Detached Mail Unit with Postal Service acceptance personnel at the business location. NAPM Comments at 13-14. It asks whether the BMEU survey measures customer satisfaction with Detached Mail Units as well as BMEUs. *Id.* at 14.

NAPM states that FY 2019 Large Business survey results show that 8.3 percent of respondents were Somewhat, Mostly, or Very Dissatisfied with First-Class Mail. *Id.* However, NAPM observes that the survey does not appear to contain a follow-up question to identify the reasons for customer dissatisfaction with a Market Dominant product. *Id.* NAPM recommends that the Postal Service consider adding follow-up questions to the Large Business survey to identify the reasons for customer dissatisfaction. *Id.* NAPM also recommends that the Large Business survey ask customers to rate their level of satisfaction with service performance for each Market Dominant product. *Id.* at 14-15.

In its reply comments, the Postal Service confirms that the BMEU survey measures customer satisfaction with Detached Mail Units. Postal Service Reply Comments at 13-14. It explains that the Large Business survey currently asks open-ended questions that allow customers to explain the reasons for their customer satisfaction rating. *Id.* at 14. It states that analyzing these comments enables the Postal Service to identify causes for Market Dominant product dissatisfaction. *Id.* The Postal Service adds that in FY 2020, the customer surveys have new questions asking customers about their satisfaction with several aspects of service performance, such as speed of delivery, reliability, and on-time delivery. *Id.* at 14-15. It notes that responses to these questions will allow it to correlate service performance factors to specific product categories. *Id.* at 15.

3. Commission Analysis

Between FY 2017 and FY 2018, customer satisfaction with Market Dominant mailing services declined for each customer type. FY 2018 ACD at 211. Between FY 2018 and FY 2019, large business customer satisfaction improved across all Market Dominant mailing services. FY 2019 ACR at 53. Customer satisfaction of residential and small/medium business customers declined slightly during this time period. *Id.*

In the FY 2018 ACD, the Commission directed the Postal Service to describe in the FY 2019 ACR results of the Postal Service’s research into how large business customer experience drives overall satisfaction with Market Dominant mailing services. FY 2018 ACD at 211. The Commission recommended that the Postal Service “examine customer satisfaction by mailing service or product type and focus on improving areas related to key drivers of customer satisfaction.” *Id.* The Postal Service complied with this directive by describing the

³⁰⁴ *Id.* The Public Representative also discusses targets and results of the customer surveys in FY 2019. *Id.* at 22-25. These issues are addressed in the Commission’s forthcoming *Analysis of the FY 2019 Annual Performance Report and FY 2020 Annual Performance Plan*.

results of its assessment with large business customer experience in the FY 2019 ACR. It identified top drivers of large business customer satisfaction with Market Dominant mailing services and discovered correlations between high customer satisfaction and the frequency of using a Market Dominant mailing service. These insights appear to have helped improve large business customer satisfaction with Market Dominant mailing services, which increased between FY 2018 and FY 2019 across all services.

NAPM recommends that the Postal Service consider adding follow-up questions to the Large Business survey to identify reasons for customer dissatisfaction with a Market Dominant mailing service. NAPM Comments at 14. As the Postal Service comments, the Large Business survey does ask open-ended questions that provide customers the opportunity to provide additional feedback or explain the reason for their rating.³⁰⁵ However, these open-ended questions are not linked to the questions asking about customer satisfaction with Market Dominant mailing services. The Commission recommends that the Postal Service consider asking customers to explain the reason for their rating if they were Somewhat Dissatisfied, Mostly Dissatisfied, or Very Dissatisfied with a Market Dominant mailing service. These responses would allow the Postal Service to identify specific reasons why customers are dissatisfied with a Market Dominant mailing service.

NAPM also suggests that the Large Business survey ask customers to rate their level of satisfaction with service performance for each Market Dominant mailing service. NAPM Comments at 14-15. The Postal Service responds that the FY 2020 surveys contain new questions asking customers about their satisfaction with service performance. Postal Service Reply Comments at 14-15. The Commission recommends that the surveys link the service performance questions to specific Market Dominant mailing services to correlate service performance factors to specific mailing services. In the FY 2020 ACD, the Commission will evaluate responses to the service performance questions to determine whether they identify reasons for customer dissatisfaction with service performance for Market Dominant mailing services.

In the FY 2018 ACD, the Commission also directed the Postal Service to describe in the FY 2019 ACR "actions taken to improve customer satisfaction for each customer type in FY 2019 and explain whether these actions were effective." FY 2018 ACD at 211-212. The FY 2019 ACR describes actions taken to improve large business customer satisfaction, but does not include this information for residential and small/medium business customers. CHIR No. 9 asked the Postal Service to describe actions taken to improve customer satisfaction with Market Dominant mailing services for both residential and small/medium business customers. CHIR No. 9, question 3.

³⁰⁵ Postal Service Reply Comments at 14; Library Reference USPS-FY19-38, file "CX_Surveys_FY19.docx," at 55, 62. The FY 2019 Large Business survey asks customers to explain the primary reason for their rating in response to a question asking them how likely they are to recommend the Postal Service to a colleague. Library Reference USPS-FY19-38, file "CX_Surveys_FY19.docx," at 55.

In its response, the Postal Service states that in FY 2019, it sought to improve the end-to-end experience for small/medium business customers by piloting the Small Business Direct Mail/Every Door Direct Mail End-to-End Marketing Transaction Portal. Response to CHIR No. 9, question 3. It explains that this portal centralizes information and resources for small/medium business customers to allow them to “seamlessly interact with the Postal Service to design and deliver more impactful marketing campaigns.” *Id.* It notes that the portal is part of a larger redesigned small/medium business customer experience and relationship management program that will serve as a test platform for future services. *Id.*

The Postal Service states that “residential and small business customers have demanded more digital channels to showcase their marketing campaign[s] without incurring additional postage.” *Id.* It notes that based on this increased demand, the Postal Service has expanded the portal to integrate email, Facebook, and other online display advertising, including a new platform focused on political mail, to offer more marketing service options. *Id.* However, it is unclear how this portal will benefit residential customers, who do not conduct marketing campaigns. Residential customer satisfaction is just as important as customer satisfaction of small/medium business and large business customers. Although customer satisfaction with Market Dominant mailing services is highest overall with residential customers, residential customer satisfaction has declined between FY 2017 and FY 2019.³⁰⁶ The Postal Service should take appropriate steps to improve residential customer satisfaction with Market Dominant mailing services.

The Commission will continue to monitor customer satisfaction with Market Dominant mailing services closely in FY 2020. 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). For large business customers, the Commission recommends that the Postal Service continue to focus on their top drivers of customer satisfaction: Service & Product Offerings, Payment Options, and Building Customer Relationships.

In the FY 2020 ACR, the Postal Service must describe actions taken to improve customer satisfaction with Market Dominant mailing services for each customer type in FY 2020 and explain whether these actions were effective. If customer satisfaction with Market Dominant mailing services continues to decline for residential and small/medium business customers, the FY 2020 ACR must explain why and describe plans for improving customer satisfaction in FY 2021.

³⁰⁶ FY 2018 ACR at 57; FY 2019 ACR at 53; see Table V-19, *supra*.

CHAPTER 6: FLATS COST AND SERVICE ISSUES

A. Introduction

The Postal Service continues to face significant challenges in profitably processing and delivering flat-shaped mailpieces (flats 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 2019. 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 2019. 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.³⁰⁷ 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 points³⁰⁸ 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 develop specific plans and goals to improve both cost and service issues for flats in FY 2020. In addition, the Commission notes certain areas where Postal Service data collection has changed, which has limited the ability to track data over multiple years.

B. FY 2019 Flats Contribution, Costs, and Volume

In FY 2019, the unit 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

³⁰⁷ 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.

³⁰⁸ 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.

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.

1. Contribution and Volume

In FY 2019, the Postal Service had eight flat-shaped mail products. Table VI-1 shows the total contribution and volume of these eight products. Only half of these products covered their costs. As a whole, in FY 2019, flats had a contribution of -\$576 million. This is the second consecutive year that the combined flats contribution has been negative. *See* Figure VI-1.

Table VI-1
FY 2019 Flats Contribution³⁰⁹ (millions)

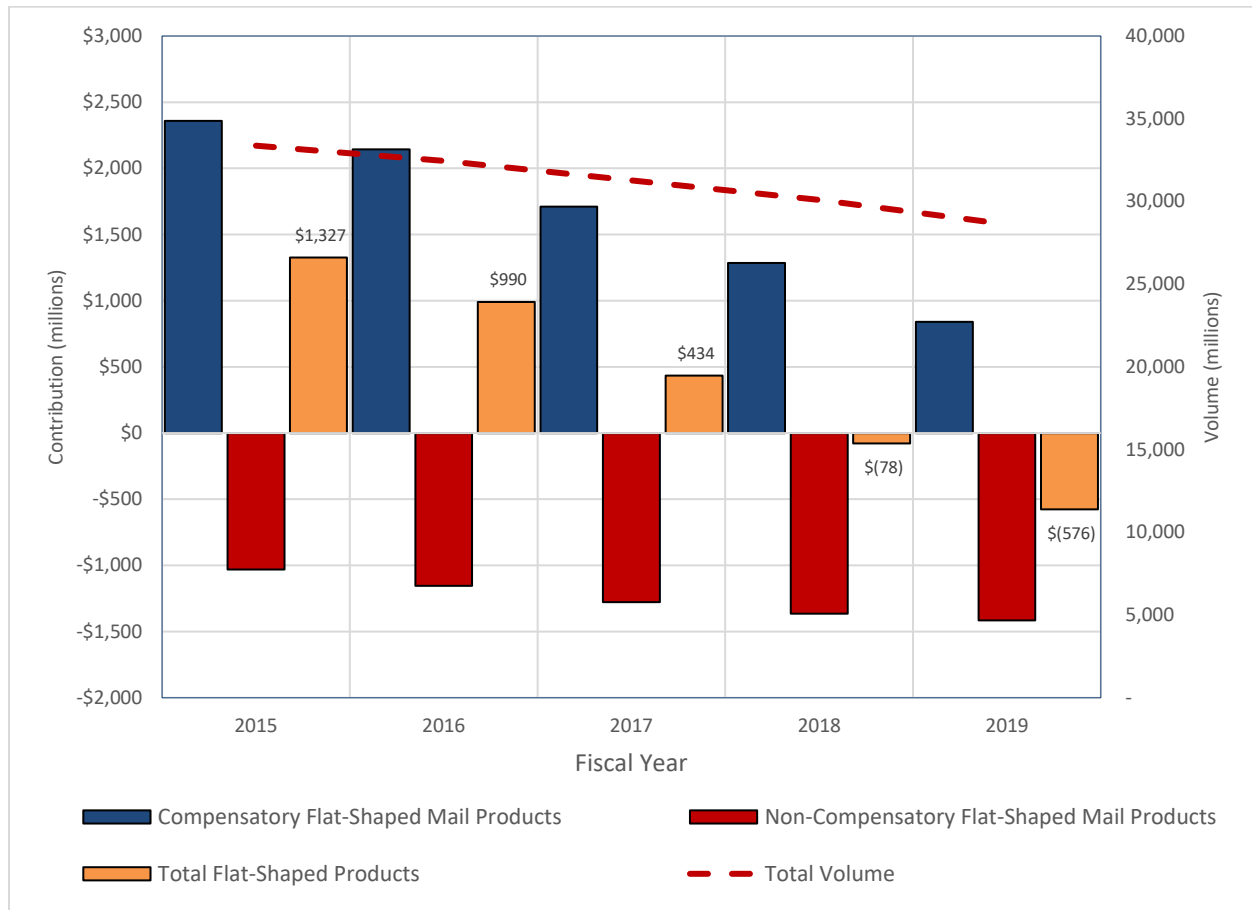
Product	Volume	Contribution
First-Class Mail Flats	1,295	\$136
USPS Marketing Mail High Density and Saturation Flats and Parcels	11,607	\$572
USPS Marketing Mail Carrier Route	6,359	-\$1
USPS Marketing Mail Flats	3,818	-\$744
USPS Marketing Mail Every Door Direct Mail Retail	649	\$74
Periodicals In County	499	-\$40
Periodicals Outside County	4,135	-\$631
Package Services Bound Printed Matter Flats	254	\$58
Totals FY 2019	28,618	-\$576

Source: Library Reference PRC-LR-ACR2019-9.

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 noncompensatory. The majority of the noncompensatory losses are due to the negative contribution of USPS Marketing Mail Flats and Periodicals Outside County. FY 2019 was the first year that the USPS Marketing Mail Carrier Route product failed to cover its costs and had a negative contribution.

³⁰⁹ This table reports product-level data, therefore non-product inframarginal costs are not included in contribution calculations. *See* Library Reference PRC-LR-ACR2019-1 for non-product inframarginal costs.

**Figure VI-1
Flats Contribution³¹⁰ and Volume FY 2015–FY 2019**

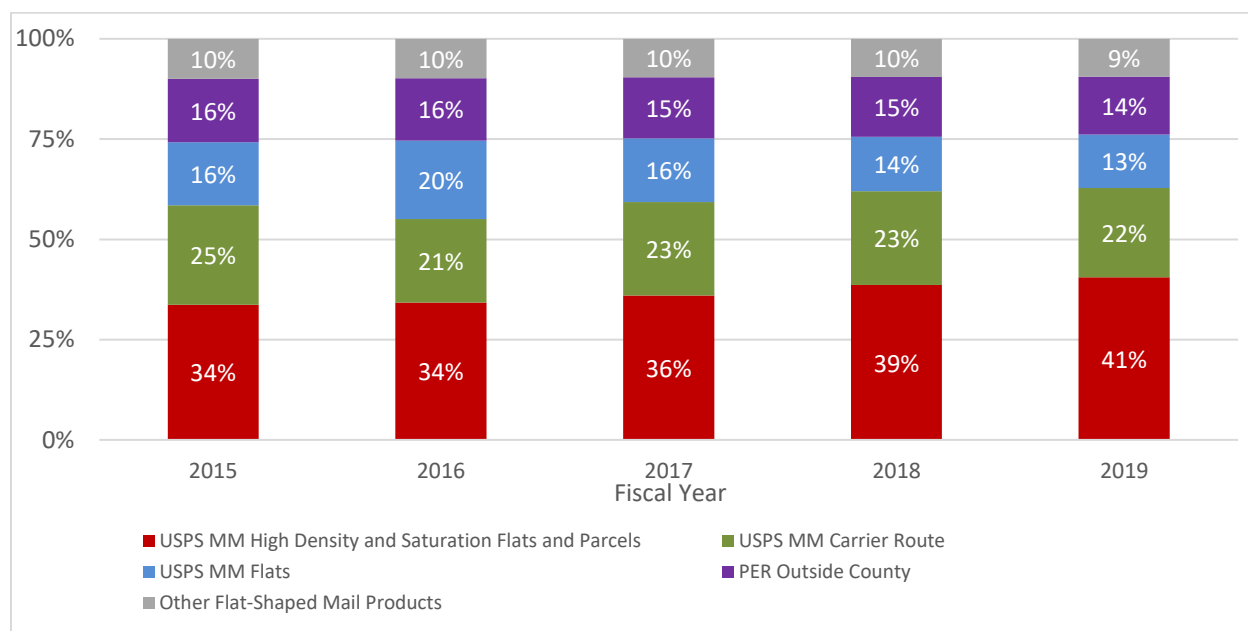


Source: Library Reference PRC-LR-ACR2019-9.

As shown in Figure VI-1, flats volume has steadily declined since FY 2015. In addition, the distribution of flats volume among products has changed since FY 2015. Specifically, volume of the USPS Marketing Mail High Density and Saturation Flats and Parcels product continues to grow, while the volumes of all other flat-shaped mail products have trended lower. The contribution from USPS Marketing Mail High Density and Saturation Flats and Parcels is 4.9 cents per piece in FY 2019, therefore, the growing volume of this category is encouraging. However, as shown in Table VI-2, unit attributable costs of USPS Marketing Mail High Density and Saturation Flats and Parcels increased almost 7 percent between FY 2018 and FY 2019.

³¹⁰ This figure reports product-level data, therefore non-product inframarginal costs are not included in contribution calculations. See Library Reference PRC-LR-ACR2019-1 for non-product inframarginal costs.

Figure VI-2
Flats Volume Distribution³¹¹ FY 2015–FY 2019



Source: Library Reference PRC-LR-ACR2019-9.

Figure VI-2 also shows that, in FY 2019, three noncompensatory products: (1) Outside County Periodicals (-15.3 cents contribution per piece), (2) USPS Marketing Mail Flats (-19.5 cents contribution per piece), and (3) USPS Marketing Mail Carrier Route (-0.02 cents contribution per piece), represent 50 percent of all flat-shaped mail product volumes. The negative contribution from these noncompensatory flat-shaped mail products outweigh the positive contribution from the compensatory flat-shaped mail products.

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 costs that are increasing faster than the average unit attributable cost, which in FY 2019 was 4.6 percent.³¹² In FY 2019, the Postal Service identified five flat-shaped mail products that had a percentage change in unit attributable cost that was greater than average: (1) USPS Marketing Mail High Density and Saturation Flats and Parcels, (2) USPS Marketing Mail Carrier Route, (3) USPS Marketing Mail Every Door Direct Mail—Retail, (4) In-County Periodicals, and (5) Outside County Periodicals. Table VI-2 shows the change in unit attributable cost for each flat-shaped mail product from FY 2018 to FY 2019, and highlights the five products that had cost increases above average.

³¹¹ Percentages in figure may not add to 100 percent due to rounding. See Library Reference PRC-LR-ACR2019-9 for unrounded numbers.

³¹² 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).

Table VI-2
FY 2018 and FY 2019 Flats Unit Attributable Cost

Product	FY 2018 Unit Attributable Cost	FY 2019 Unit Attributable Cost	Percent Change
First-Class Mail Flats	\$1.125	\$1.170	4.1%
USPS Marketing Mail High Density and Saturation Flats and Parcels	\$0.121	\$0.129	6.9%
USPS Marketing Mail Carrier Route	\$0.242	\$0.263	8.7%
USPS Marketing Mail Flats	\$0.589	\$0.604	2.5%
USPS Marketing Mail Every Door Direct Mail—Retail	\$0.067	\$0.071	6.8%
Periodicals In County	\$0.163	\$0.193	18.1%
Periodicals Outside County	\$0.403	\$0.428	6.1%
Package Services Bound Printed Matter Flats	\$0.501	\$0.522	4.2%
Total Market Dominant Mail	\$0.193	\$0.201	4.6%

Source: Library Reference PRC-LR-ACR2019-9.

For each product where unit attributable costs increased faster than average, the Postal Service provided a short narrative describing the drivers of the change.³¹³ The Postal Service blames the cost increases in each product on increases in mail processing and delivery costs. *See id.*

The Postal Service was unable to develop specific plans to reduce these unit costs in FY 2019, and cites generally to its own 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 2019 or will occur in FY 2020 related to flats.³¹⁴ The Postal Service states that "these changes should help to reduce flats costs and improve service performance." FY 2019 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 isolate the impact 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 the section, and throughout the remainder of this Chapter when they are relevant.

There were approximately 20 changes and/or initiatives that the Postal Service claims had an impact on flats costs and/or service in FY 2019 or have the potential to do so in FY 2020. *See generally id.* The operational initiatives and/or changes include the development of a

³¹³ See Library Reference USPS-FY19-45, December 27, 2019, file "Part B Narratives.pdf."

³¹⁴ See Library Reference USPS-FY19-45, file "Paragraph (f) Report.pdf," (FY 2019 Operational Initiatives Report).

new FSS Scorecard in FY 2020, the development of Standard Work Instructions for specific activities, along with current initiatives to improve labeling lists, processes to achieve productivity targets, and other changes. *Id.* at 2-9.

In addition to operational initiatives, in FY 2019, the Postal Service created a Headquarters Functional Review Team led by the Chief Operating Officer. *Id.* at 1. This team was tasked with implementing cost saving measures around flats processing and improving service performance. *Id.* The Postal Service also created a “Headquarters Flats Coordinator” and “Area Coordinators” to manage flats projects. *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 resources on initiatives without the ability to measure the impact of the initiatives on costs. The initiatives identified by the Postal Service for FY 2019 and FY 2020 should theoretically result in cost savings; however, the Postal Service asserts that it is impossible to determine their impact. The Postal Service should work to quantify the impact of these initiatives on costs in FY 2020 to ensure its efforts are productive.

Despite the existence of the FY 2019 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 -\$576 million in FY 2019, 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 price increases which might, in turn, drive away additional volume. Without specific plans from the Postal Service to reduce the costs of these mailpieces, the Commission recommends addressing the contribution shortfall by aggressively increasing revenues, which was discussed in Chapter 3.

C. Service Performance

As shown in Table VI-3, no flat-shaped mail product achieved its on-time performance target in FY 2019, with Bound Printed Matter flats fairing the worst with the lowest on time percentage despite having the lowest target. The Postal Service began using a new service performance measurement system in FY 2019, therefore multi-year comparisons are not possible in FY 2019. *See* Chapter 5 at 122.

Table VI-3
FY 2019 Flats Service Performance Results, by Service Standard

Product	On-Time (%)	Target (%)	Difference
First Class Mail Presort Flats Overnight	81.5	96.8	-15.3
First Class Mail Presort Flats Two-Day	82.3	96.5	-14.2
First Class Mail Presort Flats Three-To-Five-Day	80.4	95.3	-14.8
First Class Mail SPFC Flats Two-Day	81.3	96.5	-15.2
First Class Mail SPFC Flats Three-To-Five-Day	72.4	95.3	-22.8
USPS Marketing Mail Flats	77.6	91.8	-14.2
USPS Marketing Mail Carrier Route	90.0	91.8	-1.8
USPS Marketing Mail High Density and Saturation Flats/Parcels	89.4	91.8	-2.4
USPS Marketing Mail Every Door Direct Mail—Retail	75.7	91.8	-16.1
Periodicals—Within County	85.7	91.8	-6.1
Periodicals—Outside County	85.4	91.8	-6.4
Bound Printed Matter Flats	55.2	90.0	-34.8

Source: Library Reference PRC-LR-ACR2019-9.

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. *See generally* FY 2019 Operational Initiatives Report; FY 2019 C2-C6 Timelines. The Commission will monitor these service performance scores in future years.

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 2019, the Postal Service provided the data in Table VI-4 on Bundle Breakage Performance. These data show that the percent of broken bundles increased 0.68 percentage points to 5.48 percent. The Postal Service attributes much of this increase to an increased ability to detect broken bundles. The data show that while the total number of bundles processed decreased 8.04 percent, the total number of broken bundles increased 5.12 percent.

**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%

Source: Library Reference PRC-LR-ACR2019-9.

The Postal Service did not have a measureable goal for broken bundle reduction in FY 2019, and stated that its Headquarters Functional Review Team is working toward establishing measurable goals for reducing broken bundles in FY 2020. Response to CHIR No. 4, question 15(c). For the service impact of bundle breakage on flat-shaped products, the Postal Service indicates that it intends to begin reporting in FY 2022.³¹⁵

In addition to the nationwide data filed publicly, the Postal Service also filed non-public facility level bundle breakage data.³¹⁶ Analysis of these data provided additional insights into bundle breakage. Figure VI-3 shows aggregated bundle processing data for two groups of 15 facilities. The first group, Group A, processed 38.8 million bundles in FY 2019 and broke 5.6 million bundles, resulting in a bundle breakage rate of 14.3 percent. *See* Library Reference PRC-LR-ACR2019-NP4. In FY 2019, the facilities in Group A were responsible for 24 percent of all the broken bundles captured via the bundle breakage report.³¹⁷ The second group, Group B, processed 31.8 million bundles and broke 0.6 million bundles, resulting in a bundle breakage rate of 2.0 percent in FY 2019. *See* Library Reference PRC-LR-ACR2019-NP4. To address issues at the 15 facilities in Group A, the Postal Service is reviewing ways to reduce second handling of bundles and ensure proper mail flows. Response to CHIR No. 6, question 6.d. The Postal Service also plans to study the causes, impacts, and ways to reduce bundle breakage.³¹⁸ In addition, the Postal Service identifies two operational initiatives that should reduce bundle breakage: (1) the development

³¹⁵ See Library Reference USPS-FY19-45, file "C2-C6 timelines.pdf" (FY 2019 C2-C6 Timelines).

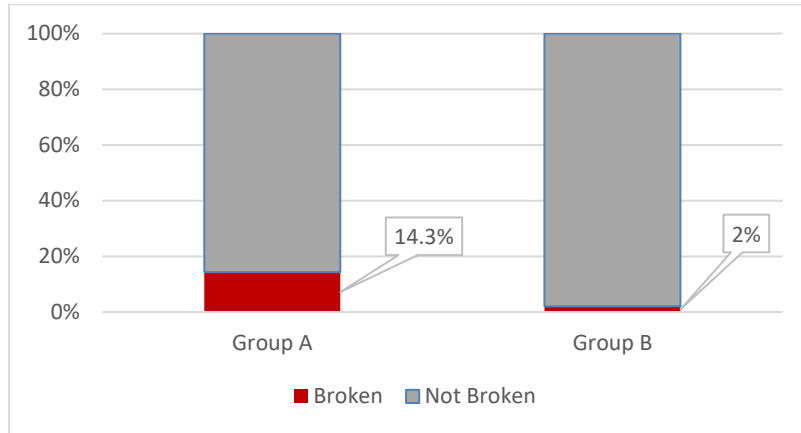
³¹⁶ See Library Reference USPS-FY19-NP31, December 27, 2019, Excel file "FY16_FY19.Bundle.Brkg.E1_NonPublic.xlsx."

³¹⁷ See Responses of the United States Postal Service to Questions 1-9 of Chairman's Information Request No. 6, January 31, 2020, question 6 (Response to CHIR No. 6).

³¹⁸ See Library Reference USPS-FY19-45, file "Section e.9 Narratives.pdf" (FY 2019 Section e.9 Narratives).

and/or modification of Standard Work Instructions for APPS and APBS, and (2) the mailer irregularity application. See FY 2019 Operational Initiatives Report.

Figure VI-3
FY 2019 Bundle Breakage Data for Two Groups of Facilities



Source: Library Reference PRC-LR-ACR2019-NP4.

In addition, the facility level bundle breakage data show that bundle breakage rates vary greatly by facility. For example, Table VI-5 shows the bundle breakage data for two facilities: Facility 1 and Facility 2.³¹⁹

Table VI-5
FY 2019 Bundle Breakage Data for Two Facilities

	Facility 1	Facility 2
Bundles Processed	5,084,971	6,639,452
Bundles Broken	889,999	456,605
Percentage of Broken Bundles	17.5%	6.9%

Source: Library Reference PRC-LR-ACR2019-NP4.

Facility 1 processed 1.6 million fewer bundles than Facility 2, but Facility 1 broke almost twice as many bundles as Facility 2. The Postal Service explains that there are no known reasons for the differences between Facility 1 and Facility 2 because both facilities have the same type of equipment. Response to CHIR No. 9, question 8.a. The Postal Service lists other potential reasons for the differences between facilities, but states that “without the opportunity to physically visit both sites to do observations, the Postal Service is unaware of anything that might explain the reason for the discrepancy in the bundle breakage percentages.” *Id.*

³¹⁹ Facility 1 is one of the facilities included in Group A in Figure VI-3. Facility 2 is not one of the facilities included in Group B in Figure VI-3.

Commission Analysis. The Commission is concerned that, despite the declining number of bundles tracked in FY 2019, the total number of broken bundles increased. In FY 2020, the Postal Service must continue to increase the number for tracked bundles, while also working to reduce the number of broken bundles. In FY 2019, the Postal Service spent \$160.6 million on bundle processing, which accounts for 7.2 percent of flats processing costs.³²⁰ The Postal Service did not provide an estimate of how bundle breakage impacted that figure. In FY 2020, the Commission recommends that the Postal Service develop an estimate of how much additional cost bundle breakage adds to flats processing costs. In addition, the Postal Service should work to reduce bundle breakage at the 15 facilities that accounted for 24 percent of broken bundles captured via the bundle breakage report in FY 2019. No later than July 15, 2020, the Commission directs the Postal Service to file a status update that details any progress made in developing an estimate of the impact of bundle breakage on flat-shaped mail costs and any progress made at reducing bundle breakage at the 15 identified facilities. The update must include quarterly, facility-level bundle breakage reports.

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 facility level data. Below the Commission reviews the ability to achieve productivity targets using specific machines, performance metrics associated with the FSS, and the productivity of machines at the facility level.

The Postal Service has specific productivity targets for its automation equipment, and in FY 2019 none of those targets were achieved. *See* FY 2019 Section e.9 Narratives at 1. As discussed in more detail below, many productivities decreased in FY 2019. The Postal Service states that it will place additional emphasis on attaining targeted productivities for flat-shaped mail in FY 2020. *Id.* at 2. The Postal Service indicates that it does not have a metric for the service impact of low productivity on automation equipment on flat-shaped products, and indicates that it is working to develop a metric and will begin reporting with that metric in FY 2022. *See* FY 2019 C2-C6 Timelines.

The primary machines used to process flats are the APBS, the APPS, the Automated Flats Sequencing Machine 100 (AFSM), and the FSS. The Postal Service estimates that changes in productivity for these machines resulted in an additional \$47 million in mail processing costs for flat-shaped mail in FY 2019.³²¹

In FY 2019, the Postal Service provided annual productivities by AFSM machine type. As shown in Figure VI-4, no AFSM machine³²² met its productivity target, and all productivities

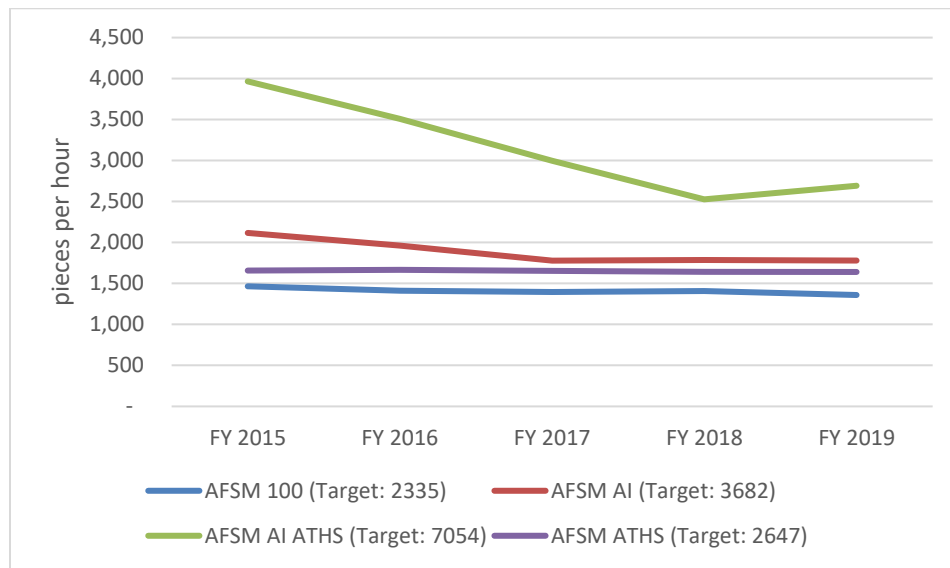
³²⁰ See Library Reference USPS-FY19-45, Excel file "FY19.Rule.3050.50.Para.B.xlsx" tab "Item b6."

³²¹ See Library Reference USPS-FY19-45, Excel file "FY19.Rule.3050.50.Para.B.xlsx" tab "Item b9."

³²² The Postal Service provides productivities for four different types of AFSM machines. *See* Publication 32 – Glossary of Postal Terms, available at: https://about.usps.com/publications/pub32/pub32_terms.htm. The AFSM 100 is an automated machine that processes flat-shaped mail. *Id.* The AFSM AI is an enhanced AFSM 100 machine that automates the preparation and feeding of flat-shaped mail into the AFSM 100. *Id.* The

have either decreased or remained relatively unchanged since FY 2015 despite the Postal Service’s efforts to improve productivities through removing the lower-productivity AFSM 100s. In FY 2018, the Postal Service removed 10 AFSM 100 machines, and in FY 2017, the Postal Service removed 50 AFSM 100 machines. FY 2018 ACD at 51; FY 2017 ACD at 59.

**Figure VI-4
AFSM 100s Productivities, FY 2015-FY 2019**



Source: Library Reference PRC-LR-ACR2019-9.

To address the low productivity of the AFSM 100 machines, in FY 2019, the Postal Service created an AFSM certification process, replaced end of life components of the AFSM 100, and removed 30 AFSM 100s due to declining volumes. FY 2019 Operational Initiatives Report at 9-10. The Postal Service’s AFSM Certification process showed that 66.5 percent of plants failed to achieve and maintain target performance levels. Response to CHIR No. 4, question 14.g.

As shown in Table VI-6, for APBS after some improvements in FY 2017 and FY 2018, productivity fell again in FY 2019, while APPS continued declining in FY 2019.

AFSM Automated Tray Handling System (ATHS) enhances the AFSM 100 by automatically exchanging, labeling, loading, and sweeping mail trays. *Id.* Finally, the AFSM Automatic Induction (AI) ATHS includes both of the enhancements associated with the AFSM AI and AFSM ATHS. *Id.*

Table VI-6
Pieces Per Hour (PPH) Sorted for Select Operations

FY	APBS Incoming		APPS Incoming	
	PPH	% Change	PPH	% Change
2015	205	-6.6%	304	-4.5%
2016	194	-5.3%	271	-11.0%
2017	202	4.1%	265	-2.2%
2018	209	3.7%	256	-3.6%
2019	197	-6.0%	244	-4.3%

Source: Library Reference PRC-LR-ACR2019-9.

In FY 2019, the Postal Service explains that it developed and/or modified Standard Work Instructions for the AFSM 100, APBS, and APPS. FY 2019 Operational Initiatives Report at 7-9. The Postal Service also added 1,024 bins to APBS machines for sortation in FY 2018 and 288 bins in FY 2019. *Id.* at 10; FY 2018 ACR at 28. The Postal Service explains that adding these bins “helps to finalize more mail on a primary automated operation” and reduces mail that must be reworked. FY 2019 Operational Initiatives Report at 11.

The FSS is another machine used by the Postal Service to process flats and sort pieces into Delivery Point Sequence (DPS). Table VI-7 shows mixed results for the FSS in FY 2019. Specifically, while the percentage of mail that was put into DPS on the FSS increased to 78.6 percent, the productivity of the FSS continued to decline. The FSS Leakage percentage, which measures mail destined for the FSS, but processed elsewhere, increased to 25.43 percent in FY 2019. Response to CHIR No. 16, question 1. 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 shows that this percentage decreased from 63.7 in FY 2018 to 58.4 in FY 2019.³²³

Table VI-7
Flats Sequencing System Performance Metrics

	2015	2016	2017	2018	2019
Delivery Point Sequence (%)	60.0	56.7	54.7	77.1	78.6
Productivity (pph)	8,840	8,326	8,111	7,708	7,543
Mailpieces at risk (%)	5.4	5.7	5.8	4.6	4.7
Leakage (%)	n/a	n/a	20.1	21.9	25.4
Capacity (%)	n/a	n/a	n/a	63.7	58.4
Volume (millions)	1,709	3,415	3,437	3,266	2,808
Mail Processing Cost \$(000)	202,259	205,802	208,243	197,704	192,883

Source: Library Reference PRC-LR-ACR2019-9.

³²³ The Postal Service shows that the total capacity of the FSS machine is 5,889,000,000 pieces per year. *Id.*

In previous years, the Postal Service used the FSS Scorecard to monitor FSS performance, but it retired the scorecard in FY 2019. FY 2019 Operational Initiatives Report at 3. The Postal Service explains that it has begun developing a new comprehensive scorecard for FY 2020.³²⁴

In addition to a new FSS Scorecard, the Postal Service describes four initiatives targeted at increasing the DPS percentage of the FSS and reducing FSS leakage. *Id.* at 4-6. First, 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.* at 4-5. Second, the Postal Service manually audited its labeling lists to ensure they aligned with actual FSS zones. *Id.* at 5. As a result of the audit, the Postal Service fixed over 100 discrepancies. *Id.* The Postal Service states that this audit should result in a reduction in FSS leakage, which should reduce mail processing and delivery costs. *Id.* Third, the Postal Service began the FSS Delivery Point Compression initiative. *Id.* at 6. The Postal Service's goal for this initiative is to increase mail finalized on the FSS by "combining delivery points with historically low volume" to a single tray. *Id.* The Postal Service piloted the initiative in FY 2019, with successful results, and intends to expand the initiative in FY 2020. *Id.* Finally, in FY 2019, the Postal Service deployed a FSS software enhancement to address sort logic and improve handling of barcoded items. *Id.*

The Postal Service also provided Mail Processing Variance Report data that provides the productivity of the FSS and other machines at the facility level.³²⁵ The Commission analyzed these data by grouping the facilities into deciles based on volume, meaning the smallest facilities by volume are in decile 0 (bottom 10 percent), and the biggest facilities (top 10 percent) are in decile 9.³²⁶ In FY 2019, the average volume of flats at the facilities in the FSS decile 0 was 24.8 million, and the average volume of flats at the facilities in the FSS decile 9 was 146.2 million. *Id.*

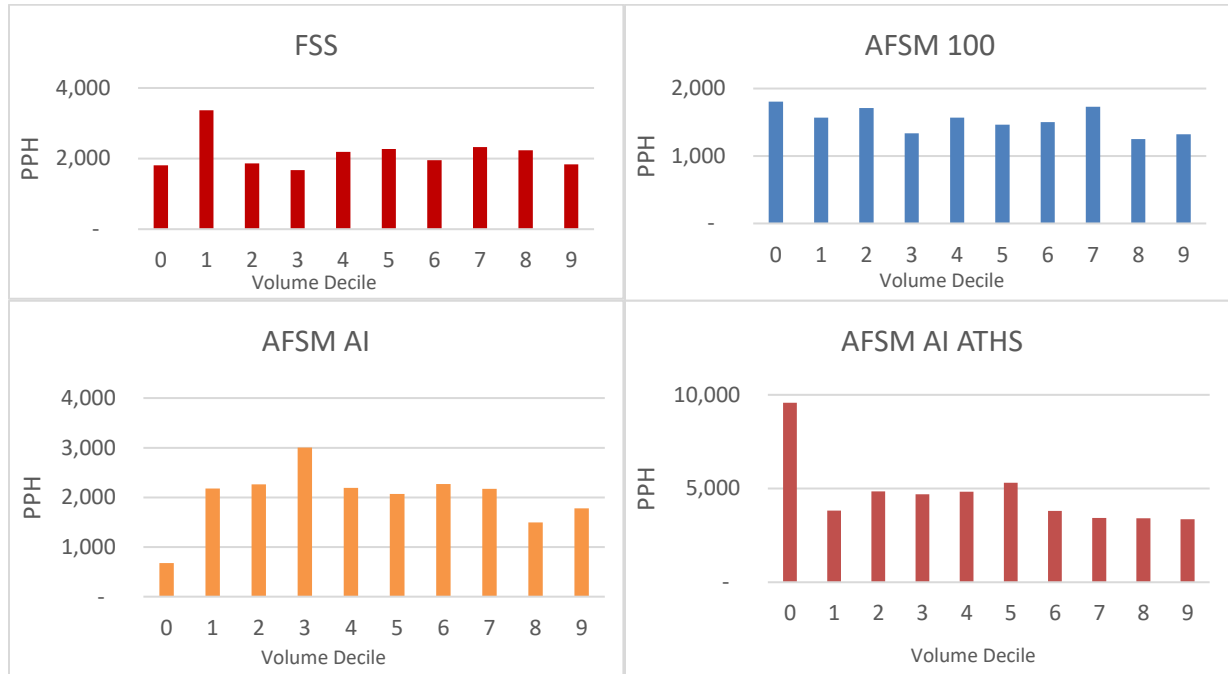
These data are best reviewed by machine type because productivities vary by machines present at a facility. As shown in Figure VI-5, while there are some instances of lower volume facilities having higher productivities than higher volume facilities, there is not a strong correlation between the volume processed at a facility and the productivity of machines at the facility. *See* PRC-LR-ACR2019-NP4.

³²⁴ *Id.* The aim of the new FSS Scorecard is to have status reporting occur daily. *Id.* The new FSS Scorecard will include the following metrics: throughput, letters in flats sortation, volume to capacity, FSS/AFSM/Manual percentages, FSS leakage, zones not run, Equipment at-risk, bundle breakage, and bundle leakage. *Id.*

³²⁵ *See* Library Reference USPS-FY19-NP31, Excel file "NONPUBLIC MP Variance FY15_19.xlsx."

³²⁶ *See* Library Reference PRC-LR-ACR2019-NP4. For this analysis, the Commission removed all facilities that showed a productivity estimate with no associated volume, or vice versa.

**Figure VI-5
FY 2019 Productivity (pieces per hour) by
Select Machines by Volume Decile**



Source: Library Reference PRC-LR-ACR2019-NP4.

While only a snapshot, these data indicate that increasing volumes would not lead to improved productivities, because facilities with the highest volumes do not see corresponding higher productivity rates. This does not support the Postal Service assertion that there has been a loss of economies of scale related to volume declines, which has negatively affected the productivity of machines.³²⁷

Commission Analysis. The Postal Service has initiatives that should, in theory, improve its mail processing operations. However, mail processing costs continue to rise in spite of declining volume and the implementation of similar operational initiatives in previous years.³²⁸ The Commission remains concerned about the Postal Service’s efforts to improve low productivity of automation 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

³²⁷ See FY 2018 ACR at 28; FY 2017 ACR at 27; Docket No. ACR2014, Responses of the United State Postal Service to Questions 1-6, 8, 10, 12-13 and 15-22 of Chairman’s Information Request No. 2, question 8 (Docket No. ACR2014 Response to CHIR No. 2; 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 33 (Docket No. ACR2015 Third Response).

³²⁸ For example, in FY 2018, the Postal Service removed 10 AFSM 100 machines in response to volume declines. Docket No. ACR2018, Responses to CHIR No. 6, question 10.

changing productivities on the mail processing costs of flat-shaped mail products in FY 2020.

Moreover, the Commission finds the data regarding productivities at the facility level troublesome. The Postal Service has repeatedly stated that declines in productivity are related to or caused by declines in volume. No later than July 15, 2020, the Commission directs the Postal Service to investigate this issue, and provide a status update on its efforts to understand why the machines at facilities with the most volume are not more productive.

3. Manual Sorting

In FY 2019, the volume of manually processed pieces declined; however, the Postal Service spent \$416.4 million on manually processing flats, which is unchanged from FY 2018. *See* Library Reference PRC-LR-ACR2019-9. Manual processing costs represent 18.7 percent of total flat-shaped mail processing costs in FY 2019. *Id.*

Table VI-8
Manual Volume and Cost Estimates (millions)

Fiscal Year	Manual Flat Volume: eFlash	Manual Flat Cost
2015	4,321	\$355.7
2016	4,219	\$353.3
2017	4,045	\$344.6
2018	3,885	\$416.1
2019	3,653	\$416.4

Source: Library Reference PRC-LR-ACR2019-9.

In response to a CHIR, the Postal Service identified human error and damaged mail that could not be processed automatically as two challenges involved with reducing manual processing costs in FY 2019. *See* Response to CHIR No. 4, question 10. The Postal Service says that it reviews equipment, techniques, and procedures to improve and control manual operations. *Id.*

Despite the manual volumes reported through eFlash,³²⁹ the Postal Service asserts that it does “not scan individual pieces in the manual flats environment so there is no way to determine performance.” Response to CHIR No. 4, question 15.b. eFlash estimates manual workloads using a conversion factor for the linear measurement of mail.³³⁰

³²⁹ The eFlash system reports data from delivery, mail processing, customer service, and other functions. *See* United States Postal Service Office of Inspector General, *Flat-Shaped Mail Costs Audit Report*, Report No. MS-AR-13-003, January 4, 2013, at 1, available at: <https://www.uspsoig.gov/sites/default/files/document-library-files/2015/MS-AR-13-003.pdf>. Such data are collected by individual post offices and then summarized at various organization levels. *Id.*

³³⁰ Docket No. RM2018-1, Response of the United States Postal Service to Commission Information Request No. 2, PP3-2: e-Flash question 7, May 29, 2018.

In addition to eFlash, the Postal Service provided manual flats data in its Mail Processing Variance (MPV) Reports.³³¹ The manual volume reported in the FY 2019 MPV reports is roughly 25 percent of the manual volume reported in eFlash. In the FY 2019 MPV reports, the Postal Service provided estimated manual volumes, manual processing productivity, and manual processing productivity targets at the national and facility level from FY 2015 to FY 2019. *Id.* The national data are shown in Table VI-9.

Table VI-9
Manual Volume (millions) and Productivity (pieces per hour)

Fiscal Year	Manual Flat Volume: MPV Report	Manual Productivity	Productivity Target
2015	2,124	544	701
2016	1,155	293	998
2017	1,067	292	998
2018	1,017	324	998
2019	935	332	998

Source: Library Reference PRC-LR-ACR2019-9.

The Commission also reviewed the facility level MPV Report data filed under seal.³³² These data indicate that there is a wide variance in the manual productivity levels at Postal Service facilities.³³³ Specifically, as shown in Table VI-10, there are 10 facilities (Group D) that manually processed nearly 10 times as many flats in an hour than another group of facilities (Group C). These groups of facilities had nearly identical manual flat volumes in FY 2019. This means that it took Group C facilities an average of 34,379 hours to process their manual flats volume, while it only took Group D facilities an average of 4,572 hours to process their manual flats volume. Using the average hourly wage rate in FY 2019, this means that, on average, it cost the Postal Service approximately \$1,223,490 more to process the manual flats volumes at Group C facilities compared to a Group D facilities.

Table VI-10
FY 2019 Manual Processing Data for Two Groups of Facilities

	Average Manual Volume	Manual Flat Productivity (pph)	Wage Rate ³³⁴	Estimated Cost ³³⁵
Group C	5,088,103	148	\$41.048	\$1,415,345
Group D	5,094,050	1,114	\$41.048	\$187,723

Source: Library Reference PRC-LR-ACR2019-NP4.

³³¹ See Library Reference USPS-FY19-45, Excel file "National MPVar FY15.19.xlsx" (FY 2019 MPV Reports).

³³² See Library Reference USPS-FY19-NP31.

³³³ In FY 2019, the Postal Service's target manual processing target was 998 pph. See FY 2019 MPV Reports.

³³⁴ See Library Reference USPS-FY19-7.

³³⁵ Estimate cost equals "Manual Volume" divided by "Manual Flat Productivity (pph)" multiplied by "Wage Rate."

The Postal Service provided a variety of reasons for the productivity differences. *See* Response to CHIR No. 9, question 7. Specifically, the Postal Service points to measurement issues and facilities where the volume in manual processing is based on conversions of linear measurements to pieces rather than actual mail count, among other operational possibilities. *See id.* To improve the low productivities of manual operations, the Postal Service suggests that it could work with mailers to get more volume on FSS machines and ensure that “as employees are moved from one operation to another, they are making clock ring moves to the proper operation.” *Id.* question7.d.

Commission Analysis. The Postal Service reports a reduction in the volume of manually processed flat-shaped mail in FY 2019, which should be a positive development. However, the Commission is concerned that this reduction did not result in any cost savings. The Commission recommends that the Postal Service make progress in developing an accurate method to track flat-shaped mail that is manually processed in FY 2020. Once there is an accurate measurement of flat-shaped mail, the Postal Service should develop a specific plan that continues to decrease the number of flats processed manually, with a proportional reduction in manual processing costs. In addition, the Commission recommends that the Postal Service develop best practices from facilities with high manual productivity rates to improve the manual productivity at underperforming facilities. No later than July 15, 2020, the Commission directs the Postal Service to file a status update with the Commission that explains the Postal Service’s efforts to improve its reporting of manual volumes, and any progress it has made to improve the productivity of underperforming facilities. The status report must include all available quarterly manually-processed flat volume, productivity, and cost estimates.

4. Productivity and Service Issues in Allied Operations³³⁶

Allied operations represent 27 percent of flats costs in FY 2019; however, visibility into allied operations remains limited. One way the Postal Service gains insight into allied operations is through WIP cycles. However, in FY 2019, the Postal Service changed its WIP metrics; therefore comparisons across time periods are not meaningful. FY 2019 Section e.9 Narratives at 3. In FY 2019, the Postal Service reports that Median 5-Day WIP cycle was 27 hours for USPS Marketing Mail Flats and 16.5 hours for Periodicals.³³⁷ The Commission will use these FY 2019 WIP cycle times in FY 2020 to monitor the Postal Service’s progress. The Postal Service is also working to develop a methodology to calculate the service impact of allied operations on flat-shaped products to begin reporting in FY 2022. FY 2019 C2-C6 Timelines.

In FY 2019, the Postal Service developed a visualization tool called “The Grid” that it expects will lead to reduced WIP hours and improve service performance by visualizing

³³⁶ 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.

³³⁷ Library Reference USPS-FY19-45, file “FY19.ACD.CHAPTER 6 UPDATE.pdf” at 3.

where plants are experiencing delays in mail processing. FY 2019 Section e.9 Narratives at 3.

Commission Analysis. In FY 2020, the Commission recommends that the Postal Service develop a plan to reduce the costs associated with allied operations and gain additional insight into allied operations. In addition, the Postal Service must file a narrative with supporting workpapers that demonstrates the impact of The Grid on reducing WIP and improving service performance. No later than July 15, 2020, the Postal Service must provide a status update that explains its efforts to develop a plan to gain additional insights into allied operations and the impact of the Grid initiative on reducing WIP and improving service performance.

5. Increased Transportation Time and Cost

In FY 2019, unit transportation costs have increased 9.1 percent, which is a continuation of a trend since FY 2017. *See* Table VI-11. Further, while volume decreased and weight remained constant from FY 2018 to FY 2019, total transportation costs increased. The Postal Service attributes these increases to USPS Marketing Mail Flats being entered farther from their destinations,³³⁸ and overall surface transportation inflationary pressures, as well as sampling variation.³³⁹ 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 2019 C2-C6 Timelines.

Table VI-11
Flats Transportation Costs³⁴⁰
FY 2015–FY 2019

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Percent Change FY 2015 to FY 2019
Segment 14 Cost (000)	712,179	757,237	628,652	669,236	671,379	-5.7%
Volume (000)	21,489,192	20,544,661	19,265,292	17,793,202	16,361,383	-23.9%
Unit Cost (cents)	3.3	3.7	3.3	3.8	4.1	23.8%
Weight (Ounces)	4.54	4.58	4.52	4.52	4.51	-0.6%

Source: Library Reference PRC-LR-ACR2019-9.

³³⁸ In USPS Marketing Mail, the percent of Flats and Carrier Route entered at a DSCF decreased from 77.0 percent in FY 2015 to 75.5 percent in FY 2019. *See* Library Reference PRC-LR-ACR2019-9. In addition, the percent of mail entered at the origin increased from 12.0 percent to 12.7 percent from FY 2015 to FY 2019. *Id.*

³³⁹ Library Reference USPS-FY19-45, file "FY19.ACD.CHAPTER 6 UPDATE.pdf" at 3.

³⁴⁰ The data in this table 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 Bound Printed Matter Flats.

The Postal Service provided data from SVWeb³⁴¹ related to transportation. *See* FY 2019 Section e.9 Narratives at 6. These data show that the Postal Service has improved many of its metrics related to transportation, although it has not achieved its targets. Specifically, on-time departures have increased, on-time arrivals have increased, and late containers have decreased. *Id.*

Table VI-12
Surface Visibility (SV)Web Transportation Metrics

Metric	Goal	FY 2018 Result	FY 2019 Result
On-time Departure	100%	70.5%	72.6%
On-time Arrival	100%	62.0%	63.4%
Average Load	60%	32.1%	32.1%

Source: Library Reference PRC-LR-ACR2019-9.

Commission Analysis. In FY 2019, the total cost segment 14 transportation costs increased, while volume decreased, and the Postal Service does not have a specific plan to address this issue. The Postal Service should develop a plan in FY 2020 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 \$1.05 billion in city carrier in-office costs for flats in FY 2019, or 6.4 cents per piece. City carrier in-office costs include the cost of casing to DPS. *See* Figure VI-6. When the additional mail processing costs associated with the FSS are added to the city carrier in-office costs, the Postal Service spent \$1.25 billion processing flats to DPS in FY 2019.³⁴² This is an 8.0 percent reduction from FY 2018, when the Postal Service spent \$1.35 billion on processing flats to DPS.³⁴³ This is only \$300 million less than the amount spent casing flats in FY 2008, when volume was almost double.³⁴⁴ In FY 2008, the Postal Service manually cased all flats because there were no FSS machines. Despite the

³⁴¹ 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, Report Regarding Information About Flats Data Systems at 60-61. Using these reports, the Postal Service is able to track the usage of transportation resources, and identify opportunities to mitigate costs. *Id.*

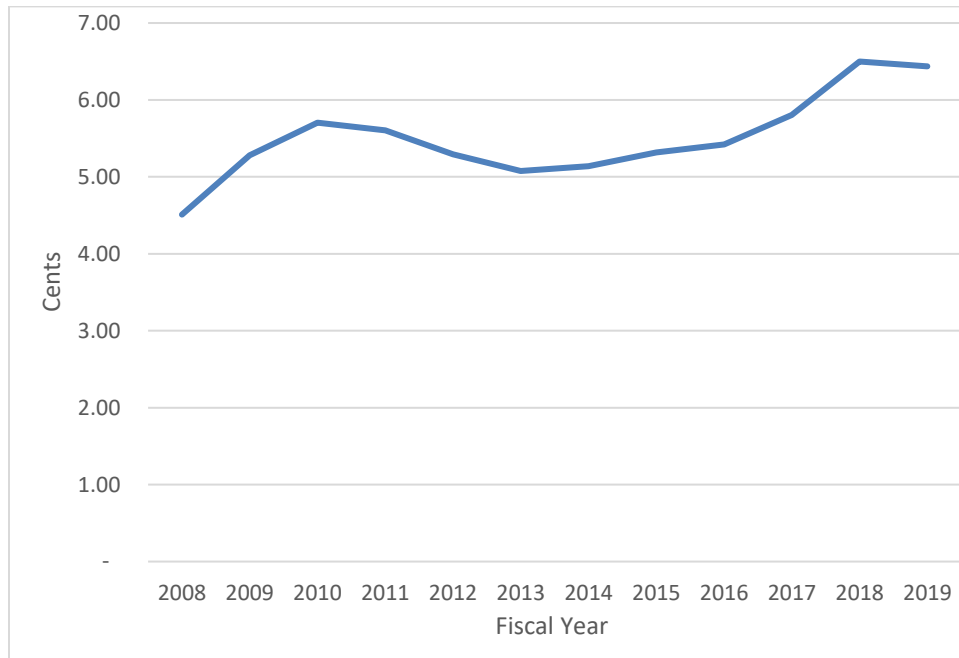
³⁴² The cost of FSS processing in MODS and NDC facilities was \$193 million. *See* Library Reference PRC-LR-ACR2019-9.

³⁴³ FY 2018 ACD at 221. The unit cost of processing flats to DPS in FY 2019 was 7.6 cents per piece, virtually unchanged from FY 2018. *See* Library Reference PRC-LR-ACR2019-9.

³⁴⁴ As detailed in Library Reference PRC-LR-ACR2019-9, the cost segment 6 in-office cost for flats in FY 2008 was \$1.549 billion, \$304 million more than the combined FSS mail processing and in-office cost of \$1.246 billion in FY 2019. As further detailed in Library Reference PRC-LR-ACR2019-9, flat volume was 34.35 billion pieces in FY 2008 and declined to 16.36 billion pieces in FY 2019, which represents a 48.2 percent decline.

addition of 100 FSS machines and 50 percent less volume, the Postal Service has only reduced the cost of the final sortation operation for flats by 20 percent since FY 2008.

Figure VI-6
Cost Segment 6: City Delivery Carriers – Office Activity³⁴⁵
Unit Costs FY 2008–FY 2019



Source: Library Reference PRC-LR-ACR2019-9.

To monitor the service impact of last-mile delivery, the Postal Service uses last mile indicator (LMI) quarterly scores. Because of the Postal Service's shift to the Internal SPM system in FY 2019, comparisons to previous year's data are not meaningful. The Postal Service plans to develop annual last mile indicator scores in FY 2020, which it can use to monitor national LMI scores. The Postal Service's goal for LMI scores is 1 percent. Response to CHIR No. 4, question 15.k.

Commission Analysis. The Commission is encouraged that, in FY 2019, the Postal Service achieved a reduction in unit costs for City Delivery Carriers-Office Activity, reversing an upward trend since FY 2013. In addition, the quarterly LMI scores appear to be trending downward. See Library Reference PRC-LR-ACR2019-9. The Commission will continue to monitor the costs of last-mile delivery in FY 2020 to ensure the Postal Service efforts result in continued improvements.

³⁴⁵ The data in this table reflects the following flat-shaped mail products and classes: First-Class Mail Flats, USPS Marketing Mail Carrier Route, USPS Marketing Mail Flats, Periodicals, and Bound Printed Matter Flats.

E. Comments

PostCom is concerned that the Commission's reporting requirements are insufficient to resolve flats issues. PostCom Comments at 7-8. 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.*

F. Commission Analysis

As highlighted above, flats had a negative contribution of -\$576 million in FY 2019. 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 issues. *See* Order No. 5086.

FY 2019 represents the first 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. However, as noted above, the Commission has concerns related to the consistency of data year over year,³⁴⁶ and the lack of specific plans to reduce costs and improve service of flat-shaped mail. 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.

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.

³⁴⁶ For example, in FY 2019 the Postal Service discontinued reporting the FSS Scorecard. In another example, the Postal Service changed the methodology used to calculate WIP metrics.

Appendix A: Key Commission Findings and Directives Requiring Postal Service Action for Future Annual Compliance Reports

SCF Marketing Parcels:

- *The Commission finds that the SCF Marketing Parcels passthrough was not adequately justified pursuant to 39 U.S.C. § 3622(e)(2) in FY 2019. The Commission expects the Postal Service to align this discount with avoided costs in the next Market Dominant price adjustment or cite an appropriate statutory exception. In addition, the Postal Service should further investigate why the unit costs of SCF Marketing Parcels increased in FY 2019 and report on any findings in the FY 2020 ACR. FY 2019 ACD, Chapter 2.*

Periodicals Cost Coverage:

- *All of the Commission recommendations pertaining to reducing flats costs in Chapter 6 of this Report apply equally to Periodicals. In Chapter 6, the Commission reiterates its longstanding finding that despite numerous cost reduction initiatives designed to reduce flat-shaped mail costs, these costs continue to rise. In addition, the Commission continues to be concerned with the inability of the Postal Service to quantify the cost savings of its initiatives. FY 2019 ACD, Chapter 3.*

Periodicals Pricing Efficiency:

- *The Commission directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2020 ACR. The report must 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. FY 2019 ACD, Chapter 3.*

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 2019, the cost coverage for USPS Marketing Mail Flats has decreased 14 percentage points. In*

addition, the Postal Service remains 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. In the meantime, the actual impact from the Commission's FY 2018 ACD directive on revenues will not be seen until FY 2020 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 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. 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 ACRs. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter 6 of this Report. FY 2019 ACD, Chapter 3.

USPS Marketing Mail Parcels:

- The Commission finds that FY 2019 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 2018 directive will not be seen until FY 2020 data are available. Nevertheless, based on projections which show the likely impact on revenue to be positive, the Commission finds it appropriate to make the FY 2018 directive, which was a recommendation, mandatory for FY 2020. 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 proportionate to 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 2020 ACR. FY 2019 ACD, Chapter 3.*

USPS Marketing Mail Carrier Route:

- The Commission finds that the FY 2019 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable costs. The Postal Service has not provided a specific plan to reduce Carrier Route costs in FY 2020. The Commission strongly recommends that the Postal Service increase USPS Marketing Mail Carrier Route's prices by at least 2 percentage points above the average price increase for the USPS Marketing Mail class. If the Postal Service chooses not to increase USPS Marketing Mail Carrier Route's prices by at least 2 percentage points above average, it must provide*

an estimate of the impact of the price increase it proposes on the contribution of the USPS Marketing Mail class and the contribution of the USPS Marketing Mail Carrier Route product. 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 6 of this Report. FY 2019 ACD, Chapter 3.

Inbound Letter Post:

- *The Commission finds that revenue for Inbound Letter Post was not sufficient to cover attributable cost in FY 2019. 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. Lastly, the Commission further recommends that the Postal Service work with the Department of State to put forward proposals on compensatory terminal dues to the UPU Congress in August 2020. FY 2019 ACD, Chapter 3.*
- *The Commission recommends that the Postal Service work with the Department of State to ensure that all designated operators pay the same terminal dues in order to eliminate incentives for remail. In the interim, the Commission also urges the Postal Service to improve processes to detect remail and to charge higher rates for remail pursuant to the Universal Postal Convention. FY 2019 ACD, Chapter 3.*
- *The Commission directs the Postal Service to provide both IMMS and QLMS CY 2019 and CY 2020 performance reports for Inbound Letter Post, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve service performance in the FY 2020 ACR. The Commission also directs the Postal Service to state in its FY 2020 ACR whether it forfeited revenue in CY 2019 and CY 2020 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2019 and CY 2020, the Commission directs the Postal Service to provide the forfeited amounts for CY 2019 and for CY 2020 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 the following within 120 days of issuance of this ACD: service performance reports for CY 2019 and all available reports for CY 2020; a status update on projects and initiatives to improve service performance, including the "Terminal Dues Score Improvement" Lean Six Sigma Black Belt Project, and their effectiveness in improving service performance; and the amount of Inbound Letter Post forfeited revenue due to not meeting UPU service performance targets in CY 2019 and CY 2020. FY 2019 ACD, Chapter 3.

International Ancillary Services:

- *The Commission urges the Postal Service to continue efforts to limit cost increases for International Registered Mail. The Commission also recommends that the Postal Service take steps to improve its service performance for Inbound International Registered Mail in order to receive the full amount of additional revenue under the UPU supplementary remuneration program. In addition, the Commission recommends that the Postal Service work with the Department of State to negotiate higher rates for Inbound International Registered Mail at the UPU Congress in August 2020. FY 2019 ACD, Chapter 3.*

Media Mail/Library Mail:

- *The Commission finds that the FY 2019 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. The Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate, but it has been historically inadequate. The Commission directs the Postal Service to submit a plan outlining how it will increase cost coverage of Media Mail/Library Mail within 90 days of the filing of this ACD. FY 2019 ACD, Chapter 3.*

Stamp Fulfillment Services:

- *The Commission finds that FY 2019 revenue for SFS was not sufficient to cover attributable cost. The financial performance of SFS does not entirely capture the value that the Services Center adds to the Postal Service and to other Postal Service products. Although SFS does not cover its attributable cost, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. The Commission urges the Postal Service to continue its efforts to improve cost coverage for SFS. If the Postal Service proposes a below-average price increase in its next Market Dominant price increase, it should explain its rationale. FY 2019 ACD, Chapter 3.*

Competitive NSA Cost Coverage:

- *The Commission finds that Priority Mail Contract 433 and Priority Mail Contract 460 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2019. Because both contracts are no longer active, no further action is required. The Commission will closely review the cost models used to calculate cost coverage for agreements providing Sunday delivery. The Commission will also closely track the product mix of agreements with underwater components. FY 2019, Chapter 4.*

NSA Terminations:

- *The Commission finds that the remedial procedures described in Docket No. MC2016-20 Response to Order No. 5053 were ineffective at ameliorating previous non-compliance, but appear to have been effective at ensuring ongoing compliance beginning in the latter half of FY 2019. To ensure that all previous examples of non-compliance have been identified, the Commission directs the Postal Service to compare the domestic competitive NSAs currently listed in the MCS with its own records and file a report in this docket within 90 days of the issuance of this ACD identifying any additional NSAs that were terminated prior to the contract's expiration date. The Postal Service shall attach to this report a certification signed by a senior manager stating that the list is complete and accurate.*

The Postal Service shall indefinitely continue the remedial procedures described in Docket No. MC2016-20 Response to Order No. 5053. The Postal Service shall additionally implement any additional remedial procedures necessary to ensure that there are no further instances of failure to file a required Notice of Termination. The Commission will remove the 127 terminated NSAs from the MCS. FY 2019 ACD, Chapter 4.

Reliance on Estimated Customer Profile to Calculate Cost Coverage:

- *The Commission finds the identified contracts to be in compliance. In the future, the Postal Service shall identify contracts where the initial customer profile will be used to calculate the cost coverage for its Annual Compliance Report by including a prominent disclosure in the financial workpapers filed during pre-implementation review. FY 2019 ACD, Chapter 4.*

International Priority Airmail:

- *The Commission finds that the IPA product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to provide, in the next price increase for this product, supporting documentation explaining how price increases for all price categories of the IPA product are determined. FY 2019 ACD, Chapter 4.*

IMTS—Inbound:

- *The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to provide an update on the status of the request for a delegation of authority under the Circular 175 process from the Department of State to terminate or renegotiate the agreements that comprise the IMTS—Inbound product within 120 days of issuance of this ACD. FY 2019 ACD, Chapter 4.*

Outbound International NSAs:

- *The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633 (a)(2) because revenue exceeded attributable cost for each product. The Commission recommends that the Postal Service continually monitor the financial performance of each contract and take aggressive steps on an ongoing basis to terminate any agreements that are not compensatory. FY 2019 ACD, Chapter 4.*

International Business Reply Service Competitive Contract 3:

- *The Commission finds that two IBRS agreements did not comply with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to, within 60 days of issuance of this ACD, provide an update on the measures it is taking to ensure efficient monitoring and accurate post-termination pricing for IBRS agreements. FY 2019 ACD, Chapter 4.*

Royal Mail Group Inbound Air Parcel Post Agreement:

- *The Commission finds that the Royal Mail Group Inbound Air Parcel Post Agreement was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to either terminate or renegotiate prices for the Royal Mail Group Inbound Air Parcel Post Agreement, and to update the Commission on the status of negotiations within 90 days of the issuance of this ACD. FY 2019 ACD, Chapter 4.*

Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1:

- *The Commission finds that the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product did not comply with 39 U.S.C. § 3633(a)(2) in FY 2019. The Commission directs the Postal Service to renegotiate prices for inbound air parcel post and EMS. The Commission further directs the Postal Service to provide evidence that renegotiated prices will generate sufficient revenue to cover the attributable costs of the agreement, by mail component, in all future filings of financial workpapers in support of the agreement. FY 2019 ACD, Chapter 4.*

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 2019 and directs the Postal Service to improve service performance results for its First-Class Mail products in FY 2020. The Commission is concerned that service performance results for Single-Piece Letters/Postcards remain substantially below target and determines that Single-Piece Letters/Postcards is not in compliance for the fifth year in a row. Additionally, the Commission directs the Postal Service to provide information on the following three 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. ACR2019 if necessary.

(a) Nationwide Evaluation of FY 2020 Transit and Last Mile Improvement Efforts

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2020 efforts to improve First-Class Mail service performance through its nationwide efforts to improve transit and Last Mile, as described in items 1 and 2.

- 1. The transit evaluation shall explain how the progress made in FY 2020 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to air transit suppliers, and minimizing en route delays affected on-time service performance for First-Class Mail in FY 2020.*
- 2. The Last Mile evaluation shall explain how the progress made in FY 2020 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance for First-Class Mail in FY 2020.*

The transit and Last Mile evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2020 Quarter 1 to FY 2019 Quarter 1) and provide a narrative explaining the practices observed in FY 2020 best at remediating the underlying problem. Where appropriate, the evaluations shall indicate if the reported progress and effect on performance apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluations shall identify a responsible Postal Service representative, with knowledge of these two matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluations shall be filed within 90 days of the issuance of this Report. Updated evaluations shall be filed at the time of the FY 2020 ACR. FY 2019 ACD, Chapter 5.

(b) Area Progress in Adhering to Nationwide Strategies

Second, the Commission directs the Postal Service to provide information for each of the seven geographic Postal Service Areas on the following matters, described in items 1 and 2.

- 1. For each Area, the Postal Service shall evaluate the efficacy of its FY 2020 efforts to improve First-Class Mail service performance. This evaluation shall describe the Area's progress made toward addressing the top root causes of First-Class Mail service performance failures and explain how the Area's*

progress (or lack thereof) toward addressing each root cause affected on-time service performance for First-Class Mail in FY 2020. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2020 Quarter 1 to FY 2019 Quarter 1) and provide a narrative explaining the best practices observed in FY 2020 at remediating the underlying problem.

2. *For each Area, the Postal Service shall provide a detailed plan to improve First-Class Mail service performance that describes each planned action, identifies the problem that the planned action is expected to remediate, and provides an estimated timeframe for implementation and completion of each planned action.*

Where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The report for each Area shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the Area, who will be available to provide prompt responses to requests for clarification from the Commission. The report for each Area shall be filed within 90 days of the issuance of this report. An updated report from each Area shall be filed at the time of the FY 2020 ACR. FY 2019 ACD, Chapter 5.

(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, for First-Class Mail. Data shall be provided for FY 2020 Quarter 1, Quarter 2, and “mid-year”¹ within 90 days of the issuance of this report. Data shall be provided for FY 2020 Quarter 3, Quarter 4, “second-half”² and annualized for the fiscal year, in the FY 2020 ACR. Where appropriate, the Postal Service shall explain the reasons for any differences in calculation of these data in FY 2020 versus FY 2019, and shall propose a method for comparing the FY 2020 data to the FY 2019 data.

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.³*
2. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.⁴*

¹ Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2020.

² Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2020. Annualized refers to the aggregation of the data for all four quarters of FY 2020.

³ Library Reference USPS-FY19-29, Excel file “FY19 ACR FCM Q1-2-4-5 EOY.xlsx,” tabs “Q1_PFCM” and “Q1_SPFC;” February 19 Response to CHIR No. 13, question 1.

⁴ Library Reference USPS-FY19-NP30, Excel file “NONPUBLIC FCM Q3 Air Capacity.xlsx.”

3. *The number of CLTs (any HCR that is late more than 4 hours), presented for the nation, each Area, and each district.⁵*
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.⁶*
5. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2020. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2020, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2019.⁷ FY 2019 ACD, Chapter 5.*

USPS Marketing Mail Service Performance:

- *The Postal Service exceeded its annual service performance targets for USPS Marketing Mail Parcels and USPS Marketing Mail High Density and Saturation Letters in FY 2019.*

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 2019 service performance targets will improve in FY 2020. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for these products.

If the service performance results for any USPS Marketing Mail product do not achieve the applicable annual service performance target in FY 2020, then the FY 2020 ACR shall include: (1) the top five root cause point impacts for the product for each quarter and annually for FY 2020, disaggregated by shape/product and entry level/service standard;⁸ (2) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve this product's service performance (including any progress toward addressing the failure to process mail in FIFO order and failure to run to daily processing capacity described in the FY 2019 ACR); 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

⁵ Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q4."

⁶ Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q5."

⁷ Library Reference USPS-FY19-NP30, Excel file "NONPUBLIC FCM Q6 Facility Failures.xlsx."

⁸ 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); Response to CHIR No. 4, question 35 (disaggregating data by induction types of "DEST," "DNDC," "DSCF," and "ORIG").

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 2019 ACD, Chapter 5.

Periodicals Service Performance:

- *In-County and Outside County Periodicals service performance results continued to fall short of performance targets in FY 2019. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. The Commission also directs that the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve service performance for In-County and Outside County Periodicals (including any progress toward addressing the failure to process mail in FIFO order and failure to run to daily processing capacity described in the FY 2019 ACR) and (2) a detailed plan explaining how these products' results will be improved. FY 2019 ACD, Chapter 5.*

Package Services Service Performance:

- *FY 2019 BPM Parcels service performance results continue to exceed the Postal Service's annual service performance target.*

FY 2019 BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the eighth consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for BPM Flats. The Commission also directs that the FY 2020 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve service performance for BPM Flats (including an explanation of how any progress made in FY 2020 toward addressing manual processing issues and the cycle time issues for machine compatible mailpieces affected on-time service performance for BPM Flats in FY 2020) and (2) a detailed plan explaining what actions are expected to be taken during FY 2021 that will improve this product's results (including a description of each planned action, the problem that the planned action is expected to remediate, and an estimated timeframe for implementation and completion of each planned action).

FY 2019 Media Mail/Library Mail service performance results were below the service performance target. The Commission expects that the service performance results for Media Mail/Library Mail will improve in FY 2020. If the results for Media Mail/Library Mail do not achieve the service performance target in FY 2020, then the FY 2020 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts to improve service performance for Media Mail/Library Mail (including how any progress made in FY 2020 toward addressing the processing issues described in the FY 2019 ACR affected on-time service performance for Media Mail/Library Mail in FY

2020) and (2) a detailed plan explaining what actions are expected to be taken during FY 2021 that will improve the results for this product (including a description of each planned action, the problem that the planned action is expected to remediate, and an estimated timeframe for implementation and completion of each planned action). FY 2019 ACD, Chapter 5.

Special Services Service Performance:

- *The Postal Service exceeded service performance targets for all reported Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service will continue to improve in FY 2020. If the results for Post Office Box Service do not achieve the service performance target in FY 2020, then the FY 2020 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2020 efforts (including the six planned actions described in the FY 2019 ACR) to improve on-time service performance for this product and (2) a detailed plan explaining how this product's results will be improved. FY 2019 ACD, Chapter 5.*

Customer Access:

- *The Commission reiterates the importance of providing consistent information among the Annual Report to Congress, ACR, and CHIR responses. For its FY 2020 filings, the Postal Service must ensure that information provided for both retail facilities and delivery points is consistent among the FY 2020 Annual Report to Congress, FY 2020 ACR, and CHIR responses. If there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2020 ACR. FY 2019 ACD, Chapter 5.*

Post Office Suspensions:

- *The Commission directs the Postal Service to continue filing quarterly updates on the status of the 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 2020. Quarterly updates must continue to include a spreadsheet containing the information provided in the FY 2020, Quarter 1 update.⁹ In addition, for each remaining suspended post office, the Postal Service must describe specific steps taken to resolve that suspended post office during that quarter and its anticipated next steps. In the quarterly updates, the Postal Service must explain how the Postal Service will meet the targeted September 2020 completion date for resolving the remaining suspended offices.*

If the Postal Service fails to resolve the remaining suspended post offices by the end of FY 2020, the Postal Service must explain in detail in the FY 2020 ACR why it was

⁹ See Docket No. ACR2018, February 10, 2020 Update, Excel file "FY20_Q1_Suspensions_Update (002).xlsx."

unable to do so. The FY 2020 ACR must also provide a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended between FY 2017 and FY 2020. FY 2019 ACD, Chapter 5.

Customer Satisfaction:

- *The Commission will continue to monitor customer satisfaction with Market Dominant mailing services closely in FY 2020. 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). For large business customers, the Commission recommends that the Postal Service continue to focus on their top drivers of customer satisfaction: Service & Product Offerings, Payment Options, and Building Customer Relationships.*

In the FY 2020 ACR, the Postal Service must describe actions taken to improve customer satisfaction with Market Dominant mailing services for each customer type in FY 2020 and explain whether these actions were effective. If customer satisfaction with Market Dominant mailing services continues to decline for residential and small/medium business customers, the FY 2020 ACR must explain why and describe plans for improving customer satisfaction in FY 2021. FY 2019 ACD, Chapter 5.

Appendix B: Commenters

2019 Annual Compliance Determination

Commenter	Comment Citation	Citation Short Form
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association (ACMA), January 30, 2020	ACMA Comments
The Association of Magazine Media (MPA)	Comments of MPA - The Association of Magazine Media, February 18, 2020	MPA Comments
Association for Postal Commerce (PostCom)	Comments of the Association for Postal Commerce, January 30, 2020	PostCom Comments
National Association of Presort Mailers (NAPM)	Comments of the National Association of Presort Mailers, January 30, 2020	NAPM Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc., January 30, 2020	Pitney Bowes Comments
Public Representative (PR)	Public Representative Comments, January 30, 2020	PR Comments
Pubic Representative (PR)	Public Representative Comments on the FY 2019 Performance Report and FY 2020 Performance Plan, February 28, 2020	PR Comments on FY 2019 Performance Report and FY 2020 Performance Plan
Small Business & Entrepreneurship Council (SBE Council)	Comments of Small Business & Entrepreneurship Council on Docket No. ACR2019, January 30, 2020	SBE Council Comments
Taxpayers Protection Alliance (TPA)	Comments of Taxpayers Protective Alliance on the 2019 Annual Compliance Report Docket No. ACR2019, January 27, 2020	TPA 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 2019, February 18, 2020	UPS Reply Comments

Commenter	Comment Citation	Citation Short Form
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, February 18, 2020	Postal Service Reply Comments
United States Postal Service (Postal Service)	Response of the United States Postal Service to Reply Comments of United Parcel Service, February 25, 2020	Postal Service Reply Comments to UPS
United States Postal Service (Postal Service)	United States Postal Service Reply Comments Regarding FY 2019 Performance Report and FY 2020 Performance Plan, March 13, 2020	Postal Service Reply Comments on FY 2019 Performance Report and FY 2020 Performance Plan

Appendix C: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AADC	Automated area distribution center
ACD	<i>Annual Compliance Determination</i>
ACMA	American Catalog Mailer Association
ACR	<i>Annual Compliance Report</i>
ADC	Area distribution center
AFSM	Automated Flats Sorting Machine
APWU	American Postal Workers Union
BPM	Bound Printed Matter
BSN	Business Service Network
Carlson	Douglas F. Carlson
CEM	Customer Experience Measurement
C.F.R.	Code of Federal Regulations
CHIR	Chairman's Information Request
CI	Customer Insights
CPI	Consumer price index
CPI-U	Consumer price index for all urban consumers
CPO	Community Post Office
CPU	Contract postal unit
CRA	Cost and Revenue Analysis
DDU	Destination delivery unit
DFSS	Destination Flats Sequencing System
DNDC	Destination network distribution center
DPS	Delivery point sequencing
DSCF	Destination sectional center facility
ECSI	Educational, cultural, scientific or informational (value)
EMS	Express Mail Service
EPG	E-Parcel Group
EXFC	External First-Class Measurement
FedEx	Federal Express Corporation
FSS	Flats Sequencing System
FY	Fiscal Year
GCA	Greeting Card Association
GEPS	Global Expedited Package Service
GREPS	Global Reseller Expedited Package Service
ICRA	International Cost and Revenue Analysis

Acronym/Abbreviation	Meaning
iMAPS	Intelligent Mail Accuracy and Performance System
IMb	Intelligent Mail barcode
IMMS	International Mail Measurement System
IMTS-Inbound	International Money Transfer Service-Inbound
IMTS-Outbound	International Money Transfer Service-Outbound
Mixed ADC	Mixed area distribution center
MPA & ANM	Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers
MMP	Managed mail program
IOCS	In-Office Cost System
NAPM	National Association of Presort Mailers
NDC	Network distribution center
NPPC	National Postal Policy Council
NSA	Negotiated service agreement
NTU	National Taxpayers Union
PAEA	Postal Accountability and Enhancement Act
PHI	PHI Acquisitions, Inc.
Pitney Bowes	Pitney Bowes Inc.
POS	Point of Sale
PostCom	Association for Postal Commerce
PTS	Product Tracking System
PR	Public Representative
Progressive	Progressive Direct Mail Advertising
QBRM	Qualified Business Reply Mail
SASP	Seamless Acceptance and Service Performance
SFS	Stamp Fulfillment Services
TPA	Taxpayers Protection Alliance
UFMSM	Upgraded Flats Sorting Machine
UHCC	Utah Hispanic Chamber of Commerce
U.S.C.	United States Code
UPS	United States Parcel Service
UPU	Universal Postal Union
Valassis	Valassis Direct Mail, Inc.
Valpak	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
VPO	Village Post Office

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