



POSTAL REGULATORY COMMISSION

Annual Compliance Determination Report

Fiscal Year 2021

March 29, 2022

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EXECUTIVE SUMMARY

This Report reviews the Postal Service's Annual Compliance Report (ACR) in Fiscal Year (FY) 2021, fulfilling the Commission's responsibility to produce an annual assessment of Postal Service rates and service mandated by 39 U.S.C. § 3653. 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 and summarized in Appendix A.

Significant events continued to impact the Postal Service in FY 2021, including the ongoing COVID-19 pandemic. The Commission appreciates the heroic efforts of the frontline Postal Service workers to provide continuous mail service to the nation during the COVID-19 pandemic. Just as in FY 2020, the pandemic negatively affected the Postal Service's operational capacity in numerous ways, including reducing employee availability and disrupting transportation. These challenges were exacerbated by historically high peak season package volume.

In part due to these significant events, the Postal Service continued to struggle with meeting its Service Performance targets. However, as part of the Postal Service's efforts to address ongoing service performance issues, in FY 2021, the Postal Service published a 10-year strategic plan, *Delivering for America*, setting forth comprehensive initiatives intended to achieve service performance excellence in the future.

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 2021 were not in compliance with chapter 36 of Title 39 of the United States Code and whether any service standards in effect during FY 2021 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2021-2 and all the rates in effect during FY 2021 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 2021* that will be issued later this spring. The Commission will also issue a separate report on the Postal Service's *FY 2021 Annual Performance Report and FY 2022 Performance Plan* to fulfill its statutory responsibilities under 39 U.S.C. § 3653(c).

A. Principal Findings: Market Dominant Rate and Fee Compliance

In Chapter II., the Commission identifies compliance issues related to workshare discounts that did not comply with the Commission's new regulations under 39 C.F.R. part 3030, subpart J. Under the Efficient Component Pricing (ECP) rule, which guided the

Commission's approach, pricing efficiency is achieved when workshare discounts are set equal to their avoided costs and produce passthroughs equal to 100 percent.

For the six workshare discounts with passthroughs equal to 100 percent, the Postal Service cannot change the workshare discounts in any rate adjustment proceeding occurring prior to the issuance of the FY 2022 ACD.

For the six workshare discounts with passthroughs that exceed 100 percent, the Postal Service must bring the workshare discounts into compliance consistent with 39 C.F.R. § 3030.283 in the next rate adjustment proceeding.

For the 63 workshare discounts with passthroughs below 85 percent, the Postal Service must bring the workshare discounts into compliance consistent with 39 C.F.R. § 3030.284 in the next rate adjustment proceeding.

B. Principal Findings: Market Dominant Non-Compensatory Products

In Chapter III, the Commission identifies non-compensatory products and classes for Market Dominant products. Consistent with the Commission's new regulations under 39 C.F.R. part 3030, subpart G, the Commission differentiates non-compensatory products within non-compensatory classes and non-compensatory products within compensatory classes. The Commission's new regulations grant additional rate authority to non-compensatory classes and more strictly govern how rate authority must be used for non-compensatory products in compensatory classes. Collectively, the Postal Service lost \$1.9 billion in FY 2021 from non-compensatory classes and products.

The Commission identifies two non-compensatory classes, Periodicals and Package Services, and four non-compensatory products within those non-compensatory classes, Periodicals In-County, Periodicals Outside County, Bound Printed Matter (BPM) Parcels, and Media Mail/Library Mail.

For Periodicals In-County and Periodicals Outside County, the Commission reiterates its longstanding finding that despite cost reduction initiatives and the maximization of its pricing authority, the costs of these products continue to rise, while unit revenue has remained relatively flat, negatively effecting cost coverage.

For BPM Parcels, the Commission finds that the Postal Service has not taken adequate steps to improve cost coverage and directs the Postal Service to increase BPM Parcels' prices by at least 2 percentage points above the class average in each rate adjustment affecting the Package Services class until the FY 2022 ACD. The Commission also requests that additional information related to either implemented or planned initiatives for improving BPM Parcels' cost coverage be filed as part of the FY 2022 ACR.

For Media Mail/Library Mail, the Postal Service's continued price increases have resulted in improved cost coverage for the product. The Commission strongly recommends that the Postal Service continue its above-average price increases in future rate adjustment proceedings.

The Commission identifies five non-compensatory products within compensatory classes, First-Class Mail Flats, USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, USPS Marketing Mail Parcels, and Money Orders.

For the first time, First-Class Mail Flats failed to cover its attributable costs. As a result, the Commission directs the Postal Service to increase the product's prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment proceeding affecting First-Class Mail Flats through the issuance of the FY 2022 ACD, consistent with 39 C.F.R. part 3030, subpart G.

As it relates to USPS Marketing Mail Carrier Route and USPS Marketing Mail Parcels, the Commission finds that both products failed to cover their attributable costs and directs the Postal Service to increase the price for each product by at least 2 percentage points above the class average in each generally applicable Market Dominant rate proceeding, consistent with 39 C.F.R. part 3030, subpart G. For USPS Marketing Mail Parcels specifically, the Commission encourages the Postal Service to continue to expend a reasonable amount of resources in order to explore and implement opportunities to reduce unit costs in light of the volume of the product.

As it relates to USPS Marketing Mail Flats, the Commission discusses the product's continued struggle to cover its attributable costs. The Commission finds that the Postal Service has been unsuccessful at improving the cost coverage of the product as required by various ACD directives, and that the product continues to represent an intra-class subsidy that unfairly burdens other mailers within the USPS Marketing Mail class. The Commission notes its continued concerns regarding the Postal Service's inability to quantify the cost savings of its initiatives intended to reduce unit costs for the product. As a result, the Commission directs the Postal Service to increase the price for the product by at least 2 percentage points above the class average and continue to respond to prior ACD directives by reducing the product's costs and providing the required documentation of those cost reduction efforts in further ACDs.

As it relates to issues that continue to plague flat-shaped products in general (*i.e.*, First-Class Mail Flats, USPS Marketing Mail Flats, and USPS Marketing Mail Carrier Route), the Commission directs the Postal Service to continue to explore and implement opportunities to reduce unit costs. Additional Commission discussion on flat-shaped products can be found in Chapter VI.

For the Special Services product Money Orders, the Commission finds that revenue was not sufficient to cover attributable cost and directs the Postal Service to increase prices by at

least 2 percentage points above the class average in each Market Dominant rate adjustment affecting the Special Services class through the issuance of the FY 2022 ACD.

C. Principal Findings: Competitive Products Rate and Fee Compliance

In Chapter IV., the Commission finds that revenues for three Competitive products did not cover attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2). The Commission also determines that every domestic product with rates of general applicability covered its attributable cost, as did all negotiated service agreements (NSAs), both domestic and international. The Competitive products that did not cover attributable costs are: International Money Transfer Service—Inbound (IMTS—Inbound), International Money Transfer Service—Outbound (IMTS—Outbound), and International Ancillary Services. The Commission directs the Postal Service to take corrective action as it relates to these products.

The Commission also sought information as it relates to a Pilot Program being run by the Postal Service which allows postal retail customers to use payroll and business checks to purchase stored value Gift Cards, which is a Competitive product. In its responses to Commission Information Requests (CIRs), the Postal Service asserts that this Pilot Program constitutes a change in the payment method for the existing Gift Card product and is not a new or experimental product.¹ Questions remain with regard to this time-limited Pilot Program. The Commission reminds the Postal Service that the Commission regulates what products may be offered, controls the addition and removal of products through the Mail Classification Schedule (MCS), and thus instructs the Postal Service to ensure that future changes that have an impact on a product's use or classification be filed with the Commission. The Commission further notes that the Postal Service is not lawfully empowered to make unilateral decisions regarding what is, or is not, a new or experimental product. Finally, based on the information obtained, the Commission directs the Postal Service to file quarterly reports on the Pilot Program, including updates on volume and revenue, as well as future plans for the Pilot Program. The Postal Service is required to file a notice of termination when the Pilot Program ends. Should the Pilot Program remain in effect after March 2022, the Commission intends to initiate a mail classification proceeding pursuant to 39 C.F.R. part 3040 in order to review the Pilot Program more thoroughly.

D. Principal Findings: Service Performance

In Chapter V., the Commission finds that most Market Dominant products failed to meet their service performance targets for FY 2021 and directs the Postal Service to take corrective action. Of the 27 Market Dominant products/categories measured, 21

¹ Responses of the United States Postal Service to Questions 1-2 of Commission Information Request No. 1, January 14, 2022, question 1.c. (Response to CIR No. 1); Responses of the United States Postal Service to Questions 1-7 of Commission Information Request No. 2, February 4, 2022, question 6 (Response to CIR No. 2).

products/categories (more than 77 percent) did not meet their targets in FY 2021, and some were substantially below the applicable target.

The Postal Service met its service performance targets for six Market Dominant products: two USPS Marketing Mail products (Letters and High Density and Saturation Letters), one Package Services product (BPM Parcels), and three Special Services products (International Ancillary Services, Money Orders, and Stamp Fulfillment Services).

Service performance results for the following Market Dominant products did not meet their targets and were found to be out of compliance in FY 2021: all First-Class Mail products, five USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Carrier Route, Flats, Parcels, and Every Door Direct Mail—Retail (EDDM-R)), both Periodicals products, two Package Service products (BPM Flats and Media Mail/Library Mail), and two Special Services products (Ancillary Services and Post Office Box Service). For the seventh consecutive year, no First-Class Mail product category achieved its service performance target.

The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these noncompliant products in FY 2022. The Commission has also specifically developed directives that are designed to elicit information and data from the Postal Service regarding service performance for noncompliant products and the steps that the Postal Service will take to restore service performance for those products in FY 2022. These directives include continued Postal Service reporting of specific information developed from its internal metrics within 90 days of the issuance of this Report and as part of its FY 2022 ACR. Additionally, the Commission directs the Postal Service to include with its FY 2022 ACR filing a specific plan for moving service performance targets from their current interim levels to 95 percent for each Market Dominant product, should that remain its intention.

E. Principal Findings: Flats Cost and Service Issues

In Chapter VI, the Commission analyzes the issues related to processing and delivering flats² on-time and in a cost-effective manner. FY 2021 was the third year that the Postal Service was required to provide specific information related to flats cost and service issues.³ The Commission appreciates the data provided by the Postal Service.⁴ The Commission focuses its analysis in Chapter VI. on five areas: (1) flats financial performance, (2) flats service performance, (3) the impact of operational initiatives and methodological

² As discussed in Chapter VI., “flats” refer to all mail products that contain at least 80 percent flat-shaped mailpieces.

³ See Docket No. RM2018-1, Order Adopting Final Rules on Reporting Requirements Related to Flats, May 8, 2019 (Order No. 5086).

⁴ Pursuant to 39 C.F.R. § 3050.50(b)(2).

changes on flats, (4) pinch points⁵ that impact flats operational performance, and (5) flats unit costs for mail processing, delivery, and purchased transportation operations.

The Commission finds that for flats overall, attributable cost has continued to rise, negative contribution has continued to grow, and none of the flats products have met their service performance targets. In addition, data show that despite Postal Service operational initiatives,⁶ several pinch points have gotten worse. Bundle breakage increased, mail processing productivity decreased, transportation costs increased, and delivery costs increased.

The Commission remains deeply concerned with the continued trends of increases in costs and declines in quality of service. The Commission also remains concerned about the lack of specific plans to reduce costs and improve service for flats. The Commission provides recommendations for data collection and analysis regarding ongoing and future Postal Service initiatives designed to reduce flats costs, improve flats service performance, and/or improve flats operations. The fact that in FY 2021 flat-shaped mail products collectively had a cumulative negative contribution of almost \$1.3 billion highlights the urgency and importance of improvement on this issue.

⁵ 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. Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 165 (FY 2015 ACD).

⁶ The Commission recognizes the impact of the COVID-19 pandemic on flats cost and service issues, including the delayed implementation of several initiatives intended to address these issues.

CHAPTER I. INTRODUCTION

A. Statutory Context

Two sections of Title 39 of the United States Code (U.S.C.), as amended by the Postal Accountability and Enhancement Act (PAEA),⁷ require ongoing, systematic reports and assessments of the financial and operational performance of the Postal Service. The first provision, 39 U.S.C. § 3652, requires the Postal Service to file certain annual reports with the Commission, including an ACR. *See* 39 U.S.C. § 3652(a). The second provision, 39 U.S.C. § 3653, requires the Commission to review the Postal Service's annual reports and issue an ACD regarding whether rates were not in compliance with applicable provisions of Title 39 and whether any service standards were not met. 39 U.S.C. § 3653(b). Together, these provisions establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service.

The Commission has again decided to report separately on the Postal Service's financial condition and its performance plans and program performance.⁸ It will issue both its financial analysis and its analysis of the performance plans and program performance, required by 39 U.S.C. § 3653(d), in the second quarter of 2022. This ACD focuses on the requirements of 39 U.S.C. § 3653(b)(1) and (b)(2).⁹

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

The PAEA also required the Commission to review the system for regulating rates and classes for Market Dominant products 10 years after the PAEA's enactment to determine if it had achieved 9 statutory objectives specified by the PAEA, taking into account 14 statutory factors. 39 U.S.C. § 3622(b), (c), (d)(3). Section 3622(d)(3) further states that “[i]f the Commission determines, after notice and opportunity for public comment, that the system is not achieving the objectives in subsection (b), taking into account the factors in subsection (c), the Commission may, by regulation, make such modification or adopt such alternative system for regulating rates and classes for market-dominant products as necessary to achieve the objectives.” 39 U.S.C. § 3622(d)(3).

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

⁸ *See* Notice Requesting Comments on the Postal Service FY 2021 Annual Performance Report and FY 2022 Annual Performance Plan, January 6, 2022 (Order No. 6082).

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

On December 20, 2016, the Commission initiated its required review of the ratemaking system, pursuant to 39 U.S.C. § 3622(d)(3), by issuing an advance notice of proposed rulemaking.¹⁰ Upon review of the ratemaking system, the Commission found that it was not achieving the statutory objectives, taking into account the statutory factors.¹¹ The Commission issued a notice of proposed rulemaking, suggesting a number of regulatory modifications to the ratemaking system intended to enable the system to achieve the statutory objectives.¹² Based on the comments received in response to Order No. 4258, the Commission issued a revised notice of proposed rulemaking on December 5, 2019.¹³ On November 30, 2020, the Commission issued an order adopting final rules, which included new rate authority mechanisms, new requirements for workshare discounts and non-compensatory products, and several procedural changes (*e.g.*, revisions to the procedural schedule for rate adjustment proceedings).¹⁴ This ACD is the first to evaluate compliance under the new rules.

In Chapter II., the Commission evaluates the workshare discounts for Market Dominant products to determine compliance with applicable statutory and regulatory requirements.¹⁵ Chapter II. also includes a discussion about the class-level price cap. Chapter III. focuses on other compliance issues related to Market Dominant products' rates and fees, including non-compensatory classes and products. Chapter IV. covers compliance issues related to the rates and fees of Competitive products. In Chapter V., the Commission discusses service performance, customer access, and customer satisfaction. In Chapter VI., the Commission evaluates cost and service issues for flat-shaped mailpieces (*flats*).¹⁶

There are three appendices to the FY 2021 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.

¹⁰ Docket No. RM2017-3, Advance Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, December 20, 2016 (Order No. 3673).

¹¹ Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017, at 275 (Order No. 4257).

¹² Docket No. RM2017-3, Notice of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products, December 1, 2017 (Order No. 4258).

¹³ Docket No. RM2017-3, Revised Notice of Proposed Rulemaking, December 5, 2019 (Order No. 5337).

¹⁴ Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020 (Order No. 5763). On appeal, the D.C. Circuit denied petitions for review of the new rules. *See Nat'l Postal Pol'y Council v. Postal Regul. Comm'n*, 17 F.4th 1184 (D.C. Cir. 2021).

¹⁵ *See* 39 U.S.C. § 3622(e); 39 C.F.R. part 3030, subpart J.

¹⁶ In Docket No. RM2018-1, the Commission established new rules to require the annual submission of comprehensive information regarding the cost and service performance of flat-shaped mail. *See* Order No. 5086. Pursuant to 39 C.F.R. § 3050.50, the Postal Service submitted the required information in its FY 2021 ACR. *See* Library Reference USPS-FY21-45, December 29, 2021.

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 2021 ACR on December 29, 2021; thus, the Commission must issue this ACD no later than March 29, 2022.

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 current 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 2022 Performance Plan*, and its *FY 2021 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.¹⁷ The Commission is responsible for making a written determination as to whether any rates or fees were not in compliance with applicable provisions of chapter 36 of Title 39 or related regulations, and whether any service standards were not met. 39 U.S.C. § 3653(b). If the Commission makes a timely written determination of non-compliance, it is required to take such action as it deems appropriate. 39 U.S.C. § 3653(c).

F. Procedural History

On December 29, 2021, the Postal Service filed its FY 2021 ACR, covering the period from October 1, 2020, through September 30, 2021. *See* FY 2021 ACR. The ACR includes 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

¹⁷ 39 U.S.C. § 3653(a). Additionally, the Commission is required to appoint an officer of the Commission who shall represent the interests of the public. *See* 39 U.S.C. § 505.

supporting workshare discounts, and volume information presented in billing determinants. The library references also include the Postal Service's "Roadmap Document" to the FY 2021 ACR, which contains a brief description of each set of folder materials, a summary of material changes in methodology, and a discussion of obsolescence in accordance with 39 C.F.R. § 3050.12.¹⁸

The Postal Service concurrently filed its 2021 *Annual Report and Comprehensive Statement on Postal Service Operations* as part of Library Reference USPS-FY21-17 to the FY 2021 ACR.¹⁹

On January 3, 2022, the Commission issued an order establishing Docket No. ACR2021 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing January 31, 2022, and February 14, 2022, as the deadlines for comments and reply comments, respectively.²⁰

G. Methodology Changes

The FY 2021 ACR generally employs the methodologies used most recently by the Commission unless the Commission has approved a change in methodology. *See* FY 2021 ACR at 4-5. In this proceeding, the Postal Service relies upon five approved methodology changes.²¹ The Postal Service discusses the effect of methodology changes to FY 2021 ACR library references in the Roadmap Document. *See* Roadmap Document at 87-100.

H. Product Analysis

The Postal Service provides an analysis of each Market Dominant product, including special services and international NSAs active during FY 2021. This analysis includes a discussion of workshare discounts and passthroughs for Market Dominant products, required by 39 U.S.C. § 3652(b). The Postal Service also provides data for Competitive products and discusses the data with references to standards under 39 U.S.C. § 3633 and 39 C.F.R. § 3035.107. Last, the Postal Service discusses three Market Dominant market tests conducted in FY 2021. FY 2021 ACR at 90.

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.

¹⁸ Library Reference USPS-FY21-9, December 29, 2021, file "USPS-FY21-9 Roadmap.pdf" (Roadmap Document).

¹⁹ Library Reference USPS-FY21-17, December 29, 2021 (*FY 2021 Annual Report*).

²⁰ Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, January 3, 2022 (Order No. 6079); *see also* FY 2021 Annual Compliance Report, 87 Fed. Reg. 790 (Jan. 6, 2022). On January 6, 2022, the Commission established separate comment deadlines for the Postal Service's FY 2021 *Performance Report* and FY 2022 *Performance Plan*. *See* Order No. 6082 at 3, 4.

²¹ Docket No. RM2021-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), September 30, 2021 (Order No. 5991); Docket No. RM2021-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 6, 2021 (Order No. 5999); Docket No. RM2021-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), November 4, 2021 (Order No. 6032); Docket No. RM2021-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), November 5, 2021 (Order No. 6033); Docket No. RM2021-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), December 1, 2021 (Order No. 6050).

I. Service Performance

The ACR also includes information regarding service performance, customer satisfaction, and consumer access, as required under 39 U.S.C. § 3652(a)(2) and 39 C.F.R. part 3055. FY 2021 ACR, Section III.

J. Confidentiality

Commission rules require the Postal Service, when it files non-public materials with the Commission, to simultaneously file an application for non-public treatment. 39 C.F.R. § 3011.200. The application for non-public treatment must clearly identify all non-public materials and fulfill the burden of persuasion that the materials should be withheld from the public. *Id.* § 3011.201. The FY 2021 ACR includes such an application with respect to certain Competitive and international Market Dominant products. FY 2021 ACR, Attachment 2.

On January 19, 2022, United Parcel Service, Inc. (UPS) filed a motion for access to non-public information filed as part of the Postal Service's ACR.²² The motion included a list of non-public library references to which UPS requested access, specified that access was necessary for the purpose of filing comments in this ACR, and provided the requisite statements of protective conditions and signed certifications from each individual for whom UPS sought access. *See* First UPS Motion for Access at 1-2. UPS noted that it conferred with the Postal Service and stated that the Postal Service consented to the motion with respect to certain library references. *Id.* Accordingly, the Commission granted UPS's motion with respect to those library references on January 20, 2022.²³

On January 26, 2022, the Postal Service filed a response regarding the remaining library references listed in the motion, stating that select foreign postal operators raised concern with the request, as has been the case in past dockets.²⁴ The Postal Service attached to its response correspondence expressing concern from two of those operators. Response to First UPS Motion for Access, Attachments 1-2. The Postal Service requested that the Commission take these concerns into account when evaluating the motion. Response to First UPS Motion for Access at 3.

The Commission granted the remainder of the First UPS Motion for Access on February 1, 2022. In evaluating the motion, the Commission first found that it satisfied the Commission's rules for seeking access to non-public information.²⁵ The Commission also found that the Postal Service and third-party concerns are mitigated by the numerous

²² United Parcel Service, Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 19, 2022, at 1 (First UPS Motion for Access).

²³ Order Granting Motion for Access, in Part, January 20, 2022 (Order No. 6095).

²⁴ United States Postal Service Notice of Filing Responses to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 26, 2022 (Response to First UPS Motion for Access).

²⁵ Order Granting Motion for Access, February 1, 2022, at 8-10 (Order No. 6098); 39 C.F.R. § 3011.301.

protective conditions and prohibitions on improper disclosure of non-public information. Order No. 6098 at 13. The Commission stated that “denying access to non-public materials would significantly restrict the ability of interested persons to comment on the Postal Service’s compliance under the PAEA.” *Id.* at 14. “Having balanced the public interest in the financial transparency of the Postal Service against the Postal Service’s claims of commercial harm,” the Commission granted UPS’s motion for access. *Id.*

On February 9, 2022, UPS filed a second motion seeking access to a non-public library reference for use in Docket No. RM2022-2.²⁶ It noted that in Order No. 6095, the Commission granted access to the non-public library reference for use in Docket No. ACR2021. Second UPS Motion for Access at 1. Noting that the request was uncontested by the Postal Service, the Commission granted the Second UPS Motion for Access on February 17, 2022.²⁷

K. Requests for Additional Information

Twenty-six Chairman’s Information Requests (CHIRs) and three CIRs were issued with respect to the ACR from January 7, 2022, to March 25, 2022. The Postal Service responded to the CHIRs and CIRs, often filing supplemental information in support of the responses.

UPS filed a motion for issuance of information requests on January 27, 2022, with questions it stated were intended to provide greater clarity regarding the complex costing practices that underlie the ACD.²⁸ The Postal Service responded that it took no position with respect to the first three proposed questions, but requested that the Commission deny the motion with respect to the final two questions because they are outside the scope of the docket.²⁹ The motion was granted in part and denied in part, with the Commission finding that the information sought by the first three proposed questions and a portion of question five were relevant and likely to materially assist the Commission in the conduct of the ACR proceeding, in the preparation of its ACD, and in the performance of its functions under Title 39 of the United States Code.³⁰ For the remaining questions, the Commission found that the burden associated with responding to the proposed questions outweighed the relevance and additional value of the information sought. Order No. 6102 at 6. With respect to the portion of the motion that was granted, the Commission issued a CIR. *See* CIR No. 3.

²⁶ United Parcel Service, Inc.’s Motion Requesting Access to Non-Public Materials Under Protective Conditions, February 9, 2022 (Second UPS Motion for Access).

²⁷ Order Granting Motion for Access, February 17, 2022 (Order No. 6108).

²⁸ Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, January 27, 2022, at 1.

²⁹ Response of the United States Postal Service to UPS Motion Seeking Information Request, January 31, 2022, at 1.

³⁰ Order Granting in Part and Denying in Part United Parcel Service, Inc. Motion for Information Request, February 4, 2022, at 5 (Order No. 6102).

CHAPTER II. MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

A. Introduction

As explained in Chapter I, the system for regulating rates and classes for Market Dominant products was modified in FY 2021 as new regulations went into effect on January 14, 2021, which included new rate authority mechanisms and new requirements for workshare discounts.³¹ Chapter II. describes these regulatory changes in conjunction with its discussion of the class-level price cap and workshare discounts.

B. The Class-Level Price Cap

Two rate adjustments went into effect during FY 2021.³² The first was approved in Docket No. R2021-1 on November 18, 2020, before the new regulations went into effect. The class-level price cap applicable in that proceeding was the one set forth in the prior ratemaking system pursuant to 39 U.S.C. § 3622(d), which set the class-level price cap at the change in the consumer price index for all urban customers (CPI-U) in addition to any unused banked rate authority for the class. In approving the rates, the Commission determined the rate adjustments complied with the price cap and applicable regulations. Order No. 5757 at 2.

The second rate adjustment was approved in Docket No. R2021-2 on July 19, 2021, and was the first rate adjustment filed and reviewed pursuant to the new regulations. Order No. 5937 at 1. The new regulations provide for multiple forms of rate authority. 39 C.F.R. § 3030.127(a). In particular, in addition to rate authority based on the change in CPI-U and any unused banked rate authority, the maximum rate adjustment authority available to the Postal Service for each Market Dominant class under the new regulations also includes:

- density rate authority (39 C.F.R. part 3030, subpart D), which grants additional rate authority to the Postal Service based on unit cost increases caused by the decline in mail density as the Postal Service delivers fewer mail pieces to more delivery points,
- retirement obligation rate authority (39 C.F.R. part 3030, subpart E), which grants additional authority based on specific retirement liabilities as a driver of the Postal Service's net losses beyond the Postal Service's control, and

³¹ See generally Order No. 5763. See also *id.*, at 370 (stating the new regulations are to take effect 30 days after publication in the *Federal Register*); 85 Fed. Reg. 81124 (Dec. 15, 2020).

³² See Docket No. R2021-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 18, 2020 (Order No. 5757); Docket No. R2021-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, July 19, 2021 (Order No. 5937).

- when applicable, non-compensatory class rate authority (39 C.F.R. part 3030, subpart G), which grants an additional 2 percentage points of rate authority for classes where costs of all products exceed revenues of all products. *Id.*; Order No. 5763 at 72, 100, 189-91.

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 such as presorting, barcoding, handling, or transportation and relieves the Postal Service of the cost of performing those activities. These discounts are based on the avoided costs that result from the mailer performing the activity instead of the Postal Service.

Under the prior ratemaking system, the Commission performed its compliance analysis pursuant to 39 U.S.C. § 3622(e)(2), which directs the Commission to ensure that workshare discounts do not exceed the costs the Postal Service avoids as a result of the worksharing activity unless certain exceptions are met. *See* 39 U.S.C. § 3622(e)(2)(A) to (D).

In modifying how workshare discounts are regulated under the revised system for regulating rates and classes for Market Dominant products, the Commission's primary focus was on increasing pricing efficiency for workshare discounts. Under the ECP rule, which guided the Commission's approach, pricing efficiency is achieved when workshare discounts are set equal to their avoided costs and produce passthroughs equal to 100 percent. *See* Order No. 4258. A passthrough represents the relationship between the amount of the workshare discount and the avoided cost, calculated by dividing the workshare discount by its avoided cost and expressing the result as a percentage.³³ When a workshare discount equals avoided cost, the passthrough is 100 percent. If a workshare discount is less than the avoided cost, then the passthrough is below 100 percent. Conversely, if a workshare discount is greater than the avoided cost, then the passthrough is above 100 percent. The further from 100 percent a passthrough is, the less efficient the pricing according to ECP. Order No. 4257 at 136.

The Commission explained that workshare discounts set substantially above or substantially below avoided costs are problematic because they send inefficient pricing signals to mailers and therefore reduce productive efficiency in the postal sector. Order No. 4258 at 89. These inefficient pricing signals may reduce incentives for the Postal Service to right-size its network and for mailers to enter volume that best conforms to that network, and may result in less efficient volume and decreased revenue for the Postal Service. *Id.* at 89-90.

³³ For example, if the Postal Service offers a discount of \$0.02 for mailers to apply a barcode to their mail and this barcoding allows the Postal Service to avoid \$0.022 in cost, then the worksharing passthrough is calculated as $\$0.02/\$0.022 = 0.909$ or a passthrough of 90.9 percent.

The Commission found that most workshare discounts under the prior ratemaking system were set substantially above or substantially below avoided costs and thus failed to achieve pricing efficiency. Order No. 4257 at 138; Order No. 4258 at 89. The Commission also found that the Postal Service had the pricing flexibility under the prior system to set workshare discounts closer to avoided costs but elected not to do so. Order No. 4257 at 138-39.

In light of these findings, the new regulations governing workshare discounts provide an incremental path for improving the pricing efficiency of workshare discounts. Order No. 5337 at 176. Specifically, the new regulations impose several requirements on non-conforming workshare discounts that must be complied with in each rate adjustment proceeding. First, workshare discounts are prohibited from being made less efficient. In other words, workshare discounts set above avoided costs cannot be increased, workshare discounts set below avoided costs cannot be decreased, and workshare discounts with 100 percent passthroughs cannot be changed. 39 C.F.R. § 3030.282. Additionally, workshare discounts cannot be set above or below their avoided costs in a rate adjustment proceeding unless a specific exemption applies. *Id.* § 3030.283, 3030.284. One such exception is that a workshare discount set below its avoided cost is allowable if it has a passthrough of at least 85 percent. *Id.* § 3030.284(e). The remaining exceptions related to workshare discounts set above and below their avoided costs are discussed in more detail below.

As is evident, workshare discounts are primarily regulated through rate adjustment proceedings and only workshare discounts consistent with the regulations are approved by the Commission and permitted to go into effect.³⁴ However, because changes in avoided costs are calculated for each fiscal year in the ACD, the Commission also analyzes workshare discounts' consistency with the regulations as part of this Report.

1. Workshare Discount Data Used in Report

Under the modified ratemaking system, the Commission stated that it would determine workshare discount compliance by identifying which workshare discounts had passthroughs that either exceeded 100 percent or fell below 85 percent. Order No. 5337 at 207; Order No. 5763 at 199. In addition, the Commission stated it would also identify those workshare discounts that were equal to their avoided costs. *Id.* Accordingly, the sections below identify the workshare discounts with passthroughs that equaled 100 percent, exceeded 100 percent, and were below 85 percent in FY 2021.

Section 3653(b)(1) of Title 39 requires the Commission to base its determination on the rates and fees "in effect" during FY 2021. The Commission has consistently evaluated workshare discounts' compliance based on the prices in effect at the end of the fiscal year regardless of whether other prices were also in effect at other points during the fiscal

³⁴ See, e.g., Order No. 5937 at 2 (approving workshare discounts proposed by the Postal Service as consistent with the new regulations in the first rate adjustment proceeding under the modified ratemaking system).

year.³⁵ This is consistent with the Commission's long-standing practice to use the most recent data available in its analyses.

The National Postal Policy Council (NPPC) asserts that it is inconsistent with 39 C.F.R. § 3050.21 and 39 U.S.C. § 3652 for the Postal Service and the Commission to focus solely on the workshare discounts in effect at the end of the fiscal year when other workshare discounts were in effect for the majority of the fiscal year.³⁶ NPPC notes this is particularly important for FY 2021, when three different sets of workshare discounts were in effect during the fiscal year (*i.e.*, workshare discounts approved as part of Docket No. R2020-1, Docket No. R2021-1, and Docket No. R2021-2). NPPC Comments at 3-6. Furthermore, NPPC notes that the Docket No. R2021-2 workshare discounts were only in effect for 33 days of FY 2021. *Id.* at 6.

The Postal Service asserts that reporting on all workshare discounts in effect during the fiscal year "would have little practical value for oversight or compliance" because the Commission already reviews workshare discounts for compliance in rate adjustment proceedings using the most recent avoided costs available at the time.³⁷ When avoided costs are updated as part of the ACR, the Postal Service notes that compliance is again reviewed based on the current workshare discounts and new avoided costs. Postal Service Reply Comments at 2. The Postal Service further explains that if workshare discounts are found not compliant in the ACD, then the non-compliance is remedied in the next rate adjustment proceeding. *Id.* Because of this process, the Postal Service asserts non-current workshare discounts should not be reviewed as part of the ACD because such discounts are "by definition, compliant, or made compliant, when the Commission approved the price changes during the year" and do not demonstrate anything "about Postal Service policies and operations other than the fact there have been intervening price cases and changes in costs." *Id.*

NPPC's proposal to evaluate workshare discounts for compliance with respect to all discounts active during the fiscal year would be a change to the Commission's long-standing practice of using the end-of-year discounts to evaluate compliance. In order to give adequate consideration to such a proposal, a rulemaking proceeding would be the appropriate venue to consider such a change. However, the Commission notes that its long-standing practice is grounded in the process described by the Postal Service, where the most recent data is used to bring workshare discounts into compliance in rate adjustment proceedings. Thus, workshare discounts that have already been changed and made compliant through a rate adjustment proceeding reveal nothing about the current compliance status of workshare discounts. It also would not give further insight into the

³⁵ See, e.g., Docket No. ACR2020, *Annual Compliance Determination*, March 29, 2021, at 12 (FY 2020 ACD); Docket No. ACR2019, *Annual Compliance Determination*, March 25, 2020, at 13 (FY 2019 ACD); Docket No. ACR2018, *Annual Compliance Determination*, April 12, 2019, at 13 (FY 2018 ACD); Docket No. ACR2017, *Annual Compliance Determination*, March 29, 2018, at 15 (FY 2017 ACD); Docket No. ACR2016, *Annual Compliance Determination*, March 28, 2017, at 10 (FY 2016 ACD); FY 2015 ACD at 10.

³⁶ Comments of the National Postal Policy Council, January 31, 2022, at 2-6 (NPPC Comments).

³⁷ Reply Comments of the United States Postal Service, February 14, 2022, at 1-2 (Postal Service Reply Comments).

effectiveness of the new regulations since the workshare discounts set in Docket No. R2020-1 and Docket No. R2021-1 were established under the prior ratemaking system.

The end-of-year prices in effect in FY 2021 were the prices approved in Docket No. R2021-2. Therefore, consistent with its long-standing practice, the Commission evaluates workshare discounts for compliance below using the Docket No. R2021-2 prices in conjunction with the FY 2021 avoided costs.

2. Workshare Discounts with 100 Percent Passthroughs

39 C.F.R. § 3030.282 prohibits the Postal Service from making workshare discounts more inefficient in rate adjustment proceedings. In accordance with 39 C.F.R. § 3030.282(a), workshare discounts that are set equal to their avoided costs and have passthroughs of 100 percent cannot be changed in a rate adjustment proceeding prior to the issuance of the next ACD.

There were six workshare discounts with passthroughs equal to 100 percent in FY 2021, all of which were within the USPS Marketing Mail class. Table II-1 identifies the applicable discount, avoided cost, and passthrough for each of the six workshare discounts equal to their avoided costs.

Table II-1
FY 2021 Workshare Discounts with 100 Percent Passthroughs

Type of Worksharing	Discount	Avoided Cost	Passthrough
USPS Marketing Mail Commercial & Nonprofit Letters	Presorting (\$/piece)		
Automation AADC Letters	\$0.021	\$0.021	100%
USPS Marketing Mail Commercial & Nonprofit Letters	Barcoding (\$/piece)		
Automation Mixed AADC Letters	\$0.006	\$0.006	100%
USPS Marketing Mail Commercial & Nonprofit Flats	Barcoding (\$/piece)		
Automation Mixed ADC Flats	\$0.027	\$0.027	100%
USPS Marketing Mail Nonprofit Parcels	Barcoding (\$/piece)		
Mixed NDC Machinable Barcoded Parcels	\$0.041	\$0.041	100%
Mixed NDC Irregular Barcoded Parcels	\$0.041	\$0.041	100%
USPS Marketing Mail Commercial & Nonprofit Marketing Parcels	Barcoding (\$/piece)		
Mixed NDC Barcoded Marketing Parcels	\$0.041	\$0.041	100%

Note: AADC refers to automated area distribution center. ADC refers to area distribution center. NDC refers to network distribution center.

Source: Library References PRC-LR-ACR2021-3-6.

No comments were received about these discounts.

The Commission reminds the Postal Service that the workshare discounts identified in Table II-1 cannot be changed in any rate adjustment proceedings occurring prior to the issuance of the FY 2022 ACD consistent with 39 C.F.R. § 3030.282(a).

3. Workshare Discounts with Passthroughs that Exceed 100 Percent

In rate adjustment proceedings, a proposed workshare discount that exceeds its avoided cost is only permissible if a listed exception applies. 39 C.F.R. § 3030.283(a). These exceptions include: (1) the proposed workshare discount is associated with a new postal service, a change to an existing postal service, or a new workshare initiative; (2) the proposed workshare discount is a minimum of 20 percent less than the existing workshare discount; and (3) the proposed workshare discount is provided in connection with a subclass of mail, consisting exclusively of mail matter of educational, cultural, scientific, or informational (ECSI) value. *Id.* § 3030.283(b), (c), (e). In order for the ECSI exception to apply, the Postal Service must provide additional supporting information with its rate adjustment filing. *Id.* § 3030.285(c). In addition, a workshare discount that exceeds avoided cost will be permitted if the Commission has granted a waiver of the application of 39 C.F.R. § 3030.283 pursuant to 39 C.F.R. § 3030.286. *Id.* § 3030.283(d). For a workshare discount that exceeds avoided cost, the application for waiver will be granted only if at least one provision appearing in 39 U.S.C. § 3622(e)(2)(A) through (e)(2)(D) or 39 U.S.C. § 3622(e)(3)(A) through (e)(3)(B) applies. *Id.* § 3030.286(f). The Commission notes that no discounts received a waiver for purposes of Docket No. R2021-2, the most recent rate adjustment proceeding.

In FY 2021, six workshare discounts exceeded the avoided costs of the corresponding worksharing activities. Five of those discounts were within the USPS Marketing Mail class, and one was within the Periodicals class. Table II-2 identifies the applicable discount, avoided cost, and passthrough for each of the six workshare discounts.

Table II-2
FY 2021 Workshare Discounts with Passthroughs that Exceed 100 Percent

Type of Worksharing	Discount	Avoided Cost	Passthrough
Periodicals Outside County Mail	Presorting (\$/piece)		
Machinable Non-automation 3-Digit/SCF Flats	\$0.053	\$0.052	101.9%
USPS Marketing Mail Commercial & Nonprofit Flats	Presorting (\$/piece)		
Automation 5-Digit Flats	\$0.158	\$0.154	102.6%
USPS Marketing Mail Nonprofit Machinable & Irregular Parcels	Dropshipping (\$1,000/piece & pound total)		
DSCF	\$419	\$350	119.8%
DDU	\$66	\$53	125.7%
USPS Marketing Mail Commercial & Nonprofit Marketing Parcels	Dropshipping (\$1,000/piece & pound total)		
DSCF	\$2,230	\$2,217	100.6%
DDU	\$2,484	\$1,918	129.5%

Note: SCF refers to sectional center facility. DSCF refers to destination sectional center facility. DDU refers to destination delivery unit.

Source: Library References PRC-LR-ACR2021-3-6.

The Public Representative comments that of the six workshare discounts identified in Table II-2, only one is justified by an exception in 39 U.S.C. § 3622(e)(2).³⁸ He notes that the five remaining discounts will be addressed in the next rate adjustment proceeding consistent with the new regulations and that no further action is necessary at this time. PR Comments at 16, 18-19. Concerning workshare discounts set above avoided costs generally, the Association for Postal Commerce (PostCom) asserts that the Commission improperly requires the Postal Service to reduce discounts with greater than 100 percent passthroughs when the reduction of such workshare discounts would impede the efficient operation of the Postal Service.³⁹

Both the Public Representative and PostCom appear to misunderstand different aspects of the new regulations as they pertain to workshare discounts that exceed their avoided costs. With respect to both comments, the Commission notes that under the new regulations the exceptions of 39 U.S.C. § 3622(e) now apply when workshare discounts are proposed and approved in rate adjustment proceedings through the operation of the new regulations.

Concerning the Public Representative's comments, the Commission notes that each of the six workshare discounts identified in Table II-2 must be addressed consistent with the new regulations in the next rate adjustment proceeding. With respect to PostCom's concern that the regulations improperly require the Postal Service to reduce workshare discounts even when the reduction would impede the efficient operation of the Postal Service, the Commission notes that when efficient operation is at risk, the Postal Service is eligible to

³⁸ Public Representative Comments, January 31, 2022, at 16 (PR Comments).

³⁹ Comments of the Association for Postal Commerce, January 31, 2022, at 5 (PostCom Comments).

apply for waiver of 39 C.F.R. § 3030.283 in advance of the related rate adjustment proceeding under 39 C.F.R. § 3030.286(c)(5). If a waiver is granted, the Postal Service is exempted from reducing the workshare discount pursuant to 39 C.F.R. § 3030.283(d).

In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-2 into compliance with 39 C.F.R. § 3030.283. In addition, the workshare discounts identified in Table II-2 cannot be increased in the next rate adjustment proceeding consistent with 39 C.F.R. § 3030.282(b).

4. Workshare Discounts with Passthroughs Under 85 Percent

In rate adjustment proceedings, a proposed workshare discount that is less than its avoided cost is only permissible if a listed exception applies. 39 C.F.R. § 3030.284(a). These exceptions include: (1) the proposed workshare discount is associated with a new postal service, a change to an existing postal service, or a new workshare initiative; (2) the proposed workshare discount is a minimum of 20 percent more than the existing workshare discount; and (3) the percentage passthrough for the proposed workshare discount is at least 85 percent. *Id.* § 3030.284(b), (c), (e). In addition, a workshare discount that is less than its avoided cost will be permitted if the Commission has granted a waiver of the application of 39 C.F.R. § 3030.284 pursuant to 39 C.F.R. § 3030.286. *Id.* § 3030.284(d). For a workshare discount that is less than its avoided cost, the application for waiver will be granted only if setting the workshare discount closer or equal to its avoided cost would impede the efficient operation of the Postal Service or if increasing or eliminating the workshare discount for a non-compensatory product would result in a further increase in the rates paid by mailers not able to take advantage of the discount. *Id.* § 3030.286(g). The Commission notes that no discounts received a waiver for purposes of Docket No. R2021-2, the most recent rate adjustment proceeding.

Because passthroughs between 85 and 100 percent are permissible, the Commission focuses its compliance analysis on workshare discounts with passthroughs under 85 percent. In FY 2021, 63 workshare discounts had passthroughs that were less than 85 percent. Ten of those discounts were within First-Class Mail, 25 were within each of the USPS Marketing Mail and Periodicals classes, and 3 were within the Package Services class. Table II-3 identifies the applicable discount, avoided cost, and passthrough for each of the 63 workshare discounts with passthroughs under 85 percent in FY 2021.

**Table II-3
FY 2021 Workshare Discounts with Passthroughs Under 85 Percent**

Type of Worksharing	Discount	Avoided Cost	Passthrough
First-Class Mail Presorted Letters	Presorting (\$/piece)		
Automation Mixed AADC Letters	\$0.045	\$0.074	60.8%
Automation 5-Digit Letters	\$0.035	\$0.042	83.3%
First-Class Mail Presorted Letters	Barcoding (\$/piece)		
Non-automation Machinable Mixed AADC Letters	\$0.036	\$0.064	56.3%
Non-automation Non-machinable Mixed AADC Letters	\$0.036	\$0.175	20.6%
First-Class Mail Presorted Cards	Presorting (\$/piece)		
Automation Mixed AADC Cards	\$0.009	\$0.013	69.2%
Automation AADC Cards	\$0.008	\$0.011	72.7%
Automation 5-Digit Cards	\$0.012	\$0.018	66.7%
First-Class Mail Flats	Presorting (\$/piece)		
Automation ADC Flats	\$0.108	\$0.132	81.8%
Automation 3-Digit Flats	\$0.053	\$0.069	76.8%
Automation 5-Digit Flats	\$0.175	\$0.207	84.5%
Periodicals Outside County Mail	Presorting (\$/piece)		
Machinable Non-automation ADC Flats	\$0.067	\$0.094	71.3%
Machinable Non-automation 5-Digit Flats	\$0.119	\$0.175	68.0%
Carrier Route Basic Flats	\$0.176	\$0.259	68.0%
Saturation Flats	\$0.018	\$0.045	40.0%
Machinable Automation ADC Flats	\$0.054	\$0.075	72.0%
Machinable Automation 5-Digit Flats	\$0.104	\$0.153	68.0%
Non-machinable Non-automation ADC Flats	\$0.102	\$0.139	73.4%
Non-machinable Non-automation 3-Digit/SCF Flats	\$0.047	\$0.063	74.6%
Non-machinable Non-automation 5-Digit Flats	\$0.087	\$0.116	75.0%
Non-machinable Automation ADC Flats	\$0.110	\$0.146	75.3%
Non-machinable Automation 3-Digit/SCF Flats	\$0.041	\$0.056	73.2%
Non-machinable Automation 5-Digit Flats	\$0.087	\$0.118	73.7%
3-Digit Automation Letter	\$0.005	\$0.007	71.4%
Periodicals Outside County Mail	Barcoding (\$/piece)		
Machinable Automation Mixed ADC Flats	\$0.054	\$0.071	76.1%
Periodicals In-County Mail	Presorting (\$/piece)		
3-Digit Presort Flats	\$0.029	\$0.062	46.8%
5-Digit Presort Flats	\$0.044	\$0.172	25.6%
Carrier Route Basic Flats	\$0.108	\$0.299	36.1%
HD Flats	\$0.021	\$0.036	58.3%
Saturation Flats	\$0.016	\$0.045	35.6%
3-Digit Automation Letters	\$0.007	\$0.009	77.8%
5-Digit Automation Letters	\$0.022	\$0.028	78.6%
Periodicals In-County Mail	Barcoding (\$/piece)		

Basic Automation Flats	\$0.057	\$0.090	63.3%
3-Digit Automation Flats	\$0.046	\$0.076	60.5%
5-Digit Automation Flats	\$0.044	\$0.061	72.1%
Periodicals In-County Mail	Dropshipping (\$/piece)		
DDU	\$0.010	\$0.021	47.6%
USPS Marketing Mail Commercial & Nonprofit Letters	Presorting (\$/piece)		
Non-automation AADC Machinable Letters	\$0.013	\$0.030	43.3%
USPS Marketing Mail Commercial & Nonprofit Letters	Dropshipping (\$/piece)		
DNDC	\$0.021	\$0.027	77.8%
USPS Marketing Mail Commercial & Nonprofit Flats	Presorting (\$/piece)		
Non-automation ADC Flats	\$0.066	\$0.081	81.5%
USPS Marketing Mail Nonprofit Machinable & Irregular Parcels	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$716	\$1,651	43.4%
USPS Marketing Commercial & Nonprofit Marketing Parcels	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$194	\$359	53.9%
USPS Marketing Mail Commercial & Nonprofit Basic Carrier Route Flats	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$16,192	\$29,906	54.1%
DSCF	\$279,891	\$406,916	68.8%
USPS Marketing Mail Commercial & Nonprofit HD/HD+/Saturation Flats	Dropshipping (\$1,000/piece & pound total)		
DNDC	\$3,280	\$4,202	78.0%
DSCF	\$218,286	\$274,115	79.6%
DDU	\$376,608	\$458,269	82.2%
USPS Marketing Mail Nonprofit Parcels	Presorting (\$/piece)		
NDC Machinable Parcels	\$0.362	\$0.563	64.3%
5-Digit Machinable Parcels	\$0.476	\$0.783	60.8%
NDC Irregular Parcels	\$0.250	\$0.361	69.3%
SCF Irregular Parcels	\$0.549	\$0.832	66.0%
5-Digit Irregular Parcels	\$0.383	\$0.986	38.8%
USPS Marketing Mail Commercial & Nonprofit Marketing Parcels	Presorting (\$/piece)		
NDC Marketing Parcels	\$0.376	\$0.478	78.7%
SCF Marketing Parcels	\$0.294	\$0.370	79.5%
5-Digit Marketing Parcels	\$0.292	\$0.944	30.9%
USPS Marketing Mail Commercial & Nonprofit Carrier Route Letters	Dropshipping (\$/piece)		
DNDC	\$0.021	\$0.027	77.8%
DSCF	\$0.024	\$0.030	80.0%
USPS Marketing Mail Commercial & Nonprofit HD/Saturation Letters	Presorting (\$/piece)		
HD Letters	\$0.093	\$0.415	22.4%
USPS Marketing Mail Commercial & Nonprofit HD/Saturation Letters	Dropshipping (\$/piece)		
DNDC	\$0.021	\$0.027	77.8%
DSCF	\$0.025	\$0.030	83.3%

USPS Marketing Mail Commercial & Nonprofit HD/Saturation Flats	Presorting (\$/piece)		
HD Flats	\$0.064	\$0.077	83.1%
Origin Flats on 5-Digit Pallets	\$0.010	\$0.022	45.5%
Package Services Library Mail	Presorting (\$/piece)		
5-Digit	\$1.010	\$1.207	83.7%
Package Services BPM Flats	Dropshipping (\$/piece)		
Basic, Carrier Route DDU	\$0.734	\$0.951	77.2%
Package Services BPM Parcels/IPPs	Dropshipping (\$/piece)		
Basic, Carrier Route DDU	\$0.744	\$0.951	78.2%

Note: AADC refers to automated area distribution center. ADC refers to area distribution center. SCF refers to sectional center facility. HD refers to High Density. DDU refers to destination delivery unit. DNDC refers to destination network distribution center. DSCF refers to destination sectional center facility. HD+ refers to High Density Plus. NDC refers to network distribution center. BPM refers to Bound Printed Matter. IPPs refer to irregular parcels and pieces.

Source: Library References PRC-LR-ACR2021-3-6.

The National Association of Presort Mailers (NAPM) commends the new regulations for moving passthroughs closer to 100 percent and urges passthroughs be set as close to 100 percent as possible given all of the uncompensated efforts mailers undertake to improve service and make the mail more efficient.⁴⁰

In addition, Pitney Bowes, NPPC, and PostCom take issue with the Postal Service's decision to set many workshare discounts close to 85 percent, which the commenters assert causes various issues.⁴¹ Pitney Bowes asserts that this leads to workshare discounts that are not compliant once avoided costs are calculated after the close of the fiscal year and suggests that the Commission monitor pricing behavior to assess whether the rules should be modified to narrow the passthrough floor. Pitney Bowes Comments at 3. Similarly, NPPC asserts that low passthroughs combined with the practice of using avoided costs from the prior fiscal year when setting discounts "almost ensures that most discounts will be nowhere near economically efficient levels while in effect" and uses the FY 2021 First-Class Mail workshare discounts to illustrate its concerns. NPPC Comments at 8-13. NPPC acknowledges that the issues with the timing of avoided cost data "are far outside of the scope of this proceeding" and believes stronger measures, including modifying the passthrough floor to 95 percent and removing the exception in 39 C.F.R. § 3030.284(c), must be taken to compensate. *Id.* at 7, 9, 14-15. PostCom asserts that passthroughs set below 100 percent allow inefficiencies to remain, and in setting passthroughs close to 85 percent, "the Postal Service is likely to make discounts, and by extension rates, more volatile" as changes in avoided costs are more likely to necessitate changes in rate adjustment proceedings. PostCom Comments at 3, 5-6.

The Postal Service objects to the positions of Pitney Bowes, NPPC, and PostCom. Postal Service Reply Comments at 3. The Postal Service asserts that it has complied with the new

⁴⁰ Comments of the National Association of Presort Mailers, January 31, 2022, at 7-8 (NAPM Comments).

⁴¹ Comments of Pitney Bowes Inc., January 31, 2022, at 3 (Pitney Bowes Comments); NPPC Comments at 8-13; PostCom Comments at 1-2.

regulations and the new regulations have “resulted in the Postal Service moving passthrough percentages toward 100 percent across all mail classes.” *Id.* The Postal Service also notes that the new regulations have only been in effect long enough to allow for one rate adjustment proceeding and states that it is premature to claim the new regulations have not been successful in achieving their aims. *Id.* at 6.

In Docket No. RM2017-3, the Commission acknowledged that the 85 percent passthrough floor allowed by 39 C.F.R. § 3030.284(e) was less restrictive than many of other workshare discount requirements, but explained that the exception was appropriate given the regulatory requirements related to workshare discounts less than their avoided costs were new; the consequences of such workshare discounts are less detrimental to the Postal Service than workshare discounts set above their avoided costs; and the Commission sought to provide continued pricing flexibility to the Postal Service. Order No. 5763 at 212. The Commission emphasized that “the 85 percent passthrough floor phases out the most inefficient of the Postal Service’s pricing practices related to below-avoided-costs workshare discounts” and that 39 C.F.R. § 3030.284(e) “strikes an appropriate balance between improving pricing efficiency and providing sufficient pricing flexibility for below-avoided-costs workshare discounts that were not previously regulated.” *Id.* The Commission, however, also noted that if over time, the Postal Service was using the 85 percent passthrough floor as a safe harbor and not taking steps to move workshare discounts toward 100 percent passthroughs, the Commission would reconsider the rules on workshare discounts as part of its plan to review the modified ratemaking system in 5 years. *Id.* at 212-13, 267.

The Commission maintained this approach in Docket No. R2021-2, finding that “it will likely take multiple price adjustments before it would be reasonable to assess if 39 C.F.R. part 3030, subpart J as a whole is having its intended effect.” Order No. 5937 at 61. However, the Commission also stated that “should the Postal Service use the exception in 39 C.F.R. § 3030.284(e) to not move workshare discounts closer to 100 percent on a consistent basis, the Commission may find it appropriate to regulate workshare discounts set below avoided costs more stringently when it undertakes its [5 year] review.” *Id.*

The Commission maintains the approach set forth in Docket Nos. RM2017-3 and R2021-2 here. This is the first compliance determination under the new regulations, which evaluates the first workshare discounts implemented under the new regulations. The Commission will continue to monitor this issue and is open to considering adjustments to the regulations during its planned 5 year review should the experience over multiple rate cycles show adjustments are necessary.

In addition, several commenters raise concerns about specific workshare discounts set below avoided costs. MPA – The Association of Magazine Media (MPA) notes that there are a high number of Periodicals Outside County discounts below 85 percent and that the Postal Service stated that it may seek a waiver rather than bringing the discounts into

compliance.⁴² MPA asserts that waivers should generally be limited and not be permitted for the Periodicals Outside County Carrier Route Basic workshare discount. MPA Comments at 3.

NAPM suggests that the Postal Service should set First-Class Mail and USPS Marketing Mail workshare discounts that are below avoided costs closer to 100 percent rather than seeking waivers and that the Postal Service should use its pricing flexibility to ensure that the difference between DNDC and DSCF workshare discounts cover the additional transportation costs of dropshipping to the DSCF. NAPM Comments at 9-10.

Pitney Bowes notes that the First-Class Mail Automation 5-Digit Letters workshare discount has a passthrough of 83.3 percent and states that it should be set equal to avoided costs given its importance to “commercial mailers who produce the most profitable and price sensitive First-Class Mail letters.” Pitney Bowes Comments at 2. Pitney Bowes also urges the Postal Service to set the passthrough for USPS Marketing Mail Automation 5-Digit Letters at 100 percent. *Id.*

With respect to concerns that the Postal Service may seek waivers for specific workshare discounts, as discussed above, the use of waivers is governed by 39 C.F.R. § 3030.286. For workshare discounts with passthroughs below 100 percent, a waiver is limited solely to circumstances where the Postal Service shows by a preponderance of evidence that increasing the discount would impede the efficient operation of the Postal Service or if increasing or eliminating a low workshare discount for a non-compensatory product would result in a further increase in rates paid by mailers not able to take advantage of the workshare discount. 39 C.F.R. § 3030.286(b), (g). As the Commission stated in Docket No. RM2017-3, it intends for the waiver process to be used in exceptional circumstances and intends to ensure the Postal Service’s strict compliance with 39 C.F.R. § 3030.286. Order No. 5763 at 213-14. The Commission also notes that with regard to all discounts set below their avoided costs, the Postal Service must comply with 39 C.F.R. § 3030.284 if a waiver has not been granted and may not decrease such discounts in the next rate adjustment proceeding. 39 C.F.R. §§ 3030.282(c), 3030.284. The Commission encourages the Postal Service to work with mailers to address specific concerns falling outside the scope of the regulations.

In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-3 into compliance with 39 C.F.R. § 3030.284. In addition, all workshare discounts set below their avoided costs, including those identified in Table II-3, cannot be decreased in the next rate adjustment proceeding consistent with 39 C.F.R. § 3030.282(c).

⁴² Comments of MPA – The Association of Magazine Media, January 31, 2022, at 2-3 (MPA Comments).

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

A. Introduction

This chapter discusses other rate and fee compliance issues (not discussed in Chapter II.), including issues related to non-compensatory classes and products, as well as pricing issues related to cost coverage.

In Order No. 5763, the Commission adopted new rules for non-compensatory classes and products.⁴³ Specifically, 39 C.F.R. part 3030, subpart G permits an additional 2 percentage points of rate authority for any class of mail where the attributable cost for that class exceeds the revenue from that class. 39 C.F.R. § 3030.222(a). The use of this additional rate authority is optional and may be implemented at the Postal Service's discretion. *Id.*

In addition, the regulations have requirements specific to products classified as non-compensatory within classes that are compensatory overall. For those products, the rates must increase by a minimum of 2 percentage points above the average percentage increase for that class. *Id.* § 3030.221.⁴⁴ The regulations also provide that rates may not be reduced for any non-compensatory product. *Id.* § 3030.127(b).

The Commission finds that two classes were non-compensatory in FY 2021: (1) Periodicals and (2) Package Services. Additionally, the Commission identifies the following non-compensatory products in compensatory classes: (1) First-Class Mail Flats, (2) USPS Marketing Mail Flats, (3) USPS Marketing Mail Carrier Route, (4) USPS Marketing Mail Parcels, and (5) Money Orders. Collectively, the Postal Service lost \$1.9 billion in FY 2021 from non-compensatory classes and products.

In alignment with the new regulations of 39 C.F.R. part 3030, subpart G, this chapter begins with an analysis of each non-compensatory class, followed by an analysis of each non-compensatory product in compensatory classes, organized by class.

In addition, this chapter includes a discussion of other rate and fee compliance issues raised by commenters.

⁴³ See Order No. 5763 at 181-97. Whether a class or product is non-compensatory is determined by the Commission. 39 C.F.R. § 3030.220.

⁴⁴ This requirement does not apply to a non-compensatory product for which the Commission has determined that the Postal Service lacks independent authority to set rates (such as rates set by treaty obligation). *Id.*

B. Non-Compensatory Classes

1. Periodicals

a. Introduction

The Periodicals class comprises two products, In-County⁴⁵ and Outside County. Revenue for both of these products was insufficient to cover attributable cost in FY 2021, with the cost coverage of the class declining to an all-time low of 53.2 percent. In this chapter, the Commission discusses the FY 2021 financial results for Periodicals in more detail.

b. Previous ACD Directives

The Periodicals class has consistently failed to cover cost, and the Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.⁴⁶ In each ACD since FY 2015, the Commission directed the Postal Service to file a Periodicals Pricing Report that analyzes how pricing decisions impact cost, contribution, and revenue. FY 2020 ACD at 21.

In the FY 2020 ACD, the Commission also made several recommendations to the Postal Service to develop specific plans and set goals to improve FY 2021 cost and service issues for flat-shaped mailpieces, which includes both In-County and Outside County Periodicals. *Id.* at 236. The Postal Service's operational initiatives, and other changes in response to the FY 2020 recommendations, are discussed in Chapter VI. of this Report.

c. FY 2021 Cost Coverage

As in previous years, the cost coverage for Periodicals decreased in FY 2021, down to 53.2 percent in FY 2021 from 56.9 percent in FY 2020, resulting in a negative contribution of nearly \$828 million in FY 2021.⁴⁷

⁴⁵ The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

⁴⁶ See, e.g., FY 2017 ACD at 50; FY 2018 ACD at 46; FY 2019 ACD at 25; FY 2020 ACD at 20.

⁴⁷ See Library Reference PRC-LR-ACR2021-5, Excel file "FY 2021 CH3 Periodicals.xlsx."

Table III-1
Periodicals Cost Coverage, FY 2017–FY 2021

Fiscal Year	Periodicals Class	In-County	Outside County
FY 2017	69.3%	68.5%	69.4%
FY 2018	67.5%	67.9%	67.5%
FY 2019	64.0%	58.4%	64.3%
FY 2020	56.9%	51.1%	57.3%
FY 2021	53.2%	45.0%	53.9%

Source: Library Reference PRC-LR-ACR2021-5.

The Postal Service states that Periodicals cost coverage declined because its volume continued to decline, which resulted in reduced density and higher costs for delivery and mail processing. FY 2021 ACR at 38. The Postal Service notes a more pronounced decline in Periodicals volume in recent years due to increased substitution from the Internet, mobile devices, and e-readers.⁴⁸ The Postal Service observes that, from FY 2020 to FY 2021, 10.9 percent of publications ceased mailing. *Id.* The Postal Service notes that, in FY 2021, despite Periodicals price increases in January and August, its unit revenue remained unchanged due, in part, to a decrease in unit weight. FY 2021 ACR at 38.

In a response to a CHIR, the Postal Service detailed its plan to improve Periodicals cost coverage.⁴⁹ The Postal Service points to broader operational initiatives discussed in Library Reference USPS-FY21-45, which include plans for reducing attributable costs for all flat-shaped products. Response to CHIR No. 3, question 6; *see also* Chapter VI. With new Periodicals service standards introduced in Docket No. N2021-1, the Postal Service expects mail volume to transition from more expensive air transportation to less expensive surface transportation. Response to CHIR No. 3, question 6. In addition, the Postal Service plans to improve operational efficiency by providing price signals that encourage customers to prepare mail in containers that are less expensive for the Postal Service to handle and process (*e.g.*, pallets). *Id.* The Postal Service concludes that Periodicals cost coverage will hopefully improve due to (1) increases in unit revenue as a result of above CPI-U price increases, (2) pricing initiatives that enhance operational efficiency, and (3) cost controlling initiatives for all flat-shaped products. *Id.*

⁴⁸ See Library Reference USPS-FY21-45, folder "Rule 3050.50 Flats," folder "Paragraph (b) -- Financial Report," PDF file "Part B Narratives-FY 21 Rule 3050.50.pdf," at 9.

⁴⁹ Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 3, January 26, 2022, question 6 (Response to CHIR No. 3).

d. Comments on Periodicals

MPA notes the rising unit cost of Periodicals has driven cost coverages downward. MPA Comments at 1. Likewise, the Public Representative comments that the cost coverage shortfall of Periodicals is a longstanding issue. PR Comments at 12. He urges the Postal Service to continue utilizing the rate authority available to non-compensatory classes to improve the cost coverage of the Periodicals class, particularly for the Outside County product which represents greater volume and therefore greater losses. *Id.*

e. Commission Analysis

Since FY 2017, Periodicals volume declined by 30.6 percent, total revenue declined by 31.5 percent, total attributable cost declined by 10.8 percent, and the Periodicals class has provided cumulative negative contribution of nearly \$3.5 billion.⁵⁰ To better understand the contribution shortfall of Periodicals, the Commission analyzes Periodicals revenue and cost.

(1) Periodicals Revenue

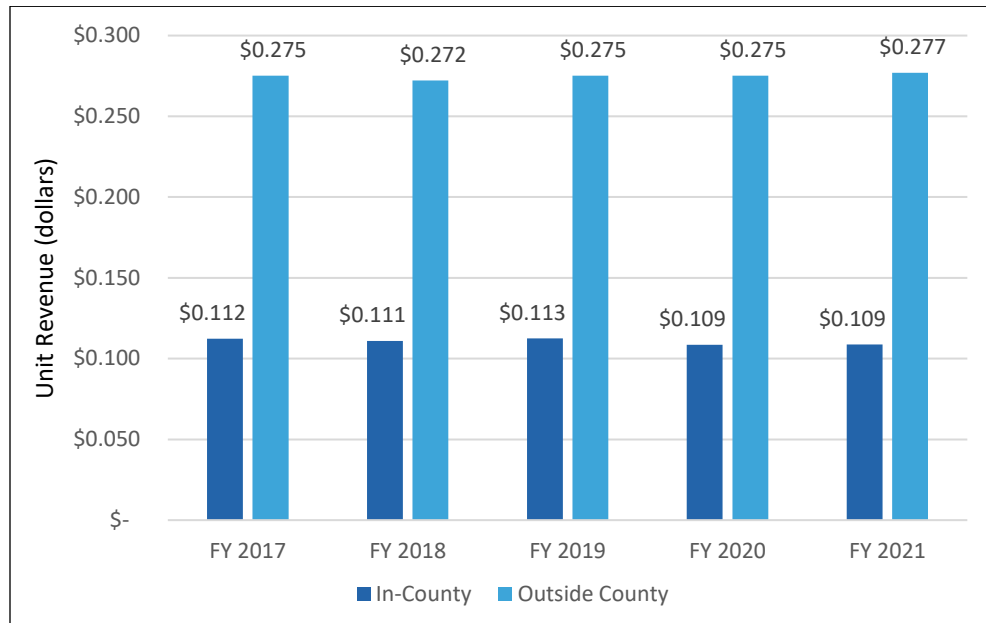
In an effort to improve Periodicals revenue, and in line with prior encouragement from the Commission to improve cost coverage, the Postal Service has consistently implemented price increases that have maximized the Postal Service's rate authority for both Periodicals products. In the past, however, the CPI-U price cap limited the Postal Service's ability to raise prices. The recent addition of density, retirement, and non-compensatory rate authorities allows the Postal Service more pricing flexibility within the Periodicals class going forward.⁵¹ In Docket No. R2021-2, the Postal Service raised Periodicals prices by 8.771 percent on average. Order No. 5937 at 106-07. The magnitude of this price increase was significant compared to previous rate increases limited by the CPI-U price cap, but since the prices were implemented on August 29, 2021, the full impact of the price increase on Periodicals revenue will not be clear until the end of FY 2022.

As such, the FY 2021 Periodicals total revenue, and its unit revenue, are still largely limited by the CPI-U price cap and have not increased in step with price increases. As detailed in Figure III-1, from FY 2017 to FY 2021, Periodicals unit revenue remained relatively flat. Unit revenue for In-County was \$0.112 in FY 2017 and \$0.109 in FY 2021, a decrease of only 3.2 percent. Unit revenue for Outside County was \$0.275 in FY 2017 and \$0.277 in FY 2021, a slight increase of 0.6 percent.

⁵⁰ See Library Reference PRC-LR-ACR2021-5, Excel file "FY 2021 CH3 Periodicals.xlsx."

⁵¹ These new rate authorities are described in more detail in Section II.B.

**Figure III-1
Periodicals Unit Revenue, FY 2017–FY 2021**



Source: Library Reference PRC-LR-ACR2021-5.

Changes in the characteristics of mailpieces, such as weight and advertising content, have dampened the impact of the rate increases. For Outside County, which makes up 87.8 percent of Periodicals volume, pricing for the product is related to weight and percent of advertising content. Simply put, the Postal Service earns more revenue from mailpieces that are heavier and contain more advertising. As detailed below in Table III-2, average weight for Outside County decreased by 11.7 percent and average advertising content decreased by 6.8 percentage points over the last 5 fiscal years. Not only did weight decrease, but in FY 2021, the Postal Service sought to enable publishers to increase editorial content by keeping the pound price stable (while raising other pricing components).⁵² These factors directly limited the revenue that the Postal Service earned from the Outside County product.

⁵² Library Reference USPS-FY21-44, December 29, 2021, PDF file “USPS-FY21-44 Preface.Report.pdf,” at 2 (Periodicals Pricing Report). In response to prior ACD directives, the Postal Service has previously discussed trends in Periodicals, mail mix changes, and impacts of pricing strategies as part of its Periodicals Pricing Report. In the FY 2020 ACD, the Commission directed the Postal Service to include an updated version of the Periodicals Pricing Report in its FY 2021 ACR. FY 2020 ACD at 28. The updated report included an analysis of how price changes during the fiscal year impacted the cost, contribution, and revenue of Periodicals in FY 2021 and whether the new prices improved the efficiency of Periodicals pricing in FY 2021.

Table III-2
Periodicals Outside County Revenue Elements, FY 2017–FY 2021

Fiscal Year	Weight (Ounces)	Advertising Content
FY 2017	5.96	37.5%
FY 2018	5.75	35.8%
FY 2019	5.59	34.2%
FY 2020	5.32	31.9%
FY 2021	5.26	30.7%

Source: Library Reference PRC-LR-ACR2021-5.

The Postal Service continued implementing a second pricing strategy in FY 2021. In an effort to encourage sorting to the delivery route, it increased Carrier Route piece prices by only 5 to 7 percent, while other presort levels' prices increased by more than 10 percent. *Id.*

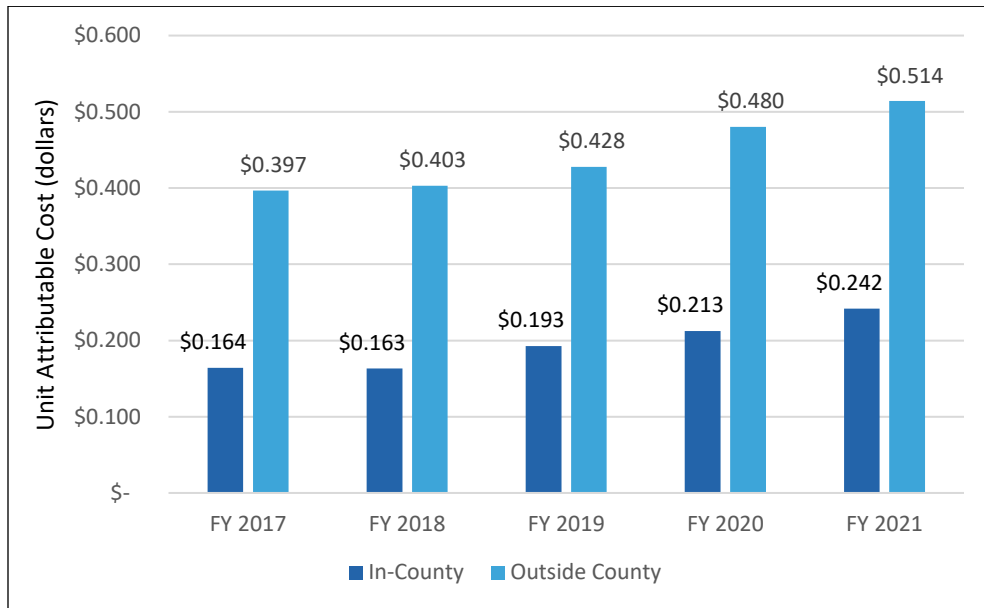
The Commission notes that when the mail mix shifts away from presortation and dropship, revenue can increase because rates are higher. However, because the Postal Service must process and transport the pieces more often, costs also increase. In future rate cases, the Postal Service should consider mail mix changes when pricing Periodicals in order to maximize revenue.

The Commission encourages the Postal Service to continue to maximize its usage of rate authority granted under 39 C.F.R. § 3030.222 and to maximize its revenue by strategically pricing Periodicals.

(2) Periodicals Attributable Cost

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. *See* Library Reference USPS-FY21-45. As discussed further in Chapter VI, the Postal Service has been unable to quantify the expected impact of those operational initiatives and changes. *See* Chapter VI. Therefore, the Commission is unable to determine the impact of these initiatives on the cost of Periodicals but notes that, despite these initiatives, the cost of handling Periodicals continues to increase.

**Figure III-2
Periodicals Unit Attributable Cost, FY 2017–FY 2021**

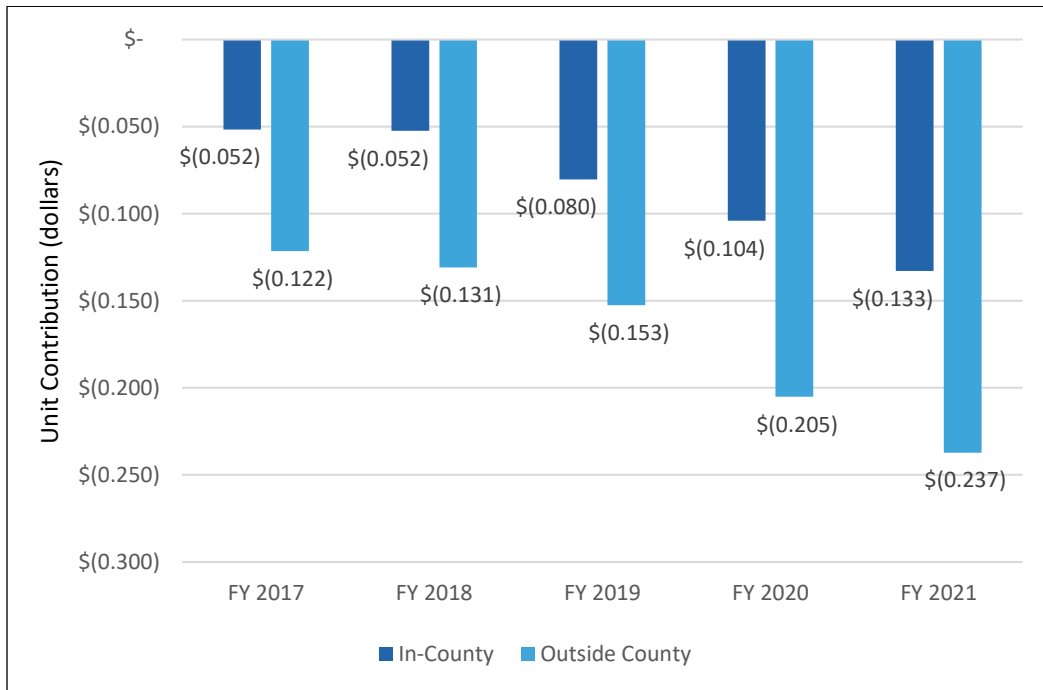


Source: Library Reference PRC-LR-ACR2021-5.

As detailed in Figure III-2, from FY 2017 to FY 2021, Periodicals unit attributable cost has increased annually. Unit attributable cost for In-County was \$0.164 in FY 2017 and \$0.242 in FY 2021, an increase of 47.4 percent. Unit attributable cost for Outside County was \$0.397 in FY 2017 and \$0.514 in FY 2021, an increase of 29.6 percent.

Figure III-3 illustrates that the widening gap between unit revenue and unit attributable cost resulted in a lower unit contribution and an increasing total negative contribution for Periodicals.

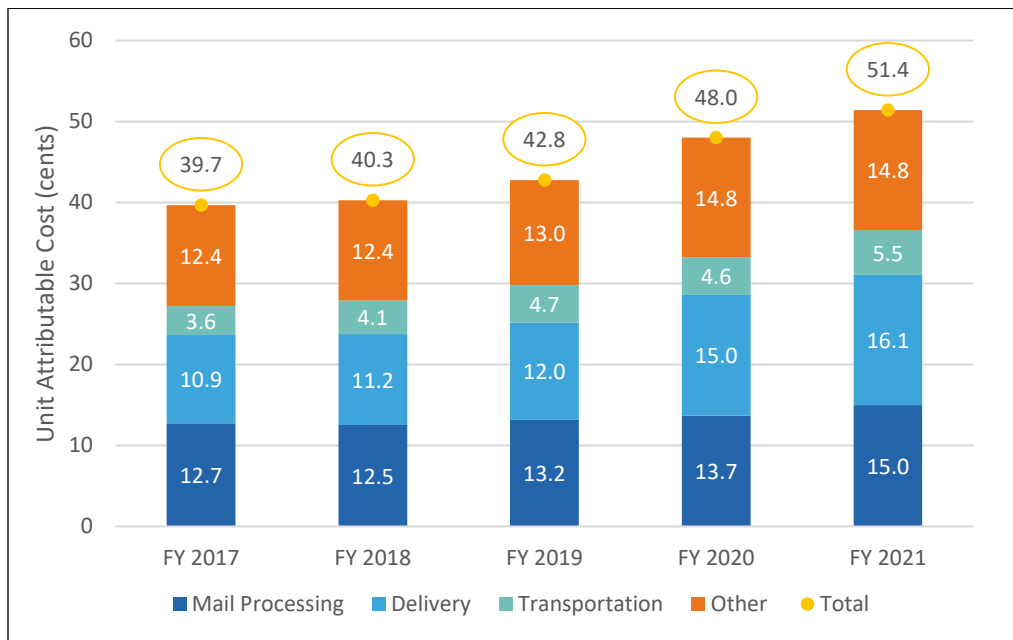
**Figure III-3
Periodicals Unit Contribution, FY 2017–FY 2021**



Source: Library Reference PRC-LR-ACR2021-5.

In FY 2021, Outside County constituted 87.8 percent of all Periodicals volume and 93.9 percent of total Periodicals attributable cost.⁵³ Figure III-4 shows that Outside County unit attributable cost increased by 11.73 cents from FY 2017 to FY 2021.

**Figure III-4
Periodicals Outside County Unit Attributable Cost, FY 2017–FY 2021**



Source: Library Reference PRC-LR-ACR2021-5.

In FY 2021, the unit attributable cost increased for mail processing, delivery, purchased transportation, and other costs.⁵⁴ The Postal Service expects Periodicals domestic air cost to decrease due to new service standards introduced in Docket No. N2021-1. However, 93 percent of Periodicals volume will stay at its current standard, leaving 7 percent of Periodicals volume that could potentially yield domestic air cost savings. In addition, in FY 2021, domestic air only accounted for 8.9 percent of total purchased transportation cost for Periodicals.⁵⁵ Since the new service standards were implemented on October 1, 2021, the full impact of the change on Periodicals attributable cost will not be clear until the end of FY 2022.

⁵³ See Library Reference PRC-LR-ACR2021-5, Excel file "FY 2021 CH3 Periodicals.xlsx."

⁵⁴ In Figure III-4, Mail Processing includes cost segment 3; Delivery includes cost segments 6, 7, and 10; Transportation includes cost segment 14; and Other includes cost segments 1, 2, 8, 11, 12, 13, 15, 16, 17, 18, 19, and 20. The figure does not account for piggyback factors.

⁵⁵ See Library Reference PRC-LR-ACR2021-5, Excel file "FY 2021 CH3 Periodicals.xlsx."

As Table III-3 illustrates, mailer presortation of Outside County Carrier Route has decreased since FY 2017. In FY 2017, mailer presortation of Outside County Carrier Route was at 62.3 percent and had decreased to 58.7 percent by FY 2021. In addition, mailer dropship of Outside County decreased from 75.0 percent in FY 2017 to 72.8 percent in FY 2021. This is likely due to declining subscriber bases and lower density of publications. The Postal Service states that “[d]eclining volume results in reduced density, regardless of the reason for the decline, which leads to a reduction in the number of pieces qualifying for higher presort containers.” Periodicals Pricing Report at 2. This increases mail processing costs for the Postal Service, because it is forced to do processing work that used to be avoided.

Table III-3
Periodicals Outside County Mail Mix, FY 2017–FY 2021

Fiscal Year	Presortation - Carrier Route Basic	Dropship - All Levels
FY 2017	62.3%	75.0%
FY 2018	61.2%	74.0%
FY 2019	59.9%	72.4%
FY 2020	58.9%	71.9%
FY 2021	58.7%	72.8%

Source: Library Reference PRC-LR-ACR2021-5.

On a positive note, in FY 2021, the Postal Service observes that relatively more mail was prepared in Carrier Route pallets, and the usage of high-cost sacks was reduced. Periodicals Pricing Report at 3. The Commission notes that although mail processing cost for these pieces decreased, the decline was small and not sufficient to balance out the other cost increases and shifts in the mail mix to less presorted categories described above. Therefore, there was no noticeable improvement in cost coverage for the Periodicals class as a whole.

All of the Commission recommendations pertaining to reducing flat-shaped mail costs in Chapter VI of this Report apply to Periodicals. In Chapter VI, the Commission reiterates its longstanding finding that despite numerous cost-reduction initiatives designed to reduce flat-shaped mail costs, these costs continue to rise.

2. Package Services

a. Introduction

FY 2021 was the third fiscal year in a row that the Package Services class did not cover its costs. In FY 2021, the cost coverage for Package Services was 93.2 percent, which was a less than 1 percentage point improvement from the class cost coverage of 92.5 percent in FY 2020.

The Package Services class consists of four products. Two of those products, Alaska Bypass Service and BPM Flats, covered their costs in FY 2021. However, the positive contribution from those products was insufficient to offset the negative contribution from the other two products, BPM Parcels and Media Mail/Library Mail. Table III-4 contains the cost coverage of each Package Services product as well as the overall class cost coverage for the last 5 fiscal years.

Table III-4
Package Services Cost Coverage, FY 2017–FY 2021

Fiscal Year	Package Services Overall	Alaska Bypass Service	Bound Printed Matter Flats	Bound Printed Matter Parcels	Media Mail/Library Mail
FY 2017	103.5%	193.4%	152.1%	110.5%	75.7%
FY 2018	102.6%	175.8%	148.9%	109.0%	76.7%
FY 2019	96.9%	155.9%	143.7%	106.1%	71.5%
FY 2020	92.5%	147.6%	125.8%	94.0%	79.3%
FY 2021	93.2%	129.8%	117.3%	94.6%	84.3%

Source: Library Reference PRC-LR-ACR2021-6.

As Table III-4 shows, the cost coverage for the Package Services class decreased by 10.3 percentage points between FY 2017 and FY 2021, from a cost coverage of 103.5 percent in FY 2017 to a cost coverage of 93.2 percent in FY 2021. Table III-4 further illustrates that cost coverages for all Package Services products except Media Mail/Library Mail decreased between FY 2017 and FY 2021. Media Mail/Library Mail's cost coverage improved by 8.6 percentage points between FY 2017 and FY 2021; however, this product continues to have the lowest cost coverage of all Package Services products.

Below, the Commission discusses the FY 2021 financial results for the two Package Services products that did not cover their costs in FY 2021, BPM Parcels and Media Mail/Library Mail.

b. Bound Printed Matter Parcels

(1) Introduction

In FY 2021, as in FY 2020, the BPM Parcels product failed to cover its attributable cost. In the FY 2020 ACD, the Commission recommended that the Postal Service propose a price increase for BPM Parcels above the class average for the Package Services class. FY 2020 ACD at 54. In addition, the Commission stated that the Postal Service should explore and implement opportunities to reduce the unit cost of BPM Parcels and report on those opportunities and results in the FY 2021 ACR. *Id.* As detailed below, the Commission finds that the Postal Service's response to the FY 2020 ACD was inadequate and is concerned that BPM Parcels did not cover its costs for a second consecutive year.

(2) FY 2021 Results

In FY 2021, the cost coverage for BPM Parcels was 94.6 percent, a slight increase from FY 2020 when cost coverage was 94.0 percent. Library Reference PRC-LR-ACR2021-6. The Postal Service explains that this improvement was due to a 3.3 cent increase in unit revenue, which outpaced the 2.8 cent increase in unit cost. FY 2021 ACR at 41. A CHIR was issued asking the Postal Service to explain why unit cost increased in FY 2021.⁵⁶ In response, the Postal Service states that the unit cost increase was primarily due to an increase in mail processing unit cost with mail processing costs not falling in proportion to BPM Parcels' volume decline.⁵⁷ The Postal Service also notes that there were changes in presort and dropship profiles for BPM Parcels over the same period, which would be expected to increase mail processing unit costs. Response to CHIR No. 11, question 19. However, the Postal Service also notes that "the cost difference is not statistically significant because the coefficient of variation (CV) for these estimates . . . was 7.1 percent in FY 2021 and 6.7 percent in FY 2020." *Id.*

In response to the Commission's recommendation in the FY 2020 ACD that the Postal Service explore and implement opportunities to reduce the unit cost of BPM Parcels and report on those opportunities and results in the FY 2021 ACR, the Postal Service only mentions that a potential shift of volumes from NDCs to processing and distribution centers (P&DCs) "should have a beneficial effect on BPM Parcels unit costs" without elaborating further. FY 2021 ACR at 41. A CHIR was issued asking for more details about this and any other initiatives considered or planned in FY 2021 and FY 2022 to reduce the unit cost of BPM Parcels.⁵⁸ In response, the Postal Service states that the shift of BPM Parcels' processing to P&DCs is part of a shape-based processing strategy that is tentatively set for implementation in January 2023.⁵⁹ The Postal Service expects this processing change would "reduce processing and logistics costs by reducing allied time, building

⁵⁶ Chairman's Information Request No. 11, February 4, 2022, question 19 (CHIR No. 11).

⁵⁷ Responses of the United States Postal Service to Questions 1-21 of Chairman's Information Request No. 11, February 11, 2022, question 19 (Response to CHIR No. 11).

⁵⁸ Chairman's Information Request No. 5, January 24, 2022, question 4 (CHIR No. 5).

⁵⁹ Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 5, January 31, 2022, question 4.a. (Response to CHIR No. 5).

higher density mail containers, and increasing the utilization of surface trips[;]" however, the Postal Service is unable to provide quantitative support demonstrating these expected cost reductions. Response to CHIR No. 5, question 4.b. The Postal Service represents that no other initiatives were considered in FY 2021 or are being considered in FY 2022 to reduce the unit cost of BPM Parcels. *Id.* question 4.c., 4.f.

In the FY 2020 ACD, the Commission also recommended that the Postal Service propose an above-average price increase for BPM Parcels. FY 2020 ACD at 54. However, in Docket No. R2021-2, the Postal Service proposed a price increase for BPM Parcels that was more than 2 percentage points below the class average. Order No. 5937 at 116.

In the FY 2021 ACR, the Postal Service states that it "remains committed to improving Package Services cost coverage." FY 2021 ACR at 41. However, the Postal Service does not commit to above-average price increases for BPM Parcels in FY 2022 and states that it "will evaluate its [BPM] Parcels pricing strategy following the conclusion of Docket No. MC2021-78," where it proposed to transfer the product to the Competitive product list.⁶⁰

(3) Comments on BPM Parcels

The Public Representative notes that BPM Parcels did not receive price increases above the class average in recent rate adjustments. PR Comments at 13. He recommends that if the transfer of BPM Parcels to the Competitive product list is denied, the Postal Service should increase prices for BPM Parcels above the class average in its next rate adjustment. *Id.*

(4) Commission Analysis

As noted above, in FY 2021, BPM Parcels did not cover its attributable cost and had a cost coverage of 94.6 percent. Although this was a slight improvement from the FY 2020 cost coverage of 94.0 percent, it is still a notable decrease from its cost coverage of 106.1 percent in FY 2019. Table III-5 shows the volume, unit revenue, unit attributable cost, unit contribution, and overall cost coverage of BPM Parcels since FY 2017.

⁶⁰ *Id.*; Docket No. MC2021-78, United States Postal Service Request to Transfer Bound Printed Matter Parcels to the Competitive Product List, March 26, 2021.

**Table III-5
Bound Printed Matter Parcels Financial Results, FY 2017–FY 2021**

Fiscal Year	Volume (Millions)	Unit Revenue (Cents)	Unit Attributable Cost (Cents)	Unit Contribution (Cents)	Cost Coverage
FY 2017	277.6	107.6	97.4	10.2	110.5%
FY 2018	294.8	108.1	99.2	8.9	109.0%
FY 2019	285.9	110.1	103.8	6.3	106.1%
FY 2020	260.6	111.0	118.1	-7.1	94.0%
FY 2021	227.2	114.4	120.9	-6.5	94.6%

Source: Library Reference PRC-LR-ACR2021-6.

Table III-5 shows that the cost coverage for BPM Parcels decreased by 15.9 percentage points over the last 5 fiscal years as the change in unit revenue has not kept pace with the change in unit cost. Unit revenue for BPM Parcels increased by only 6.3 percent over the last 5 fiscal years compared to an increase of 24.1 percent in unit cost over the same time period.

As noted above, in the FY 2020 ACD, the Commission recommended that the Postal Service explore and implement opportunities to reduce the unit cost of BPM Parcels and report on its progress in the FY 2021 ACR. FY 2020 ACD at 54. The Postal Service's response demonstrated that the Postal Service made no efforts in FY 2021 to address rising unit costs for BPM Parcels. In the FY 2021 ACR, although the Postal Service indicated a possible beneficial effect from a potential shift in BPM Parcels' processing, it failed to elaborate on those or any other plans or explain why and how any such change would reduce unit cost. FY 2021 ACR at 41. When asked, the Postal Service was unable to provide any quantitative support for its hypothesis that BPM Parcels' unit cost would decline as a result of this processing change. Response to CHIR No. 5, question 4.b. The Postal Service also acknowledged that this change is not expected to be implemented until January 2023, and that no other initiatives were considered in FY 2021 or are being considered in FY 2022 to reduce the unit cost of BPM Parcels. *Id.* question 4.a., 4.c., 4.f.

In Docket No. RM2017-3, the Commission was concerned that classes of mail that did not cover their attributable costs threatened the financial integrity of the Postal Service. Order No. 5763 at 189. The Commission noted that the overall financial results of non-compensatory classes are dominated by non-compensatory products. *Id.* Because non-compensatory classes create unique issues, the Commission provides for an additional 2 percentage points of rate authority for any class of mail that does not cover its attributable costs. *Id.*; 39 C.F.R. § 3030.222(a).

In the FY 2020 ACD, the Commission recommended that the Postal Service propose a price increase for BPM Parcels that was above the class average for the Package Services class due to the product's non-compensatory status. FY 2020 ACD at 54. However, in Docket

No. R2021-2, the Postal Service proposed a price increase for BPM Parcels that was the lowest among the products in the Package Services class and more than 2 percentage points below the class average despite utilizing the 2 percentage points of additional rate authority granted to Package Services as a non-compensatory class. Order No. 5937 at 116. To explain its proposed price increase for BPM Parcels, the Postal Service referenced its request to transfer BPM Parcels to the Competitive product list in Docket No. MC2021-78 and stated that it was balancing “the need to address the product’s cost coverage against the need to ensure that a non-compensatory class’s price cap space is not wasted on a product that may not remain on the market-dominant list.”⁶¹

In the order approving the Docket No. R2021-2 price increases, the Commission noted that the Postal Service was not required to give BPM Parcels an above-average price increase. Order No. 5937 at 119. However, the Commission expressed “concern that the Postal Service has elected not to give BPM Parcels an above average price increase given the amount of rate authority available to Package Services” and noted that “[i]f BPM Parcels are not transferred to the Competitive product list, the Commission expects to look closely at the cost coverage of BPM Parcels in the next ACD and consider whether further regulatory action is needed at that time.” *Id.* at 119-20. On February 10, 2022, the Commission denied the Postal Service’s request to transfer BPM Parcels to the Competitive product list.⁶²

The Commission finds that FY 2021 revenue for BPM Parcels was not sufficient to cover attributable cost and that the Postal Service did not take adequate steps in FY 2021 to improve the cost coverage for this product. As a result, the Commission directs the Postal Service to increase BPM Parcels’ prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting the Package Services class through the issuance of the FY 2022 ACD. In addition to an above-average price increase, the Commission directs the Postal Service to further explore initiatives to reduce the unit cost of BPM Parcels in FY 2022. In the FY 2022 ACR, the Postal Service must explain in detail the initiatives it considered but did not implement in FY 2022 as well as the initiatives it implemented in FY 2022 or plans to implement in FY 2023. For any initiative that was implemented or is planned to be implemented, the Postal Service must describe the actual or expected effects on BPM Parcels’ unit cost and provide any available quantitative support.

⁶¹ Docket No. R2021-2, United States Postal Service Notice of Market-Dominant Price Change, May 28, 2021, at 25.

⁶² Docket No. MC2021-78, Order Denying Request to Transfer Bound Printed Matter Parcels to the Competitive Product List, February 10, 2022 (Order No. 6105).

c. Media Mail/Library Mail

(1) Introduction

In FY 2021, the Media Mail/Library Mail product failed to cover its attributable cost. FY 2021 was the fifteenth consecutive year that Media Mail/Library Mail did not generate sufficient revenue to cover its attributable cost. *See* FY 2020 ACD at 51.

(2) FY 2021 Results

In FY 2021, Media Mail/Library Mail had a cost coverage of 84.3 percent, a 5.0 percentage point increase compared with FY 2020. FY 2021 ACR at 40. The Postal Service states that the increase in cost coverage for Media Mail/Library Mail in FY 2021 is the result of a 15 cent increase in unit revenue and an 8 cent decrease in unit cost. *Id.*

The Postal Service has consistently increased the prices for Media Mail/Library Mail faster than the prices for Package Services as a class. *See* Table III-7, *infra*. Docket No. R2021-2 included a 10.865 percent price increase for Media Mail/Library Mail, which was more than 2 percentage points above the class average for the Package Services class as a whole. *Id.*; Order No. 5937 at 116. The Postal Service states that the Docket No. R2021-2 price increase should have a significant effect on cost coverage in FY 2022 and that it intends to continue to improve the cost coverage of Media Mail/Library Mail through above-average price increases. FY 2021 ACR at 41.

(3) Comments on Media Mail/Library Mail

The Public Representative notes that the cost coverage of Media Mail/Library Mail has improved for 2 consecutive years and that the Postal Service gave the product price increases above the class average in recent rate adjustment proceedings. PR Comments at 14. He states the Docket No. R2021-2 price increase “should have a more substantial impact on cost coverage in FY 2022” and encourages the Postal Service to continue increasing Media Mail/Library Mail prices above the class average until the product covers its attributable cost. *Id.*

(4) Commission Analysis

As noted above, the Media Mail/Library Mail product did not cover its attributable cost or make a contribution to institutional costs in FY 2021. Table III-6 contains the volume, unit revenue, unit attributable cost, unit contribution, and cost coverage of Media Mail/Library Mail since FY 2017.

**Table III-6
Media Mail/Library Mail Financial Results, FY 2017–FY 2021**

Fiscal Year	Volume (Millions)	Unit Revenue (Cents)	Unit Attributable Cost (Cents)	Unit Contribution (Cents)	Cost Coverage
FY 2017	76.5	349.2	461.1	-111.9	75.7%
FY 2018	79.0	350.1	456.4	-106.4	76.7%
FY 2019	80.1	354.5	495.5	-141.1	71.5%
FY 2020	97.8	357.3	450.5	-93.2	79.3%
FY 2021	107.3	372.8	442.0	-69.2	84.3%

Source: Library Reference PRC-LR-ACR2021-6.

Although Media Mail/Library Mail only covered 84.3 percent of its attributable cost in FY 2021, as Table III-6 demonstrates, the product's financial results have improved considerably over the last 5 fiscal years. Between FY 2017 and FY 2021, Media Mail/Library Mail's unit revenue increased by 23.6 cents and its unit cost decreased by 19.1 cents, leading to an improved unit contribution of 42.7 cents. This improved contribution is also reflected in the product's cost coverage, which improved by 8.6 percentage points between FY 2017 and FY 2021.

Table III-7 shows the history of price increases for Media Mail/Library Mail under the PAEA. This table demonstrates that the Postal Service consistently increased the prices for Media Mail/Library Mail above the average price increase for the Package Services class.

Table III-7
Media Mail/Library Mail Price Adjustment vs.
Package Services Price Adjustment

Docket No.	Media Mail/Library Mail Price Adjustment	Package Services Price Adjustment
R2008-1	4.538%	2.875%
R2009-2	7.468%	3.800%
R2011-2	1.964%	1.740%
R2012-3	2.581%	2.115%
R2013-1	3.469%	2.567%
R2013-10	2.061%	1.453%
R2015-4	2.197%	1.787%
R2017-1	1.135%	0.973%
R2018-1	1.993%	1.960%
R2019-1	2.954%	2.522%
R2020-1	1.993%	1.892%
R2021-1	3.579%	1.460%
R2021-2	10.865%	8.804%

Source: Library Reference PRC-LR-ACR2021-6.

According to the Postal Service, it intends to continue applying above-average price increases to Media Mail/Library Mail. FY 2021 ACR at 41.

The Commission finds that the FY 2021 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. The Commission strongly recommends that the Postal Service continue to apply above-average price increases to Media Mail/Library Mail in rate adjustment proceedings consistent with the FY 2021 ACR's pricing plan for Media Mail/Library Mail.

C. Non-Compensatory Products in Compensatory Classes

1. First-Class Mail

a. Introduction

As a class, First-Class Mail covered its attributable costs in FY 2021 and had an overall cost coverage of 193.69 percent. Table III-8 provides the cost coverage for each First-Class Mail product as well as the overall class for the last 5 fiscal years. As Table III-8 shows, First-Class Mail Flats was the only First-Class Mail product that did not cover its costs in FY 2021.

Table III-8
First-Class Mail Cost Coverage, FY 2017–FY 2021

Fiscal Year	First-Class Mail Overall	Single-Piece Letters/Postcards	Presorted Letters/Postcards	Flats	Outbound Single-Piece International	Inbound Letter Post
FY 2017	208.81%	162.83%	319.52%	129.92%	165.89%	63.36%
FY 2018	204.22%	160.70%	309.76%	123.17%	142.04%	83.97%
FY 2019	195.62%	156.14%	292.88%	108.99%	145.72%	78.72%
FY 2020	198.16%	163.26%	280.96%	100.23%	128.27%	87.98%
FY 2021	193.69%	148.49%	279.92%	98.93%	152.77%	122.10%

Source: Library Reference PRC-LR-ACR2021-3.

b. First-Class Mail Flats

(1) Introduction

In FY 2021, First-Class Mail Flats had a cost coverage below 100 percent for the first time. The product's unit costs increased steadily over the past 5 years, while unit contribution steadily decreased over the same time period. FY 2021 ACR at 8-10. The Commission is concerned that First-Class Mail Flats appear to be moving in the same direction as other flat-shaped products that have not historically covered their attributable costs (*i.e.*, In-County Periodicals, Outside County Periodicals, USPS Marketing Mail Flats, and USPS Marketing Mail Carrier Route). Because this is the first time that First-Class Mail Flats is non-compensatory, there are no prior Commission directives for this product.

(2) FY 2021 Results

In FY 2021, First-Class Mail Flats' cost coverage fell to 98.9 percent from 100.2 percent in FY 2020. Library Reference PRC-LR-ACR2021-3. The Postal Service states that unit cost exceeded unit revenue by 1.7 cents in FY 2021. FY 2021 ACR at 8. The Postal Service explains that between FY 2020 and FY 2021, First-Class Mail Flats' volume fell by 2.4

percent and the mail mix within the product continued to change. *Id.* Specifically, the share of Single-Piece First-Class Mail Flats decreased from 56.4 percent in FY 2020 to 52.7 percent in FY 2021, while the share of Presorted First-Class Mail Flats increased from 43.6 percent in FY 2020 to 47.3 percent in FY 2021. *Id.* The Postal Service states that this shift in the mail mix from Single-Piece to Presorted First-Class Mail Flats “had a moderating effect on the unit revenue[,]” which resulted in unit revenue increasing from \$1.282 in FY 2020 to \$1.310 in FY 2021, a 2.1 percent increase. *Id.* at 8-9. However, the unit cost rose at a higher pace: from \$1.282 to \$1.326 between FY 2020 and FY 2021, an increase of 3.4 percent. *Id.* at 9.

The Postal Service states that the increase in unit cost was driven by increases in mail processing and surface transportation unit costs. *Id.* It further states that in the last 4 fiscal years, First-Class Mail Flats’ mail processing unit costs increased on average by 6.4 percent annually, coinciding with overall volume declines. *Id.* The Postal Service explains that as flat-shaped products’ volumes decreased, the productivities for various mail processing operations also declined, resulting in higher mail processing costs. *Id.* In regard to higher transportation costs, the Postal Service states that between FY 2020 and FY 2021, purchased transportation unit costs increased by 13.4 percent. *Id.* The Postal Service attributes this increase to the higher variabilities approved in Docket No. RM2021-1 as well as the possibility that declining volumes resulted in fewer average pieces per container and thus higher transportation unit costs. *Id.*

The Postal Service acknowledges that the disparity between unit revenue and unit cost for First-Class Mail Flats grew in recent years and states that it increased the product’s prices by 10.3 percent in Docket No. R2021-2 in response. *Id.* at 9-10. The Postal Service states that it “does not anticipate that revenue per piece and cost per piece will continue to diverge following the latest price increase for First-Class Mail Flats.” *Id.* at 10.

(3) Postal Service’s Plan to Improve Cost Coverage

A CHIR was issued asking the Postal Service to provide a plan to improve cost coverage for First-Class Mail Flats.⁶³ In response, the Postal Service states that besides compliance with 39 C.F.R. § 3030.221, which will require price increases for First-Class Mail Flats that are 2 percentage points above the class average, the Postal Service will consider higher price increases “subject to workshare and other constraints within the rate design and subject to an overall aim to maximize revenue and contribution at the class level.” Response to CHIR No. 3, question 2.b.

The Postal Service also describes efforts that it maintains should reduce the costs of First-Class Mail Flats. *Id.* Specifically, the Postal Service states that the new service standards enacted in October 2021 transitioned mail from air transportation to surface transportation, which the Postal Service states “should provide some relief for purchased transportation unit costs.” *Id.* In addition, the Postal Service notes that it established several mail processing initiatives aimed at alleviating the upward trend in mail processing

⁶³ Chairman’s Information Request No. 3 and Notice of Filing Under Seal, January 19, 2022, question 2.b. (CHIR No. 3).

costs. *Id.* The Postal Service explains that initiatives are targeted at flat-shaped products generally and should reduce attributable costs for all flat-shaped products, including First-Class Mail Flats. *Id.* These initiatives are discussed in more detail in Chapter VI. of this Report.

(4) Comments on First-Class Mail Flats

The Public Representative notes that in FY 2021, First-Class Mail Flats' cost coverage fell below 100 percent, and that unit cost increased more than unit revenue. PR Comments at 6. The Public Representative acknowledges that the Postal Service expects the cost coverage of First-Class Mail Flats to improve as a result of the price increase approved in Docket No. R2021-2. *Id.* at 7. He states that the Postal Service must comply with 39 C.F.R. § 3030.221 and increase prices by a minimum of 2 percentage points above the class average, which he states "should be sufficient to achieve compensatory prices." *Id.*

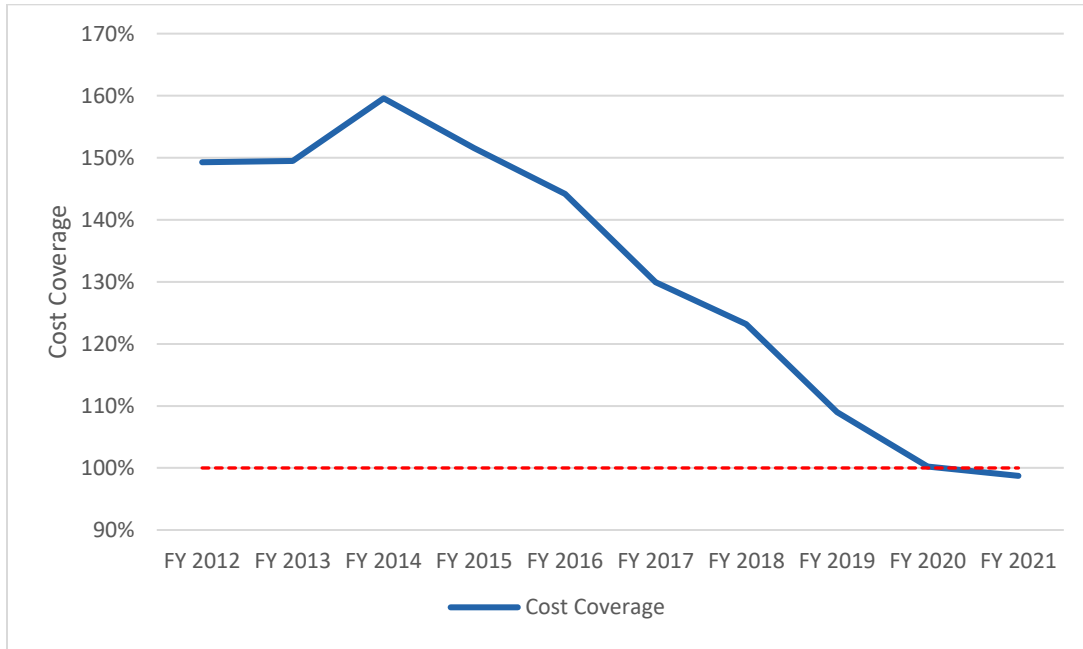
NPPC comments that First-Class Mail Flats' unit costs rose in recent years despite changes in the mail mix that increased the proportion of Presorted First-Class Mail Flats and should have reduced unit costs. NPPC Comments at 16. NPPC notes that none of the reasons the Postal Service gives for increases in unit costs "are the fault of those First-Class [Mail] Flats that remain in the system" or "due to the pieces themselves." *Id.* at 17. NPPC suggests that the Commission should address unit costs by trying to increase volumes by lowering prices, since higher rates and reporting requirements were not successful in improving the cost coverage of other flat-shaped products. *Id.* at 17-18. NPPC is concerned that 39 C.F.R. § 3030.221 does not allow the Postal Service any discretion to not increase First-Class Mail Flats' prices above the class average and requests that the Commission address that inflexibility. *Id.* at 18.

NAPM also questions whether 39 C.F.R. § 3030.221 should be strictly applied to require price increases at a minimum of 2 percentage points above the class average for First-Class Mail Flats. NAPM Comments at 5-7. NAPM notes that the rule requires such price increases "even if a product should become non-compensatory by a fraction of a percent" and suggests that the Commission should reconsider its rule and grant flexibility to the Postal Service "to judiciously determine the price." *Id.* at 6-7.

(5) Commission Analysis

Figure III-5 displays the cost coverage for First-Class Mail Flats over the last 10 fiscal years.

Figure III-5
First-Class Mail Flats Cost Coverage, FY 2012–FY 2021



Source: Library Reference PRC-LR-ACR2021-3.

As Figure III-5 shows, cost coverage dropped by 60.7 percentage points since First-Class Mail Flats' peak cost coverage of 159.6 percent in FY 2014. The cost coverage for First-Class Mail Flats decreased over the last 5 fiscal years by an average of 6.2 percentage points each year.

Table III-9 contains the volume, unit revenue, unit attributable cost, unit contribution, and overall cost coverage of First-Class Mail Flats for the last 5 fiscal years.

Table III-9
First-Class Mail Flats Financial Results, FY 2017–FY 2021

Fiscal Year	Volume (Millions)	Unit Revenue	Unit Attributable Cost	Unit Contribution	Cost Coverage
FY 2017	1,448.3	\$1.38	\$1.06	\$0.32	129.92%
FY 2018	1,381.9	\$1.39	\$1.13	\$0.26	123.17%
FY 2019	1,295.3	\$1.28	\$1.17	\$0.11	108.99%
FY 2020	1,204.7	\$1.28	\$1.28	\$0.00	100.23%
FY 2021	1,176.3	\$1.31	\$1.33	\$(0.02)	98.93%

Source: Library Reference PRC-LR-ACR2021-3.

As Table III-9 shows, unit contribution for First-Class Mail Flats decreased in each year between FY 2017 and FY 2021, which resulted in a decline in cost coverage of over 30 percentage points over the same period. Since FY 2017, unit revenue decreased by 7 cents, while unit cost increased by 27 cents. Table III-9 further illustrates the decline in First-Class Mail Flats' volumes in each year between FY 2017 and FY 2021.

As stated above, the Postal Service represents that the 10.3 percent price increase for First-Class Mail Flats approved in Docket No. R2021-2 will improve the growing disparity between unit revenues and costs. FY 2021 ACR at 10. A CHIR was issued asking the Postal Service to estimate the effects of this price increase on FY 2022 volume, revenue, cost, and contribution for First-Class Mail Flats.⁶⁴ In response, the Postal Service estimates that the Docket No. R2021-2 price increase will result in First-Class Mail Flats covering its costs and having a positive contribution of \$99.84 million in FY 2022.⁶⁵ The Postal Service's estimate projects that volumes will continue to decline in FY 2022, yet assumes that unit cost will remain constant in FY 2022 and makes no allowances for inflation. Response to CHIR No. 2, question 34.

The Commission is concerned that the Postal Service's estimate uses FY 2021 unit cost as a proxy for FY 2022 unit cost. As Table III-9 shows, the product's unit cost steadily increased in each year over the last 5 fiscal years, and inflationary pressures have been a prominent feature of the economy thus far in FY 2022.⁶⁶ As a result, the Postal Service's estimate does

⁶⁴ Chairman's Information Request No. 2 and Notice of Filing Under Seal, January 18, 2022, question 34 (CHIR No. 2).

⁶⁵ Responses of the United States Postal Service to Questions 1-36 of Chairman's Information Request No. 2, January 25, 2022, question 34 (Response to CHIR No. 2).

⁶⁶ See, e.g., Gabriel T. Rubin, The Wall Street Journal, *Inflation Reached 7.9% in February; Consumer Prices Are the Highest in 40 Years*, March 10, 2022, available at <https://www.wsj.com/articles/us-inflation-consumer-price-index-february-2022-11646857681>; Jeff Cox, CNBC, *Inflation rose 7.9% in February, as food and energy costs push prices to highest in more than 40 years*, March 10, 2022, available at <https://www.cnbc.com/2022/03/10/cpi-inflation-february-2022-.html>.

not capture an accurate picture of likely contribution and cost coverage for First-Class Mail Flats in FY 2022.

The Postal Service also identifies several operational initiatives that are intended to reduce attributable costs for flat-shaped products, including First-Class Mail Flats. *See, e.g.,* Response to CHIR No. 3, question 2.b. In Chapter VI. of this Report, the Commission reviews the operational changes and initiatives the Postal Service identified to reduce costs for flat-shaped mailpieces in general. *See* Chapter VI., *infra*. The Postal Service could improve First-Class Mail Flats' cost coverage through cost reductions. However, flat-shaped products' costs have continued to rise despite initiatives designed to improve them, and the Postal Service did not quantify any efforts to reduce First-Class Mail Flats' costs. *See id.*

NPPC and NAPM suggest that the Commission not enforce 39 C.F.R. § 3030.221, which requires price increases of least 2 percentage points above the class average for First-Class Mail Flats. NPPC Comments at 18; NAPM Comments at 6-7. As a preliminary matter, the Commission notes that First-Class Mail Flats' failure to cover its costs in FY 2021 appears to be part of a longer term trend given that First-Class Mail Flats has experienced a steady decline in cost coverage over the last 7 fiscal years. *See* Figure III-5, *supra*. The Commission expects that price increases and unit cost reductions will be key to reversing this trend. The new regulations adopted in Docket No. RM2017-3, including 39 C.F.R. § 3030.221, were a comprehensive modification to the system for regulating rates and classes for Market Dominant products after the Commission determined the prior system was not achieving the objectives of 39 U.S.C. § 3622(b).⁶⁷ The modifications were determined to be necessary to achieve the objectives. Order No. 5763 at 23. The modified ratemaking system has been in effect for slightly more than a year, and only one rate adjustment proceeding has concluded under the new regulations. In Docket No. RM2017-3, the Commission determined it would review the effects of the modified ratemaking system after 5 years. *Id.* at 267. In determining 5 years was the appropriate time period for review, the Commission found that data from multiple rate cycles were likely needed for "[a] thorough and insightful review." *Id.* Thus, the Commission determines that revisiting 39 C.F.R. § 3030.221 when it has been in effect for only a partial rate cycle is premature at this time and notes that 39 C.F.R. § 3030.221 may be reconsidered as part of the 5 year review.

The Commission finds that FY 2021 revenue for First-Class Mail Flats was not sufficient to cover attributable cost. Consistent with 39 C.F.R. § 3030.221, the Commission requires that the Postal Service increase First-Class Mail Flats' prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting First-Class Mail through the issuance of the FY 2022 ACD. 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 First-Class Mail Flats, as further discussed in Chapter VI. of this Report.

⁶⁷ *See* 39 U.S.C. § 3622(d)(3); Order No. 4257; Order No. 5763.

2. USPS Marketing Mail

As a class, USPS Marketing Mail covered its attributable costs in FY 2021 and had an overall cost coverage of 130.5 percent. Table III-10 provides the cost coverage for each USPS Marketing Mail product as well as the overall class for the last 5 fiscal years. As Table III-10 shows, three products within the class (USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, and USPS Marketing Mail Parcels) did not cover costs in FY 2021.

Table III-10
USPS Marketing Mail Cost Coverage, FY 2017–FY 2021

Fiscal Year	USPS Marketing Mail Overall	Carrier Route	Letters	Flats	Parcels	HD/Sat Flats	EDDM	HD/Sat Letters
FY 2017	146.7%	124.3%	195.4%	74.0%	64.5%	157.5%	268.7%	212.3%
FY 2018	142.4%	108.6%	195.0%	68.7%	58.5%	145.2%	267.6%	206.6%
FY 2019	139.1%	99.9%	190.0%	67.7%	56.9%	138.2%	259.5%	204.7%
FY 2020	129.5%	96.2%	171.4%	63.3%	76.5%	129.9%	257.7%	188.6%
FY 2021	130.5%	94.6%	174.7%	60.3%	73.1%	125.4%	248.3%	182.4%

Source: Library Reference PRC-LR-ACR2021-4.

a. USPS Marketing Mail Flats

(1) Introduction

In FY 2021, USPS Marketing Mail Flats experienced its worst cost coverage since the product was established in FY 2007. Given that the product has never covered its costs, the Commission has issued specific directives related to the cost coverage of USPS Marketing Mail Flats since the FY 2010 ACD:

- **FY 2010 ACD directive:** The Commission found that USPS Marketing Mail Flats prices did not comply with 39 U.S.C. § 101(d)⁶⁸ and directed the Postal Service to increase the product's cost coverage through a combination of above class-average price adjustments and cost reductions. In addition, the Commission directed the Postal Service to provide a description and estimation of the financial effect of operational changes designed to reduce USPS Marketing Mail Flats' costs in the previous fiscal year, a description and estimation of the financial effect of all costing methodology or measurement improvements made in the previous fiscal year, a statement summarizing the historical and current subsidy for the USPS Marketing Mail Flats product, and the estimated timeline for phasing out this subsidy in each subsequent ACR. FY 2010 ACD at 106-07.

⁶⁸ 39 U.S.C. § 101(d) requires the costs of postal operations to be apportioned to postal users on a fair and equitable basis.

- FY 2015 ACD directive: After finding that the Postal Service had made progress towards addressing the issues raised in the FY 2010 ACD in subsequent years,⁶⁹ in FY 2015 the Commission found that sufficient progress was no longer being made and required the Postal Service to develop a plan to measure, track, and report on cost and service issues related to flat-shaped products. FY 2015 ACD at 181. The Postal Service's response to the FY 2015 directive is discussed in more detail in Chapter VI. of this Report.
- FY 2018 ACD directive: The Commission found that the Postal Service had made no progress toward addressing the FY 2010 ACD directive in FY 2016 through FY 2018, and that this required further corrective action.⁷⁰ As cost coverage continued to decline, the Commission found USPS Marketing Mail Flats to be in violation of 39 U.S.C. § 101(d) and required the Postal Service to propose a price increase for the product of at least 2 percentage points above the class average for USPS Marketing Mail in the next Market Dominant rate adjustment. FY 2018 ACD at 72. The Commission also required the Postal Service to continue responding to the Commission's FY 2010 and FY 2015 directives. *Id.*
- FY 2019 and FY 2020 ACD directives: The Commission found USPS Marketing Mail Flats continued to violate 39 U.S.C. § 101(d), and in both years directed the Postal Service to propose a price increase at least 2 percentage points above the class average for USPS Marketing Mail in the next Market Dominant rate adjustment, in addition to continuing to comply with the FY 2010 and FY 2015 directives for additional reporting. FY 2019 ACD at 42-43; FY 2020 ACD at 41-42. The Commission noted in FY 2020 that this directive also satisfies the new 39 C.F.R. § 3030.221, which requires such price increases for non-compensatory products in compensatory classes. FY 2020 ACD at 41.

Despite these directives, the Postal Service has failed to halt this product's cost coverage decline or to identify a timeline to phase out the subsidy received by USPS Marketing Mail Flats.

(2) FY 2021 Results

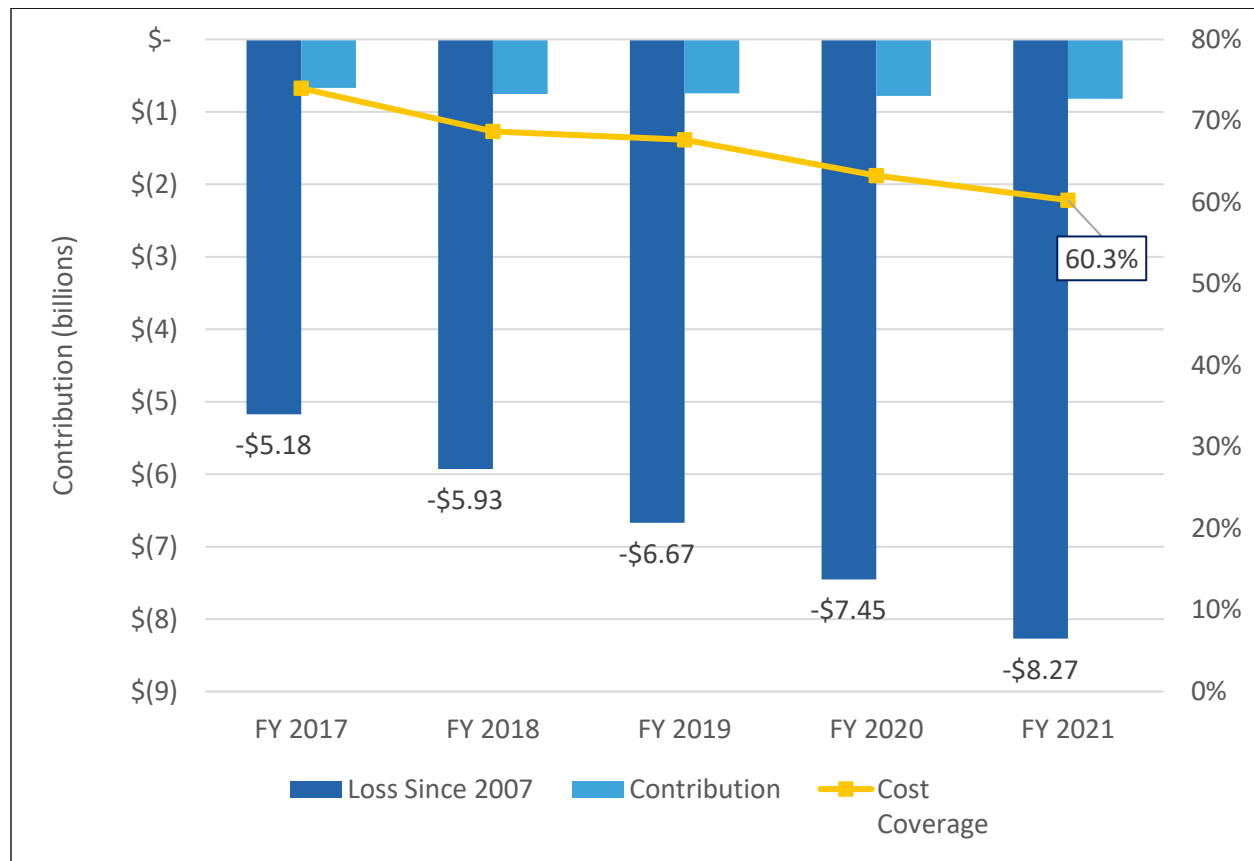
In FY 2021, USPS Marketing Mail Flats had a cost coverage of 60.3 percent, 3 percentage points lower than in the prior year and a new low.⁷¹ As shown in Figure III-6, cost coverage for USPS Marketing Mail Flats has steadily declined since FY 2017, when the cost coverage was 74.0 percent. Library Reference PRC-LR-ACR2021-4.

⁶⁹ See FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 47.

⁷⁰ FY 2016 ACD at 57; FY 2017 ACD at 59; FY 2018 ACD at 70-71.

⁷¹ The Commission's cost coverage calculation differs from the Postal Service's calculation because, unlike the Postal Service, the Commission includes fees in the revenue for each product. See Library Reference PRC-LR-ACR2021-1.

**Figure III-6
USPS Marketing Mail Flats Cost Coverage and Contribution, FY 2017–FY 2021⁷²**



Source: Library Reference PRC-LR-ACR2021-4.

While unit revenue grew by 2.9 percent, it was more than offset by an 8 percent increase in unit cost. *Id.* As a result, negative contribution increased by \$37.2 million in FY 2021. *Id.* This increase in negative contribution is troubling, given that volume plunged 10 percent between FY 2020 and FY 2021. *Id.* The cumulative contribution loss from USPS Marketing Mail Flats between FY 2008 and FY 2021 has climbed to negative \$8.3 billion. *Id.*

The Postal Service ascribes the decrease in cost coverage to “sharp volume decline in [USPS Marketing Mail] Flats” which caused “mail processing costs [to continue] to rise at a faster rate than wages.” FY 2021 ACR at 20. The Postal Service notes that total pieces fed (TPF) has fallen by 60 percent and productivity has fallen by 37 percent between 2009 and 2021 on the Automated Flat Sorting Maching (AFSM) 100. *See id.* AFSM 100 productivity declined by 3 percent while Flats Sequencing System (FSS) productivity declined by 4 percent in the last year. *Id.* The Postal Service also notes that volume declines necessitate higher unit mail

⁷² Complete USPS Marketing Mail Flats data for FY 2008 to FY 2019 can be found in Library Reference PRC-LR-ACR2019-4.

processing costs because “setup and breakdown activities are largely invariant to processed volume.” *Id.*

The Postal Service also asserts that “[c]o-mailing, which shifts pieces toward [USPS Marketing Mail] High Density, is a secondary influence contributing to the volume decline in [USPS Marketing Mail] Flats.” *Id.* USPS Marketing Mail Flats’ share of all flat-shaped products in USPS Marketing Mail decreased by 1.1 percentage points in FY 2021, while the share of USPS Marketing Mail High Density/Saturation Flats was relatively constant the same period. *Id.* at 21. The Postal Service also notes that price increases are somewhat offset by changes in the nonprofit mail mix. *Id.* at 20. The nonprofit share of USPS Marketing Mail Flats volume has grown by 9.2 percentage points between FY 2017 and FY 2021. *Id.*

(3) Postal Service Responses to Prior ACD Directives

The Postal Service has complied with the FY 2010 directives for additional reporting, some of which will be discussed below in Chapter VI. Of note, the Postal Service points to two methodology changes that slightly affected USPS Marketing Mail Flats costs in FY 2021. FY 2021 ACR at 34-36. Had they been in place during FY 2020, they would have resulted in a slightly smaller year-over-year unit cost increase in FY 2021. *Id.* at 34-35. Furthermore, the Postal Service comments on the historical and current subsidy of USPS Marketing Mail Flats, providing 14 years of product cost coverage shortfall and noting that the rule changes adopted as part of Docket No. RM2017-3 make plausible the prospect of future unit revenue increases exceeding or keeping pace with future unit cost increases. However, the Postal Service is unable to provide an estimated timeline for phasing out the subsidy.

In response to the FY 2020 ACD directive and in compliance with 39 C.F.R. § 3030.221, the Postal Service raised prices for USPS Marketing Mail Flats by 2 percentage points higher than the USPS Marketing Mail class average in each of the Market Dominant rate increases in FY 2021. *Id.* at 32. Specifically, the Postal Service raised rates on USPS Marketing Mail Flats by 3.553 percent in January 2021, and by 8.819 percent in August 2021.⁷³

The Postal Service states that its schedule for future USPS Marketing Mail Flats price increases will continue to increase those rates by at least 2 percentage points above the class average, until such time as the product is no longer subject to rule 3030.221 or the Commission otherwise revises its pricing directives. *Id.* at 32-33.

(4) Comments on USPS Marketing Mail Flats

MPA discusses the rising unit costs of USPS Marketing Mail Flats, noting that the average annual increase in unit cost was 6.2 percent between FY 2015 and FY 2021. MPA Comments at 1. The Public Representative notes the cumulative loss accrued from USPS Marketing Mail Flats increased by 4.9 percent in FY 2021. PR Comments at 9. He also notes that declines in cost coverage are partially due to the change in the commercial versus nonprofit mail mix. *Id.* at 9-10.

⁷³ *Id.* The class average rate increases were 1.519 percent and 6.814 percent, respectively. *See id.*

The American Catalog Mailers Association, Inc. (ACMA) analyzes changes in the mail mix in greater detail.⁷⁴ ACMA notes that when combining USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, and USPS Marketing Mail High Density Flats, the commercial mailpieces covered their cost in FY 2020 and had a cost coverage of 99.29 percent in FY 2021. *See* ACMA Comments at 3. It also notes that the nonprofit share of all flat-shaped products increased dramatically in FY 2021. *See id.* at 4. ACMA suggests that unit costs should be indexed to correct for changes in the mail mix, and that measuring cost in this way shows unit costs have grown much faster than inflation over the past 23 years. *See id.* at 5-6. ACMA points out that rate increases affect commercial and nonprofit mailpieces differently, going on to say that the commercial component of USPS Marketing Mail Carrier Route accrued a smaller rate increase than its nonprofit counterpart in FY 2021. The net effect of mail mix shifts is a blunting of unit revenues, “the shift toward Nonprofit is the principal reason the per-piece revenue for [Carrier Route] increased 1.9% instead of 2.811%” in line with the annualized rate increase for the product. *See id.* at 8-9.

PostCom notes the increasing shortfall of USPS Marketing Mail Flats and suggests the Postal Service should hold prices for flat-shaped pieces constant to limit volume loss. PostCom Comments at 7. PostCom is concerned about the Commission’s emphasis on product-level cost coverages, noting that non-compensatory products accounted for less than 12 percent of USPS Marketing Mail revenue in FY 2021. *Id.* at 9. PostCom also notes that raising the cost coverage of every non-compensatory product would not close the contribution gap. *Id.*

(5) Commission Analysis

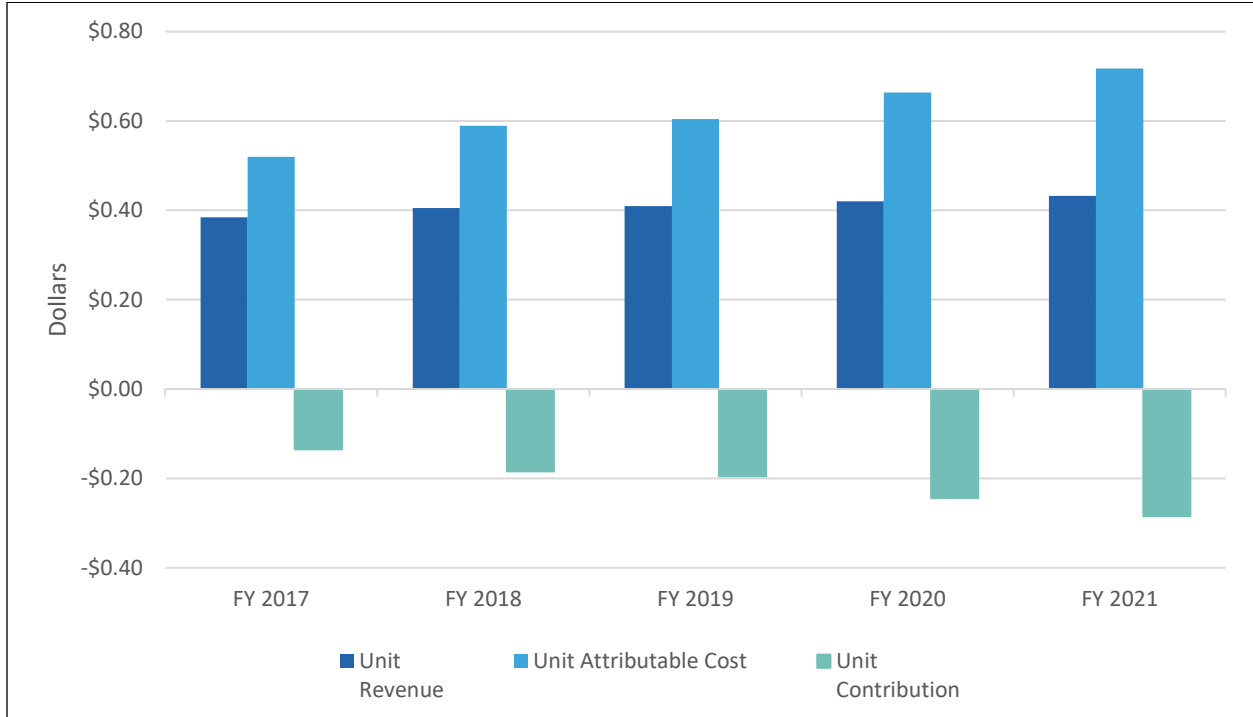
The Commission’s analysis of USPS Marketing Mail Flats examines cost coverage, the intra-class subsidy, changes in the product-level mail mix, and major cost segments.

(a) FY 2021 Cost Coverage and Unit Contribution

As described above, the cost coverage for USPS Marketing Mail Flats fell to 60.3 percent in FY 2021, a new low since it was established as a product and the seventh consecutive year of decline. Library Reference PRC-LR-ACR2021-4. As shown in Figure III-7, the unit contribution of USPS Marketing Mail Flats was -28.5 cents in FY 2021, a 4.1 cent decline from FY 2020 and, similar to the product’s cost coverage, the lowest ever for the product. Since cost coverage and unit contribution are both functions of cost and revenue, the Commission also shows cost and revenue trends in Figure III-7. The Postal Service was successful at increasing unit revenues by 1.2 cents in FY 2021. However, this slight increase was eclipsed by an increase in the unit attributable cost of 5.3 cents.

⁷⁴ Initial Comments of the American Catalog Mailers Association (ACMA), January 31, 2022 (ACMA Comments).

**Figure III-7
USPS Marketing Mail Flats Unit Revenue, Attributable Cost,
and Contribution, FY 2017–FY 2021**



Source: Library Reference PRC-LR-ACR2021-4.

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 through FY 2020 ACD directives.

(b) Intra-Class Cross-Subsidy

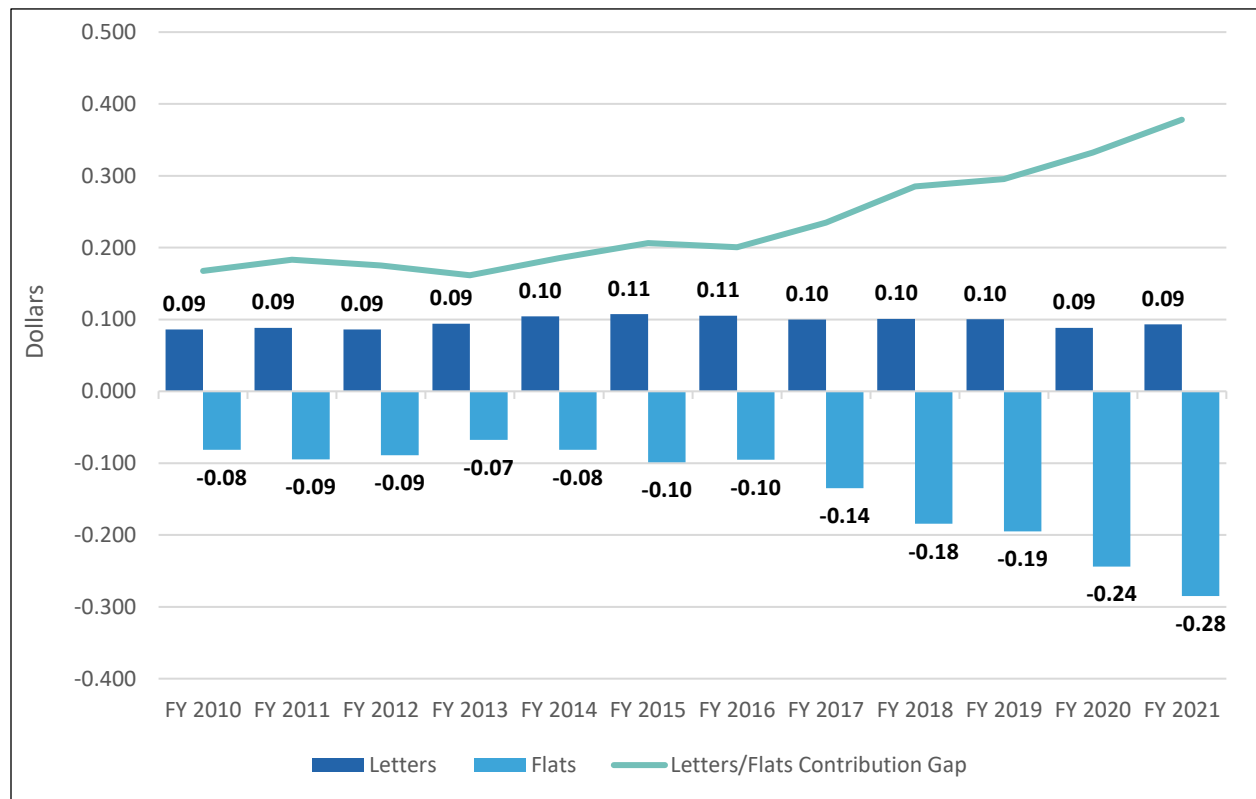
In the FY 2010 ACD, as part of its findings of noncompliance, the Commission analyzed the intra-class subsidy received by USPS Marketing Mail Flats, specifically from USPS Marketing Mail Letters, and found that the rates for USPS Marketing Mail Flats “produced a substantial and growing cost coverage shortfall that burdened mailers of other [USPS Marketing Mail] products.”⁷⁵ The Commission issued the FY 2010 ACD directive with the intent of enabling the Postal Service to reduce the contribution gap between these products.⁷⁶

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 Regul. 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 and has done so at an accelerated rate. In FY 2010, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats was 16.8 cents. In FY 2021, the contribution gap between these two products more than doubled to 37.8 cents.

**Figure III-8
USPS Marketing Mail Flats and Letters Unit Contribution
and Contribution Gap, FY 2010–FY 2021**



Source: Library Reference PRC-LR-ACR2021-4.

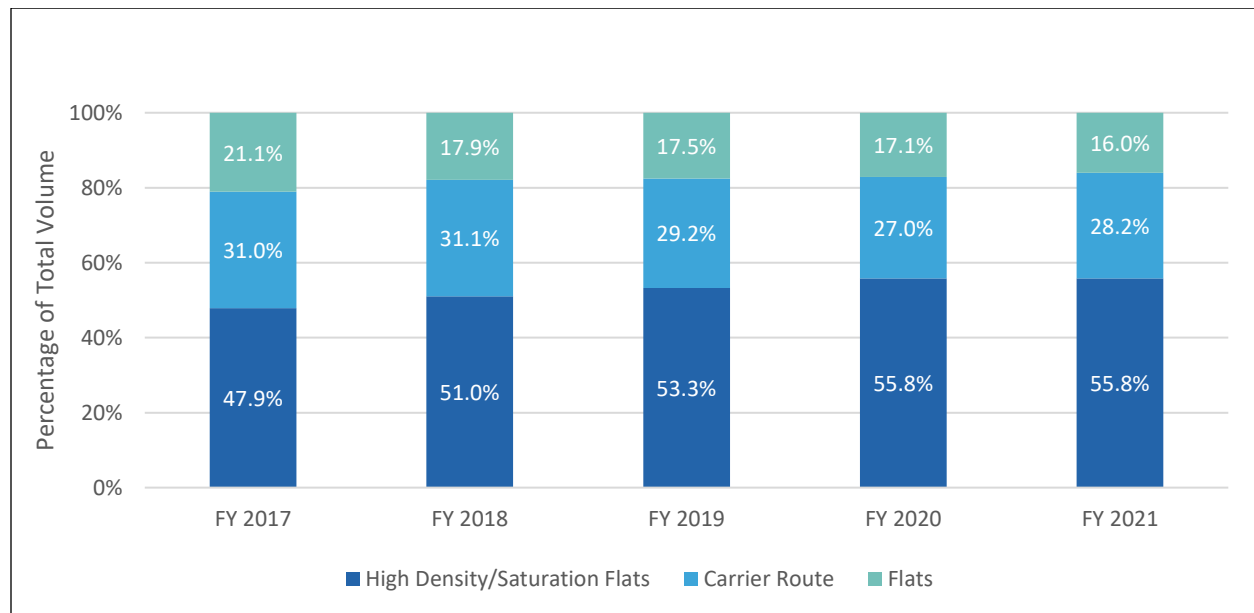
Since the Commission first issued the FY 2010 directive 11 years ago, cost coverage of USPS Marketing Mail Flats has declined by 21.5 percentage points to 60.3 percent; the cumulative negative contribution between FY 2008 through FY 2021 totals \$8.3 billion; and the unit contribution has decreased by 26.3 cents. During the same period, the unit contribution for USPS Marketing Mail Letters was roughly unchanged.

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

(c) Changes in the Product-Level Mail Mix

The Commission notes, as part of its analysis for USPS Marketing Mail Flats, that changes in the mail mix have occurred in recent years. Figure III-9 shows the distribution of USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, and USPS Marketing Mail High Density/Saturation Flats volumes. USPS Marketing Mail High Density/Saturation Flats have continued to occupy an increasing share of flat-shaped USPS Marketing Mail. The Postal Service opines that this trend is due to the increase in co-mailing, which shifts mail toward USPS Marketing Mail High Density and finer presort levels. FY 2021 ACR at 20. While all three products experienced volume decreases in absolute terms in FY 2021, USPS Marketing Mail Flats volumes declined by 10.3 percent whereas USPS Marketing Mail Saturation Flats only declined by 4.1 percent. *Id.* at 20-21. These unequal volume declines in combination with the mail mix shifts cause the changes in volume distribution seen in Figure III-9.

Figure III-9
Volume Distribution of USPS Marketing Mail Flats, Carrier Route,
and High Density/Saturation Flats, FY 2017–FY 2021

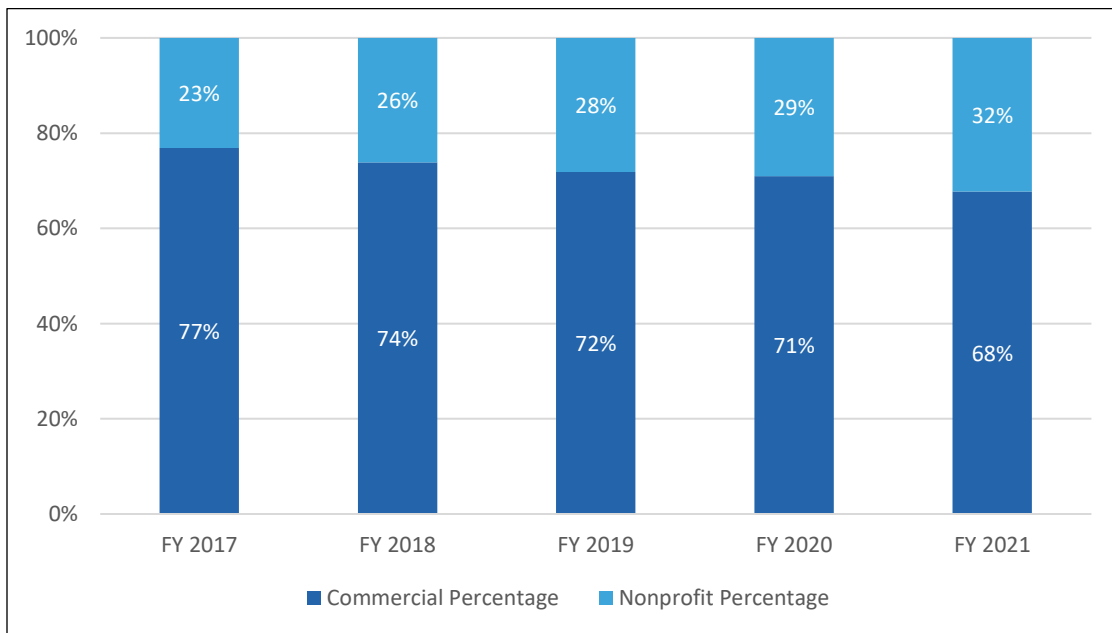


Source: Library Reference PRC-LR-ACR2021-4.

The increasing volume share of USPS Marketing Mail High Density/Saturation Flats leaves fewer mailpieces in both USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route. The Postal Service argues that this trend makes it difficult for it to contain costs for these two already non-compensatory products because costs for operations setup and breakdown (which the Postal Service refers to as fixed costs) are now being spread over fewer mailpieces. The Commission observes, however, that the Postal Service estimates that only 6.1 percent of AFSM 100 costs were accrued from setup and breakdown activities in FY 2021. Response to CHIR No. 3, question 5.

Additional changes have occurred in the mail mix within the USPS Marketing Mail Flats product. Figure III-10 shows the distribution of nonprofit and commercial mail percentages within USPS Marketing Mail Flats volumes. The nonprofit share of USPS Marketing Mail Flats has been increasing by an average of 2 percentage points between FY 2018 and FY 2021. Changes in the mail mix of commercial and nonprofit mail can serve to blunt the effects of rate increases on unit revenue of the USPS Marketing Mail Flats product as nonprofit pieces have lower prices. The Commission notes that the Postal Service should utilize trends in the mail mix that have occurred in recent years as a factor in its operational decisions.

Figure III-10
USPS Marketing Mail Flats Commercial-Nonprofit Mail Mix, FY 2017–FY 2021

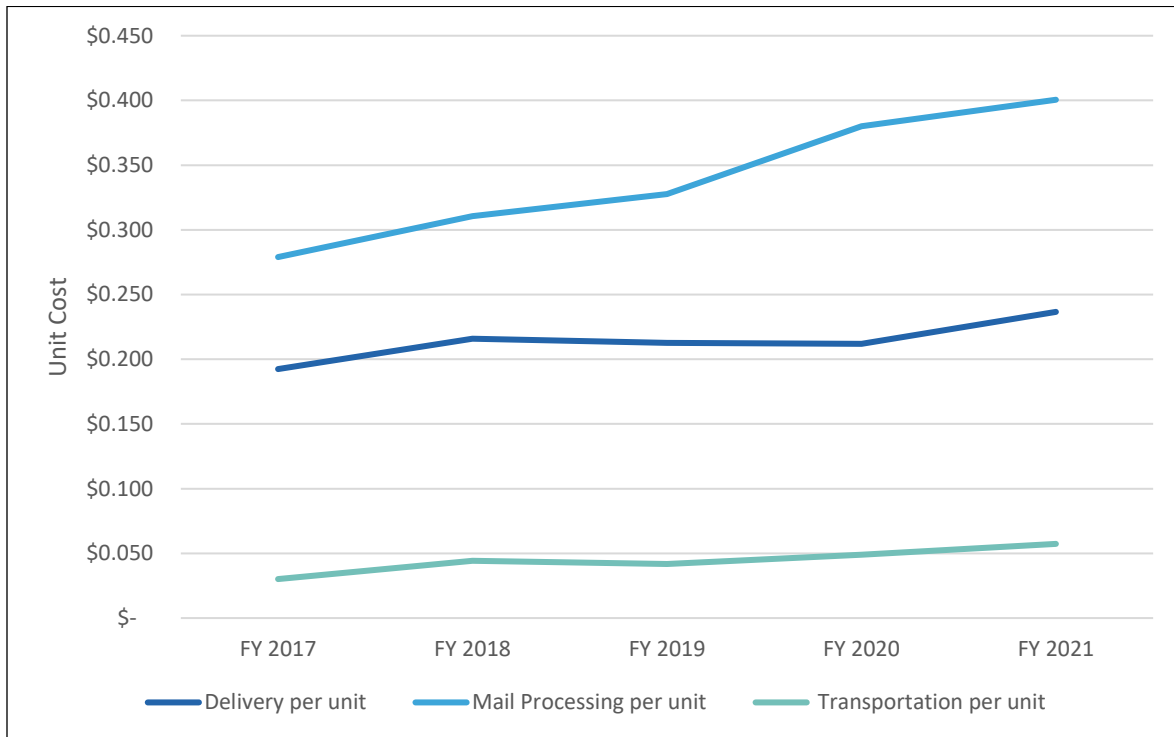


Source: Library Reference PRC-LR-ACR2021-4.

(d) Major Unit Cost Segments

From FY 2020 to FY 2021, USPS Marketing Mail Flats’ unit attributable costs increased by 5.3 cents, or by 8.0 percent. As co-mailing increases and pieces shift away to other products, the pieces remaining in USPS Marketing Mail Flats face upward pressure on their mail processing costs. Figure III-11 shows that mail processing increased more than other major cost segments, although unit delivery costs increased by a faster rate in FY 2021.

Figure III-11
Unit Cost of Major Cost Segments, FY 2017–FY 2021⁷⁷



Source: Library Reference PRC-LR-ACR2021-4.

⁷⁷ Mail processing cost per unit is calculated as piggybacked mail processing cost segment components. See Library Reference USPS-FY21-24. Delivery cost per unit is calculated as piggybacked city carrier and rural carrier cost segments. See *id.* Transportation cost per unit is calculated as transportation cost segment per unit. See Library Reference USPS-FY21-2.

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. The Commission reviews the operational changes and initiatives the Postal Service has identified for flat-shaped mailpieces in general, including USPS Marketing Mail Flats, and examines mail processing and delivery costs for flat-shaped products in greater detail in Chapter VI.

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

(6) FY 2021 Directive

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

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. Compliance with this directive will also satisfy the requirements of 39 C.F.R. § 3030.221. This is the same remedy that the Commission ordered for USPS Marketing Mail Flats in FY 2018 through FY 2020, and the Commission continues that approach this year.

The new, above-CPI rate authority available to the Postal Service as a result of Docket No. RM2017-3 first took effect in August 2021, meaning that its full impact will not be apparent until FY 2022 data are available. Combined with the FY 2021 directive (and the requirement of 39 C.F.R. § 3030.221) to increase rates by at least 2 percentage points above the class average, the Commission is hopeful that improvements in cost coverage and a decrease in the intra-class subsidy will be observed in FY 2022. 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 notes that PostCom's recommendation that the Postal Service should hold rates constant to limit volume loss would conflict with the requirement of 39 C.F.R. § 3030.221 that the Postal Service raise rates by at least 2 percentage points above the class average on products whose attributable costs exceed revenue in classes that are compensatory. Additionally, even if holding rates steady were to reduce volume loss, steady rates and declining volume would necessarily lead to an increasing revenue decline, making it even harder for cost-cutting measures on their own to bring the product into compliance with 39 U.S.C. § 101(d). The Commission also notes that ACMA's recommendation to revise existing methodology to index unit costs to correct for changes in the mail mix is outside the scope of this proceeding.

USPS Marketing Mail Flats is particularly emblematic of the problems that can occur when a non-compensatory product continues to exist for a prolonged period. As noted above, since FY 2008, this product has contributed negative \$8.3 billion to the institutional costs of the Postal Service.

The Commission finds that the issues initially raised in the FY 2010 ACD regarding USPS Marketing Mail Flats have continued to worsen and that the product did not cover its attributable costs in FY 2021. Consistent with 39 C.F.R. § 3030.221, and in line with the FY 2018 through FY 2020 directives, the Commission requires that the Postal Service propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the average for the class. The Postal Service is encouraged to remain cognizant of mail mix changes when adjusting prices. Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and providing required documentation of those efforts in future Annual Compliance Reports. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter VI. of this Report.

b. USPS Marketing Mail Carrier Route

(1) Introduction

In FY 2021, USPS Marketing Mail Carrier Route had a cost coverage below 100 percent for the third time since the product was established. Unit attributable cost has been increasing steadily over the past 5 years, while unit revenue has decreased. The Commission is extremely concerned that the cost coverage of USPS Marketing Mail Carrier Route appears to be moving in the same problematic direction as USPS Marketing Mail Flats and USPS Marketing Mail Parcels. However, the Commission expects that more aggressive price increases will help prevent this product's unit contribution from dropping even further into negative territory.

(2) FY 2021 Results

In FY 2021, USPS Marketing Mail Carrier Route had a cost coverage of 94.6 percent, down from 96.2 percent in FY 2020. Library Reference PRC-LR-ACR2021-4. The Postal Service states that unit revenue increased by 1.9 percent and unit cost rose by 3.5 percent, while volume remained relatively unchanged between FY 2020 and FY 2021. *Id.* at 18. The Postal Service attributes the declining cost coverage to changes in the mail mix within the product, noting that commercial volume dropped by 4.0 percent while nonprofit volumes rose by 39.5. *Id.*

(3) Comments on USPS Marketing Mail Carrier Route

The Public Representative notes that this is the third consecutive year when USPS Marketing Mail Carrier Route did not cover its attributable cost. PR Comments at 10. He observes: “the most recent price increase went into effect at the end of FY 2021, and will have a greater impact on cost coverage in FY 2022.” *Id.* The Public Representative, however, anticipates that the price increase from Docket No. R2021-2 will be sufficient to allow USPS Marketing Mail Carrier Route to cover its costs in FY 2022. *Id.* at 10-11.

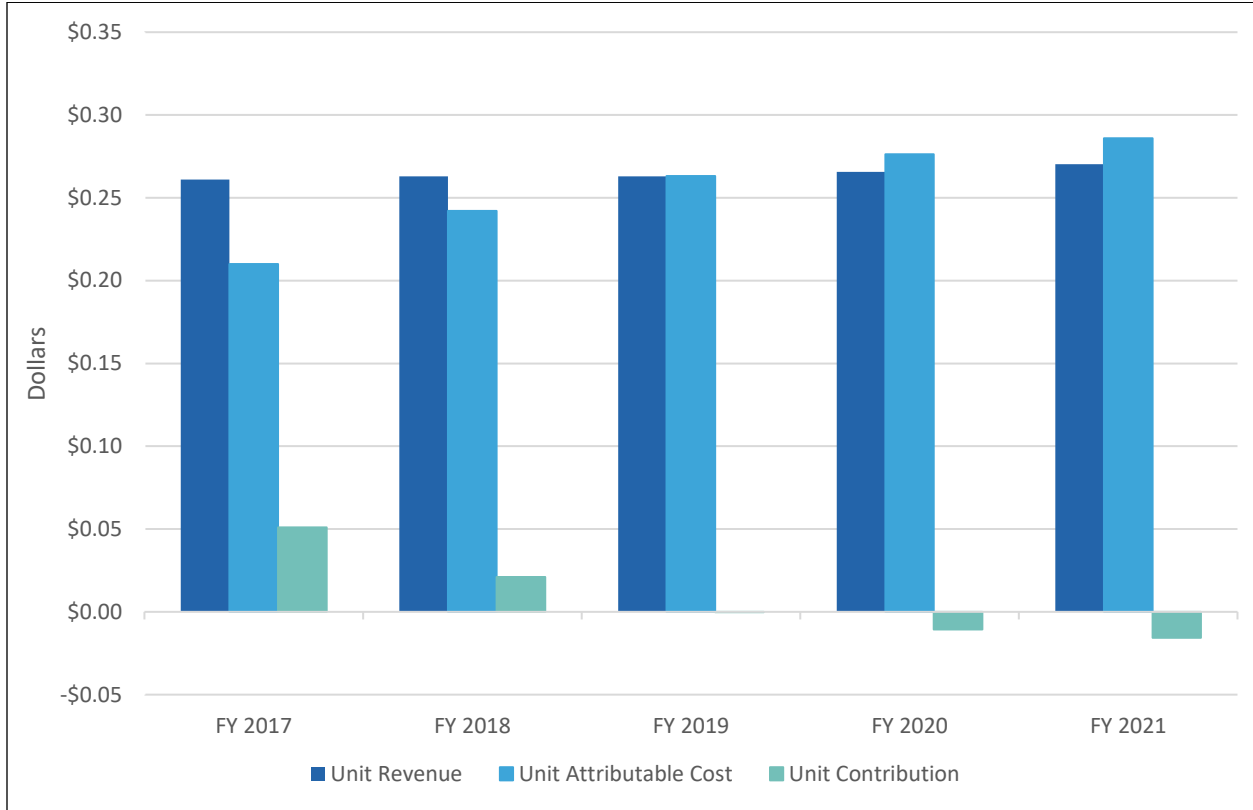
PostCom asserts that price increases are not having the intended effect, noting that USPS Marketing Mail Carrier Route cost coverage has continued to decline while revenue per piece has been increasing. *See* PostCom Comments at 6. PostCom also points out USPS Marketing Mail Carrier Route unit attributable cost has increased by 78 percent since FY 2009. *Id.* at 6-7. PostCom suggests the Postal Service should hold prices constant to limit volume loss and is concerned about the Commission’s emphasis on product-level cost coverages. *Id.* at 7. PostCom also notes that raising the cost coverage of every non-compensatory product would not close the contribution gap. *Id.*

(4) Commission Analysis

As Figure III-12 shows, unit contribution for USPS Marketing Mail Carrier Route has been falling steadily. While the Postal Service has preserved unit revenue by raising prices above the class average, these price increases have not been enough to keep up with the changes in unit cost.⁷⁸ Since FY 2017, unit cost increased by 7.6 cents, while unit revenue increased by 0.9 cents.

⁷⁸ Note that in 2017, the Postal Service decreased prices for USPS Marketing Mail Carrier Route. 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-12
USPS Marketing Mail Carrier Route
Unit Revenue, Unit Attributable Cost, and Unit Contribution, FY 2017–FY 2021⁷⁹

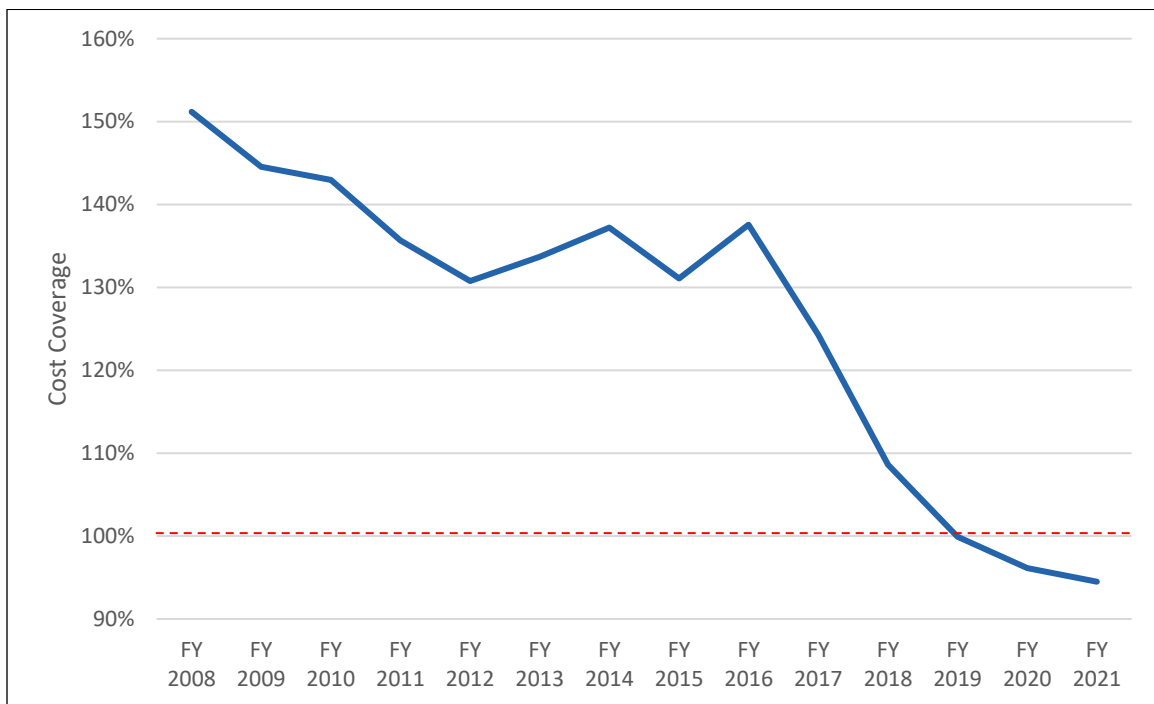


Source: Library Reference PRC-LR-ACR2021-4.

⁷⁹ Complete FY 2008 to FY 2021 USPS Marketing Mail Carrier Route data can be found in Library Reference PRC-LR-ACR2021-4.

Figure III-13 illustrates 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 by 56.6 percentage points. The cost coverage for USPS Marketing Mail Carrier Route has steadily decreased since FY 2016 by an average of 8.6 percentage points each year.

Figure III-13
USPS Marketing Mail Carrier Route Cost Coverage, FY 2008–FY 2021



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

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

The Commission is extremely concerned about the steady decline of cost coverage for USPS Marketing Mail Carrier Route. This is the third consecutive year that USPS Marketing Mail Carrier Route has not generated enough revenue to cover its attributable cost. It is possible, as the Public Representative concludes, that the price increases in Docket No. R2021-2 will cause the product to cover its costs in FY 2022, but as that price increase was implemented in August 2021, the full impact of that price increase does not yet appear in the available data.

The Commission finds that FY 2021 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost. The Commission finds it appropriate to continue to direct above class-average price increases as the Commission did in its FY 2020 directive. In each generally applicable Market Dominant price adjustment, and in compliance with the requirements of 39 C.F.R. § 3030.221, the Postal Service must propose a price increase for USPS Marketing Mail Carrier Route that is at least 2 percentage points above the class average for the USPS Marketing Mail class. In addition, the Postal Service shall continue to explore and implement opportunities to further reduce the unit costs of flat-shaped mail products, including USPS Marketing Mail Carrier Route, as further discussed in Chapter VI. of this Report.

c. USPS Marketing Mail Parcels

(1) Introduction

As with USPS Marketing Mail Flats, USPS Marketing Mail Parcels have a long history of deficient cost coverage. As part of its FY 2020 ACD directive, the Commission required that the Postal Service increase USPS Marketing Mail Parcels' prices by at least 2 percentage points above the class average in the next Market Dominant price adjustment, which the Postal Service did. FY 2020 ACD at 46; Order No. 5937 at 91, Table VI-1. The actual results of the Docket No. R2021-2 price adjustment will not be seen until FY 2022 data become available. Unfortunately, the cost coverage and contribution for USPS Marketing Mail Parcels declined in FY 2021. The Commission remains concerned about the cost coverage for this product.

(2) FY 2021 Results

In FY 2021, USPS Marketing Mail Parcels had a cost coverage of 73.1 percent, down 3.4 percentage points from FY 2020.⁸⁰ The Postal Service explains that unit revenue increased by 13.0 percent while unit cost increased by a "significant" 18.2 percent. FY 2021 ACR at 18-19. The Postal Service notes that it followed the Commission's directive to increase prices for USPS Marketing Mail Parcels by at least 2 percentage points above the class average. *Id.* at 19. In Docket No. R2021-2, the Postal Service proposed, and the Commission approved, a price increase of 9.367 percent for this product. Order No. 5937 at 91, Table VI-1.

(3) Comments on USPS Marketing Mail Parcels

The Public Representative confirms the price increase for USPS Marketing Mail Parcels was far above the class average. PR Comments at 9. However, he concludes cost coverage did not improve in FY 2021 and "USPS Marketing Mail Parcels rates appear to continue to be unfair and unequitable." *Id.* He recommends the Commission make no change to its FY 2020 directive. *Id.*

⁸⁰ See FY 2021 ACR at 18. The Commission's cost coverage calculation differs from the Postal Service's calculation by 1 percent because the Commission includes fees in the revenue for each product and the Postal Service does not.

(4) Commission Analysis

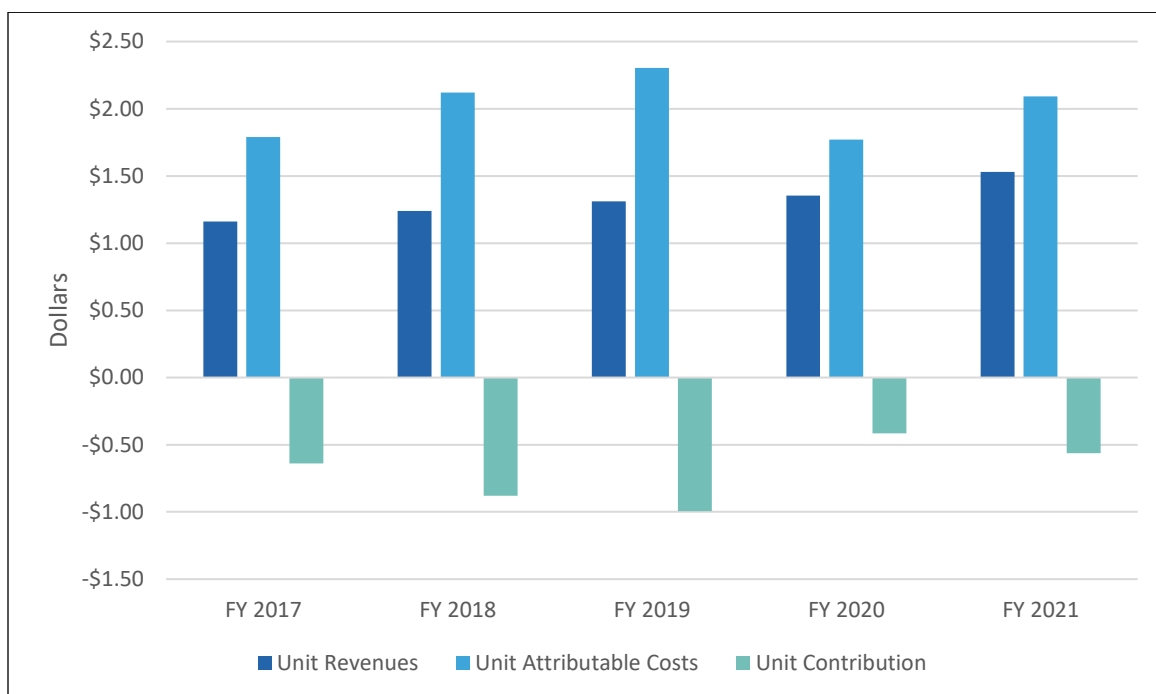
In FY 2021, USPS Marketing Mail Parcels did not produce sufficient revenues to cover its attributable costs. The Commission has previously directed the Postal Service to utilize its pricing flexibility to eliminate the intra-class cross-subsidy received by this product. *See, e.g.*, FY 2010 ACD at 108; FY 2020 ACD at 46. In the FY 2020 ACD directive, the Commission required that the Postal Service increase USPS Marketing Mail Parcels' prices by at least 2 percentage points above the class average. FY 2020 ACD at 46. The Postal Service complied, but the full impact of the FY 2021 rate increases, including the additional rate authority available as a result of Docket No. RM2017-3, will not be seen until FY 2022 data are available.

The Commission also required the Postal Service to, commensurate with the small size of the product, explore and implement opportunities to further reduce the unit costs of USPS Marketing Mail Parcels and report on those opportunities and results. *Id.* The Postal Service stated the small size of the product impeded the practicality of management efforts focused on this product alone, but noted that the Postal Service is considering in FY 2022 whether to shift processing of certain package volume that could include USPS Marketing Mail Parcels from NDCs to local P&DCs, with potential gains in service performance and unit costs.⁸¹

Despite compliance with directives related to pricing and cost reporting, cost coverage for the product remains an issue. Figure III-14 displays the unit revenue, unit attributable cost, and unit contribution for USPS Marketing Mail Parcels from FY 2017 through FY 2021.

⁸¹ FY 2020 ACR at 30-31 (referencing further explanation in Library Reference USPS-FY21-29).

Figure III-14
USPS Marketing Mail Parcels Financial Comparison, FY 2017–FY 2021⁸²



Source: Library Reference PRC-LR-ACR2021-4.

As illustrated in Figure III-14, unit attributable cost increased by 32.2 cents while unit revenue increased by 17.6 cents, resulting in a total negative unit contribution of 56.2 cents. Average weight per piece and volume also decreased slightly. The large increase in unit attributable cost was largely driven by increases in unit mail processing costs. In FY 2021, piggybacked unit mail processing costs for USPS Marketing Mail Parcels increased by 26 percent.⁸³ The Postal Service attributes this large change in unit mail processing costs to IOCS sampling variation. Response to CHIR No. 10, question 2.b. Mail processing costs for this product have been experiencing high variance—in FY 2020, there was a reduction in unit mail processing costs of 28 percent.⁸⁴

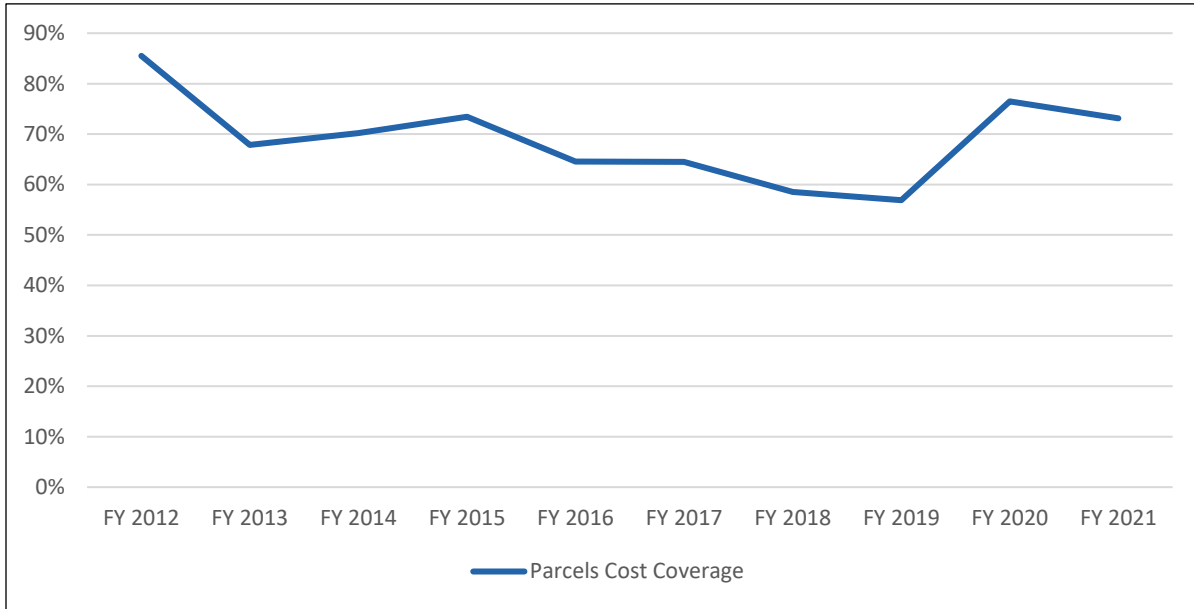
⁸² Complete FY 2008 to FY 2020 USPS Marketing Mail Parcels data can be found in Library Reference PRC-LR-ACR2020-4.

⁸³ See Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 10, February 9, 2022, question 2.a. (Response to CHIR No. 10).

⁸⁴ See Docket No. ACR2020, Library Reference USPS-FY20-2, December 29, 2020; Docket No. ACR2019, Library Reference USPS-FY19-2, December 27, 2019.

Figure III-15 shows the annual cost coverage for USPS Marketing Mail Parcels. In FY 2021, cost coverage for USPS Marketing Mail Parcels dropped to 73.1 percent. While in FY 2020, cost coverage improved 20 percentage points, cost coverage decreased 3 percentage points in FY 2021. Contributing to this decline in cost coverage was an increase in unit attributable cost of 17 percent.

Figure III-15
USPS Marketing Mail Parcels Cost Coverage, FY 2012–FY 2021



Source: Library Reference PRC-LR-ACR2021-4.

The Commission continues to be concerned about the repeated failure of USPS Marketing Mail Parcels to cover its costs. Despite year-to-year variation, the fact remains that there is an ongoing cost coverage shortfall that has existed for a significant period of time. The Commission concludes that USPS Marketing Mail Parcels’ prices, like those of USPS Marketing Mail Flats, do not comply with 39 U.S.C. § 101(d) because they do not apportion the costs of postal operations to postal users on a fair and equitable basis.

The Commission finds that FY 2021 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable costs. The Commission finds it appropriate to continue to direct above class-average price increases as the Commission did in its FY 2019 and FY 2020 directives. In each generally applicable Market Dominant price adjustment, and in compliance with 39 C.F.R. § 3030.221, 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, the Postal Service is encouraged to continue to expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels and shall report on those opportunities and results in the FY 2022 ACR.

3. Special Services

a. Introduction

As a class, Special Services covered its attributable cost in FY 2021 and had an overall cost coverage of 141.0 percent. Table III-11 contains the cost coverages of a selection of key products from the 10 total Special Services products as well as the overall class cost coverage for the last 5 fiscal years.⁸⁵ As Table III-11 shows, Money Orders was the only Special Services product that did not cover its costs in FY 2021.

Table III-11
Special Services Cost Coverage, FY 2017–FY 2021

Fiscal Year	Total Special Services Mail	Ancillary Services	International Ancillary Services	Address Management Services	Money Orders	Post Office Box Service	Stamp Fulfillment Services
FY 2017	137.4%	142.7%	86.2%	232.3%	97.4%	120.7%	97.2%
FY 2018	131.0%	135.4%	114.9%	295.9%	108.1%	112.9%	87.4%
FY 2019	136.9%	145.6%	100.6%	299.1%	105.5%	115.1%	94.5%
FY 2020	143.7%	135.3%	94.8%	266.9%	97.7%	228.6%	142.7%
FY 2021	141.0%	133.7%	127.6%	318.8%	88.5%	218.9%	136.6%

Source: Library Reference PRC-LR-ACR2021-7.

⁸⁵ Cost coverage information for products not appearing in Table III-11 can be found in Library Reference PRC-LR-ACR2021-7.

b. Money Orders

The Money Orders product was the only product in the Special Services class that did not cover its attributable costs in FY 2021. Money Orders provide customers with an instrument for payment of a specified sum of money, with a maximum value of \$1,000. This product reliably covered costs until FY 2016 but has exhibited inconsistent financial results in recent years. Table III-12 shows the unit revenue, unit attributable cost, unit contribution, and cost coverage for the Money Orders product from FY 2017 to FY 2021.

Table III-12
Money Orders Financial Results, FY 2017–FY 2021

Fiscal Year	Unit Revenue (Cents)	Unit Attributable Cost (Cents)	Unit Contribution (Cents)	Cost Coverage
FY 2017	175.5	180.1	-4.6	97.4%
FY 2018	190.1	175.9	14.2	108.1%
FY 2019	200.5	190.1	10.4	105.5%
FY 2020	198.9	203.6	-4.8	97.7%
FY 2021	206.0	232.8	-26.8	88.5%

Source: Library Reference PRC-LR-ACR2021-7.

As Table III-12 shows, the FY 2021 cost coverage for Money Orders was 88.5 percent, a notable decrease from the cost coverage of 97.7 percent in FY 2020. The Postal Service attributes the decrease in cost coverage to a decline in the imputed interest earned on the money order float, increases in Clerk and Mailhandler costs, and increases in debit card costs. FY 2021 ACR at 44. The Postal Service explains that the calculated value of the float fell from \$7.8 million in FY 2020 to \$0.4 million in FY 2021, and that Clerk and Mailhandler costs increased by \$7.2 million, driven largely by an increase in window costs. *Id.* In response to a CHIR, the Postal Service further elaborates that the value of the money order float decreased due to a change in computation made to better reflect changes in borrowing activities and interest earned. Response to CHIR No. 11, question 20.a.ii. The Postal Service also notes that debit card costs increased by \$2.1 million and explains that while the Postal Service tries to minimize these costs to the extent feasible, “debit card expenses are dynamic and are dependent on the specific debit cards used by customers.” FY 2021 ACR at 44-45.

The Postal Service notes that Money Orders received an 11.514 percent price increase in Quarter 4 of FY 2021 as a result of Docket No. R2021-2. *Id.* at 45. The Postal Service expects the price increase to have a larger effect in FY 2022, noting that “[i]f all money orders purchased during FY 2021 had paid the rates implemented as part of Docket No. R2021-2 . . ., an additional \$11.4 million in fee revenue would have been collected[,]” and cost coverage would have improved from 88.5 percent to 95.3 percent. *Id.* However, the Postal Service also notes that there is a question as to whether the positive effects of the price increase on cost coverage will be offset by the effects of shifting consumer behavior. *Id.*

In the FY 2020 ACD, the Commission stated that “the Postal Service should expend a reasonable amount of resources proportionate to the size of the product to explore the reasons behind any shift in consumer behavior contributing to the decrease in revenue for Money Orders, and report on the results of this investigation in the FY 2021 ACR.” FY 2020 ACD at 55. In the FY 2021 ACR, the Postal Service shares its findings, stating that inconsistent financial results may be due to factors such as “the increased availability of convenient and secure online payment and transaction options, money order fees, and the effects of the on-going pandemic.” FY 2021 ACR at 46 (footnotes omitted). In addition, the Postal Service references a Federal Deposit Insurance Corporation report, which contains survey results reflecting a pre-pandemic downward trend in the demand for Money Orders.⁸⁶

The Public Representative notes that the Postal Service increased Money Orders’ prices in the two most recent rate adjustment proceedings by more than the average increase for the Special Services class as a whole. PR Comments at 15. He recommends that the Postal Service continue to increase prices for Money Orders at a higher rate than the class as a whole until the Money Orders product covers its attributable cost. *Id.*

The Commission finds that FY 2021 revenue for Money Orders was not sufficient to cover attributable cost. Consistent with 39 C.F.R. § 3030.221, the Commission requires that the Postal Service increase Money Orders’ prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting the Special Services class through the issuance of the FY 2022 ACD.

⁸⁶ *Id.* at 46-47; see Mark Kutzbach, Alicia Loro, Jeffrey Weinstein, Karyen Chu, *How America Banks: Household Use of Banking and Financial Services*, 2019 FDIC Survey, Center for Financial Research, Division of Insurance and Research, Federal Deposit Insurance Corporation (October 2020).

D. Other Issues

1. First-Class Mail Non-Machinable Surcharge

The Greeting Card Association (GCA) requests that the Commission undertake a further review of its approval of a 50 percent increase in the non-machinable surcharge for First-Class Mail Single-Piece Letters in Docket No. R2021-2 pursuant to 39 C.F.R. § 3030.126(j).⁸⁷

First, GCA takes issue with the Commission's characterization of the non-machinable surcharge as an add-on rather than a standalone price and the Commission's conclusion that the actual price increase for mailers was approximately 17 percent as opposed to 50 percent. GCA Comments at 2-3. GCA asserts this characterization was inconsistent with the Commission's finding that the increased non-machinable surcharge disincentivized mailpieces requiring manual processing and states that the non-machinable surcharge is "an economically independent price charged specifically for non-machinability." *Id.*

Second, GCA points to factor 3 (effect of rate increases) and objectives 2 (stable and predictable rates) and 8 (just and reasonable schedule for rates and classifications) (39 U.S.C. § 3622(c)(3), (b)(2), and (b)(8)) as statutory provisions that it believes weighed against approval of the increase in the non-machinable surcharge and asserts that the Commission did not adequately address those provisions in Docket No. R2021-2. *Id.* at 3-8. GCA requests that the Commission find the increase in the non-machinable surcharge not compliant with one or more of these statutory provisions. *Id.* at 8. In response, the Postal Service asserts that the Commission should reject GCA's view of the non-machinable surcharge as a standalone price and affirm its conclusions from Docket No. R2021-2. Postal Service Reply Comments at 7-8.

With regard to GCA's position that the non-machinable surcharge must be viewed as a standalone price that increased 50 percent, the Commission has a different view. As the Commission explained in Docket No. R2021-2, the non-machinable surcharge is not a standalone price, but a surcharge added onto the price for a Single-Piece First-Class Mail Letter, if such a letter is non-machinable. Order No. 5937 at 86. Thus, no mailpiece is charged only the non-machinable surcharge (30 cents), but instead each non-machinable Single-Piece First-Class Mail Letter is charged the Stamped Single-Piece price (58 cents) plus the non-machinable surcharge (30 cents) for a total price of 88 cents. As the Commission explained in Order No. 5937, the total price a mailer would pay for a non-machinable Single-Piece First-Class Mail Letter increased from 75 cents to 88 cents, an increase of approximately 17 percent and a difference of 13 cents for a given non-machinable mailpiece. *Id.* The Commission confirms that, in this context, it is appropriate to consider the total price change experienced by the mailer since GCA's concerns are focused on the effects on individual mailers. This approach is not inconsistent with viewing the amount of the non-machinable surcharge (that is the price difference between a standard

⁸⁷ Initial Comments of the Greeting Card Association, January 31, 2022, at 1 (GCA Comments).

machinable Single-Piece First-Class Mail Letter and a non-machinable one) as an incentive to encourage machinable mailpieces over non-machinable ones.

Although the Commission views the non-machinable surcharge as a surcharge included in the total price and considers the entire price a mailer pays for a given mailpiece to be relevant, the Commission never stated, as GCA implies, that the non-machinable surcharge cannot be “subject to separate analysis or criticism.” GCA Comments at 6. As such, the Commission also considers the increase in the non-machinable surcharge with regard to the specific concerns raised by GCA.

As a preliminary matter, the Commission notes that the modified system of ratemaking adopted in Docket No. RM2017-3 was specifically designed to properly balance the objectives and factors of 39 U.S.C. § 3622(b) and (c) across the entire ratemaking system. Order No. 5763 at 260. Accordingly, the Commission found that proposed rate adjustments that complied with the new regulations adopted in Docket No. RM2017-3 would be consistent with the statutory objectives and factors. *Id.* Nonetheless, 39 C.F.R. § 3030.126(j) allows for subsequent review of that finding with regard to the policies of 39 U.S.C. chapter 36, subchapter I, which includes 39 U.S.C. § 3622(b) and (c). As a result, the Commission considers the one factor and two objectives raised by GCA related to the increase in the non-machinable surcharge approved in Docket No. R2021-2.

In relevant part, factor 3 concerns “the effect of rate increases upon the general public” and “business mail users.” 39 U.S.C. § 3622(c)(3). GCA states that the personal correspondence of households and small businesses is most likely to be adversely affected by the non-machinable surcharge increase given that the substantial majority of non-machinable mailpieces are Single-Piece. GCA Comments at 3-4. The Commission notes (as it did in Docket No. R2021-2) that increases in postal prices affect all mailers, that some increases may affect some mailers more than others, and that the Commission considered this when implementing increased pricing authority in Docket No. RM2017-3. Order No. 5937 at 68.

The Commission agrees that households and small businesses are most likely to be affected by the increase in the non-machinable surcharge alone. However, this does not necessarily cause the non-machinable surcharge to run afoul of factor 3 since factor 3 calls for consideration of the effects of rate increases more broadly. When a broader view is taken, it is clear that household and small business mailers were not disproportionately affected by the increases approved in Docket No. R2021-2. For example, First-Class Mail Single-Piece Letters/Postcards, a product more likely to be used by households and small businesses, received a 5.001 percent overall price increase, which was below the First-Class Mail average increase of 6.814 percent. *Id.* at 75. First-Class Mail Presorted Letters/Postcards, a product more likely to be used by larger businesses and commercial mailers, received a 7.440 percent overall price increase. *Id.* This increase was above the class average. Thus, the Commission finds that the increases it approved for First-Class Mail in Docket No. R2021-2 balanced the effect of the rate increases among the various types of mailers. Although household and small business mailers were more affected by the non-machinable surcharge alone, they likely also experienced smaller increases for other aspects of their

mailings given the overall below average increase for First-Class Mail Single-Piece Letters/Postcards.

Objective 2 calls for “predictability and stability in rates.” 39 U.S.C. § 3622(b)(2). GCA states that the Docket No. R2021-2 increase in the non-machinable surcharge caused what was for 7 years a predictable and stable rate with little fluctuation to become unstable. GCA Comments at 5. The Commission notes that, although the non-machinable surcharge increased by 10 cents (or 50 percent) as a result of Docket No. R2021-2, this was after many years of that particular surcharge holding relatively steady and even decreasing, as the graph provided by GCA shows. *See id.* It can hardly be considered unpredictable or unstable for that surcharge to increase substantially after remaining relatively flat, given that rates are generally expected to increase over time. The Commission reiterates that the increase was 10 cents (50 percent) for the surcharge alone and 13 cents (17 percent) for the entire mailpiece.

To compare, in a past rate adjustment proceeding, the Commission found that an exceptional planned price increase appeared to be discriminatory on its face and observed that the Postal Service failed to meaningfully address objective 2 with respect to its plan to increase the subscription fee for Platinum tier mailing agents by 963 percent (more than \$225,000 annually).⁸⁸ Generally, it is not outside the realm of mailer experience for certain products or categories to have price increases more than the class average in some years and to have price increases less than the class average in other years. In fact, the operation of the annual limitation at the class level necessarily means that the Postal Service must, in order to follow any pricing strategy that does not have each product moving lock step with the available class-level pricing authority, vary the size of increases among products within each class and among rates within products. For these reasons, the Commission finds that the increase in the non-machinable surcharge was consistent with objective 2.

Objective 8 calls for a “just and reasonable schedule for rates and classifications,” but states that the objective “shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.” 39 U.S.C. § 3622(b)(8). With regard to objective 8, GCA questions whether the non-machinable surcharge increase is “necessary and appropriate” to disincentivize non-machinable Single-Piece First-Class Mail Letters, and states that if it is not, it is excessive to mailers. GCA Comments at 7. GCA also notes that not all non-machinable letters require manual processing. *Id.* at 7, 8. In Docket No. R2021-2, the Commission noted that the non-machinable surcharge is charged to pieces that generally require manual processing and therefore are more costly for the Postal Service to process. Order No. 5937 at 87. It found that assigning higher price increases to less efficient rate cells is consistent with objective 1. *Id.* Although the Commission agrees that not all non-machinable pieces require manual processing, it is also true that many of them do and such processing comes at higher costs to the Postal Service. Objective 8 endeavors to strike a balance between rates that are excessive to mailers and rates that threaten the financial integrity of the Postal Service, but

⁸⁸ Docket No. R2009-2, Order Reviewing Postal Service Market Dominant Price Adjustments, March 16, 2009, at 72 n.59 (Order No. 191).

does not require, as GCA implies, any kind of calculation or finding that the amount of the rate precisely incentivizes a particular behavior or outcome. *See* Order No. 5763 at 351. Instead, objective 8 endeavors to ensure rates are both adequately compensatory and not excessive and explicitly permits changes of unequal magnitude. The increase in the non-machinable surcharge appears to strike that balance; as discussed above, the surcharge increase approved in Docket No. R2021-2 occurred after many years of the surcharge remaining relatively steady and even decreasing. For these reasons, the Commission finds that the increase in the non-machinable surcharge was consistent with objective 8.

Thus, the Commission concludes that its initial findings regarding the non-machinable surcharge should be affirmed and that there is no basis to find the price increase non-compliant with 39 U.S.C. § 3622(c)(3), (b)(2), or (b)(8).

Separately, GCA also requests that the Commission further review its approval of different prices for the non-machinable surcharge and the extra-ounce charge in Docket No. R2021-2. GCA Comments at 9-10. Prior to the implementation of the Docket No. R2021-2 prices, a Butterfly Stamp would pay for either the non-machinable surcharge or a second ounce. *Id.* at 10. GCA asserts that 39 U.S.C. § 3622(c)(6), which calls for “simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services,” was not considered by the Commission in Docket No. R2021-2 and should have been in relation to these prices. *Id.* at 9-10; 39 U.S.C. § 3622(c)(6). In response, the Postal Service objects to GCA’s request and states that the Commission should not disturb its conclusions from Docket No. R2021-2 related to these prices. Postal Service Reply Comments at 8.

Although the ability to apply one stamp for either the non-machinable surcharge or an extra ounce may be simpler for mailers, factor 6 is targeted at the understandability of the rate structure as a whole and the understandability of relationships between rates. As the Commission explained in Docket No. R2021-2, it was understandable that the Postal Service delinked the non-machinable surcharge and the extra-ounce charge because non-machinable pieces are generally more costly for the Postal Service to process than pieces weighing an additional ounce. Order No. 5937 at 87. Further, in Docket No. R2021-2, the Commission found that the Postal Service’s decision to charge more for a non-machinable mailpiece than for an extra ounce was consistent with objectives 1, 4, and 8. *Id.* Thus, the Commission concludes that delinking the non-machinable surcharge and extra-ounce charge was permissible under the relevant statutory criteria. The Commission nonetheless encourages the Postal Service to consider GCA’s concerns when setting Single-Piece First-Class Mail Letters’ rates in the future.

CHAPTER IV. COMPETITIVE PRODUCTS

A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2021 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 2021 findings for Competitive products are:

- Revenues for Competitive products as a whole exceeded incremental costs. Thus, Competitive products were not subsidized by Market Dominant products during FY 2021, thereby satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for three 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: International Money Transfer Service—Inbound (IMTS—Inbound), International Money Transfer Service—Outbound (IMTS—Outbound), and International Ancillary Services.
- Collectively, Competitive products satisfied the appropriate share requirement of 39 U.S.C. § 3633(a)(3) during FY 2021.

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.⁸⁹

⁸⁹ See Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 65 (Order No. 26).

Because the collective incremental costs of Competitive products are greater than the sum of the attributable cost of each product, using collective incremental costs raises the Competitive product cost floor when testing for cross-subsidization.⁹⁰ Therefore, the incremental cost model applied at 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 Competitive products fully comply with all applicable pricing requirements, noting that Competitive product revenues continue to exceed incremental costs by a substantial margin, and concluding that Competitive products were not cross-subsidized by Market Dominant products in FY 2021. Pitney Bowes Comments at 3.

The Public Representative also notes that Competitive product group revenues exceeded incremental costs and concludes that Market Dominant products did not subsidize Competitive products in FY 2021. PR Comments at 21.

As it did in the FY 2020 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.⁹¹

In FY 2021, the incremental costs of Competitive products were \$21.040 billion and the total revenues of Competitive products were \$34.233 billion.⁹² Accordingly, in FY 2021, revenues from Competitive products exceeded incremental costs.

The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2021.

⁹⁰ 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).

⁹¹ 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).

⁹² See Library Reference PRC-LR-ACR2021-1, Excel file "FY21 Summary_NPLR-1.xlsx," tab "Appendix A (Incremental Costs)," cells C24:D24.

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

39 U.S.C. § 3633(a)(2) requires that the revenue for each Competitive product cover its attributable cost. Below, the Commission discusses the FY 2021 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 2021, there were 12 Competitive domestic products with rates of general applicability: Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; USPS Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services;⁹³ Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

The Commission finds that, in FY 2021, every Competitive domestic product with rates of general applicability covered its attributable cost⁹⁴ 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 2021, there were 800 Competitive domestic products consisting of NSAs.⁹⁵ Pursuant to 39 U.S.C. § 3633(a)(2), the Commission finds that all Competitive domestic NSAs covered their attributable costs in compliance with this statutory requirement. In addition, Pitney Bowes and the Public Representative note that nearly every competitive product maintained a “cost coverage of at least 100 percent.” *See* PR Comments at 21; *see also* Pitney Bowes Comments at 4. Although 11 agreements had

⁹³ The Competitive Ancillary Services product consists of the following services: Adult Signature, Package Intercept Service, and Premium Data Retention and Retrieval Service. *See* MCS Section 2645.

⁹⁴ *See* Library Reference PRC-LR-ACR2021-1, Excel file “FY21 Summary_NPLR-1.xlsx,” tab “Total All Mail Appendix A.”

⁹⁵ The 800 products include agreements that were extended via amendment.

components that failed to cover their attributable costs, the agreements covered total costs. FY 2021 ACR at 84.⁹⁶

Table IV-1
Competitive Domestic NSA Products in Effect During FY 2021

Competitive Domestic NSA Product Groupings	Number of Products ^a
First-Class Package Service Contracts	28
Parcel Return Service Contracts	6
Parcel Select & Parcel Return Service Contracts	7
Parcel Select Contracts	17
Priority Mail—Non-Published Rates ^b Contracts	257
Priority Mail & First-Class Package Service Contracts	120
Priority Mail Contracts	247
Priority Mail Express & Priority Mail Contracts	44
Priority Mail Express Contracts	19
Priority Mail Express, Priority Mail & First-Class Package Service Contracts	40
Priority Mail & Parcel Select Contracts	3
Priority Mail Express & First-Class Package Service Contracts	1
Priority Mail, First-Class Package Service and Parcel Select Contracts	2
Priority Mail Express, Priority Mail, First-Class Package Service & Parcel Select Contracts	9
Total	800

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

^b The Priority Mail—NPR product allows the Postal Service to enter into Priority Mail NSAs without filing the individual agreements with the Commission for pre-implementation review of each. Such contracts must comply with Commission classification and regulatory requirements, including preapproved pricing formulas, minimum cost coverage, and documentation.

Source: Library Reference USPS-FY21-NP27, December 29, 2021; *see also* Revised Library Reference USPS-FY21-NP27, January 13, 2022.

The Commission commends the Postal Service for further improving the quality of the data provided on NSAs in FY 2021. The Commission encourages the Postal Service to continue to fully account for all of its active NSAs and remove inactive NSAs from the Competitive product list. The Postal Service also increased the number of NSAs utilizing observed data instead of projected data.⁹⁷ The Commission notes that the Postal Service should continue

⁹⁶ See Response to CHIR No. 2, question 35; *see also* Library Reference USPS-FY21-NP34, January 25, 2022.

⁹⁷ In the FY 2020 ACD, the Commission noted “that utilization of actual, rather than projected, data [would] lead to improved accuracy of the cost compliance calculations for these products.” FY 2020 ACD at 71 n.128.

to increase the use of new and more accurate data to estimate the costs of NSAs. The use of accurate, observed data, as opposed to projected data, is essential to ensuring agreements are, and remain, in compliance with 39 U.S.C. § 3633(a)(2).

Multiple CHIRs were issued in this docket pertaining to domestic NSA Competitive products to clarify data. *See, e.g.*, CHIR No. 2. The overall themes involved the need for further clarification on topics such as, requesting explanation of data due to insufficient source notes; requesting additional information to clarify the various different types of premium services; and inquiries exploring a new cost file presented. The Commission encourages the Postal Service to continue to improve the explanation of its NSA financial materials provided as part of its ACR.

The Postal Service included a new file in Library Reference USPS-FY21-NP27 that disaggregated costs for First-Class Package Service to finer levels, but failed to mention the file in the preface. *See* Library Reference USPS-FY21-NP27. The Commission finds that the content of the new file does not alter the final results of the FY 2021 cost files. Therefore, the Commission concludes that this new file does not represent a change in analytical principles, and instead would be considered a change in quantification technique. The Commission reminds the Postal Service that before it can use the data developed from this or another file in a manner that affects the data required in reporting on any product, it will need to request a change to the appropriate analytical principle(s). In addition, the Commission reminds the Postal Service that, in accordance with 39 C.F.R. § 3050.2(a), in its periodic reporting it is obligated to identify any input data or quantification techniques that changed from the prior year – including, but not limited to, the addition or deletion of files or tabs in library references.

Additionally, the Postal Service filed an errata, which resulted in revised versions of the financial files in the multiple library reference materials, in particular Revised Library Reference USPS-FY21-NP27. *See also* Revised Library Reference USPS-FY21-NP27. The Commission commences its review of library reference material as soon as they are filed. In the event of an errata that revises multiple files of library references, the Commission essentially has to review two versions of the impacted files in order to evaluate the errors and corrections made in each file. The Commission encourages the Postal Service to review all library reference material before submission in order to avoid filing multiple revised library references, which may lead to confusion between multiple versions of library reference materials as any errata would only contain revised files.

3. Competitive International Products with Rates of General Applicability

Eleven Competitive international mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; International Priority Airmail (IPA); International Surface Air Lift (ISAL); Outbound Single-Piece First-Class Package International Service; Inbound Letter Post Small Packets and Bulky Letters; Inbound Parcel Post (at UPU rates); International Direct Sacks—Airmail M-Bags; IMTS—Outbound;⁹⁸ IMTS—Inbound;⁹⁹ and International Ancillary Services.¹⁰⁰

The Commission finds that three products, IMTS—Inbound, IMTS—Outbound, and International Ancillary Services, did not satisfy 39 U.S.C. § 3633(a)(2).¹⁰¹

a. International Money Transfer Service—Inbound

In FY 2021, the IMTS—Inbound product did not cover its attributable cost. FY 2021 ACR at 86. The Postal Service states that it “has attempted” to address the product’s cost coverage by “terminating or modifying” IMTS—Inbound agreements. *Id.* at 87. To report on its progress with “terminating or modifying” IMTS—Inbound agreements in FY 2021, the Postal Service states that it “has taken steps towards terminating agreements with thirteen foreign postal operators,” as listed in *Postal Bulletin 22577* and *Postal Bulletin 22583*.¹⁰²

Only the Public Representative provided comments related to this product, stating that the Postal Service has made “reasonable progress” in addressing the cost coverage for IMTS—Inbound by discontinuing the exchange of international postal money orders with 13 foreign postal operators (FPOs). PR Comments at 21-22. However, he also points out that the reported terminations “had no impact on the [product’s] FY 2021 cost coverage” since the respective FPOs “did not stop selling international postal money orders destined for the United States until FY 2022.” *Id.* at 21. The Public Representative anticipates that the

⁹⁸ IMTS—Outbound enables customers in the United States to make payments or transfer funds to individuals or firms in foreign destinations. See MCS Section 2620.

⁹⁹ IMTS—Inbound provides a service to designated operators of foreign countries for payment of money orders to recipients in the United States. See MCS Section 2625.

¹⁰⁰ International Ancillary Services consists of International Certificate of Mailing; Competitive International Registered Mail; Outbound International Return Receipt; Restricted Delivery; Outbound International Insurance; and Customs Clearance and Delivery Fee. See MCS Section 2615.

¹⁰¹ See FY 2021 ACR at 85-88; see also Library Reference USPS-FY21-NP2, December 29, 2021.

¹⁰² *Id.* at 87-88. See United States Postal Service, *Postal Bulletin 22577*, July 29, 2021, available at https://about.usps.com/postal-bulletin/2021/pb22577/html/updt_005.htm (*Postal Bulletin 22577*); see also United States Postal Service, *Postal Bulletin 22583*, October 21, 2021, available at https://about.usps.com/postal-bulletin/2021/pb22583/html/updt_001.htm (*Postal Bulletin 22583*). The Commission notes that in July 2020, the Postal Service notified the Commission that it had obtained a delegation of authority from the Department of State under the Circular 175 process to terminate agreements included within the IMTS—Inbound product, and that it was “in the process of preparing initial communications concerning the termination of the agreements [within this] product.” See Docket No. ACR2019, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2019 Annual Compliance Determination, July 23, 2020, question 2 (Docket No. ACR2019 Third Response). In the FY 2020 ACR, the Postal Service reported that its management sent “notices of termination to 11 foreign postal operators.” See Docket No. ACR2020, United States Postal Service Fiscal Year 2020 *Annual Compliance Report*, December 29, 2020, at 70 (FY 2020 ACR).

termination of the aforementioned 13 agreements “will have a positive effect on FY 2022 cost coverage” for the IMTS—Inbound product. *Id.*

In its reply comments, the Postal Service acknowledges the Public Representative’s expectation regarding the product’s FY 2022 cost coverage, as well as his conclusion regarding the Postal Service’s progress in addressing the product’s cost coverage shortfall. Postal Service Reply Comments at 9.

The Commission finds the Postal Service’s progress towards the termination of 13 agreements previously included within the IMTS—Inbound product to be an improvement in addressing the product’s cost coverage and encourages the Postal Service to continue its efforts towards termination of the remaining IMTS—Inbound agreements, if any, during FY 2022.

However, the Commission notes that the Postal Service provided no information concerning IMTS—Inbound agreements’ modifications, or any other relevant information that would explain the decrease in the number of transactions for the IMTS—Inbound product between FY 2020 and FY 2021.¹⁰³ In addition, it is unclear whether inbound international money orders other than those reported under the IMTS—Inbound product might be processed at Postal Service retail windows.¹⁰⁴ The Commission’s concern with these uncertainties is exacerbated by the reported increase in overall IMTS costs between FY 2020 and FY 2021. Library Reference USPS-FY21-NP2; *see also* Library Reference USPS-FY20-NP2.

The recent terminations of IMTS—Inbound agreements with 13 FPOs did not take effect until FY 2022, and thus do not explain the decrease in IMTS—Inbound transactions between FY 2020 and FY 2021. This indicates that the decrease in IMTS—Inbound transactions might be associated with IMTS—Inbound agreements’ modifications referenced by the Postal Service. FY 2021 ACR at 87. More specifically, money orders destined for the United States pursuant to the modified terms of IMTS—Inbound agreements (so that payment of a commission to the Postal Service is no longer required), would no longer generate IMTS—Inbound revenues, or constitute IMTS—Inbound

¹⁰³ As the Public Representative noted, the previously mentioned termination of the agreements with 13 FPOs did not take effect until FY 2022. PR Comments at 21. *Postal Bulletin 22577* and *Postal Bulletin 22583* list effective dates for the discontinuation of sales and for the discontinuation of cashing of money orders issued by the FPOs of these countries and destined to the United States. The discontinuation of sales of international postal money orders by 12 of the 13 FPOs became effective on October 1, 2021; the Postal Service will stop cashing international postal money orders issued by these FPOs effective October 1, 2022. *See Postal Bulletin 22577*. The discontinuation of sales of international postal money orders by one of the 13 FPOs became effective on January 1, 2022; the Postal Service will stop cashing international postal money orders issued by this FPO effective January 1, 2023. *See Postal Bulletin 22583*. Consequently, the progress made towards the termination of IMTS agreements with 13 FPOs should not have led to the reported decrease in the number of transactions for IMTS—Inbound between FY 2020 and FY 2021. Library Reference USPS-FY21-NP2. *See* Docket No. ACR2020, Library Reference USPS-FY20-NP2, February 22, 2021.

¹⁰⁴ *See* Docket No. RM2015-13, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 19, 2015, at 12 (Order No. 2825). In Order No. 2825, the Commission directed the Postal Service to include “the number of money orders cashed on which a commission is paid” to the Postal Service when reporting financial results for the IMTS—Inbound product in future Annual Compliance Review dockets. Order No. 2825 at 12.

transactions. However, for those money orders that continue to be processed at Postal Service retail windows, the Postal Service continues to incur window services costs.

In addition, the Postal Service responded to certain CHIRs issued in this docket indicating that its efforts have been focused on international postal money order agreements that include sales by a foreign postal operator of international paper money orders destined for the United States, which include some form of a commission to the Postal Service, stating that these agreements generate revenue for the IMTS—Inbound product.¹⁰⁵ However, the MCS describes Inbound International Money Transfer Service as a service to foreign postal administrations, commercial banks, or other money-transfer operators of foreign countries for payment of electronic and paper money orders to recipients in the United States. See MCS Section 2625.1. This suggests that money orders other than those that the Postal Service describes as generators of the IMTS—Inbound revenue might be processed at Postal Service retail windows, and contribute to the reported IMTS cost increases.

The Commission emphasizes that IMTS costs are distributed between the IMTS—Inbound and IMTS—Outbound products based on the number of transactions for each product.¹⁰⁶ As reportable IMTS—Inbound transactions decrease, the proportion of total IMTS costs distributed to the IMTS—Inbound product decreases, and the proportion of these costs distributed to the IMTS—Outbound product increases. Thus, any costs that the Postal Service might incur cashing foreign-issued money orders at its retail windows that do not, or no longer, constitute IMTS—Inbound transactions, are included in IMTS costs distributed to the IMTS—Outbound product.

The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021. The Commission encourages the Postal Service to continue its efforts towards termination of the remaining agreements comprising the IMTS—Inbound product, if any, during FY 2022. Should the progress towards this goal include modifications, rather than terminations, of international postal money order agreements, the Commission directs the Postal Service to report the details of any agreements' modifications, including the impact on the IMTS—Inbound product's reportable transactions and revenues, as part of its FY 2022 ACR filing. In addition, the Commission directs the Postal Service to provide data on all foreign-issued money orders processed through the Federal Reserve Bank for payment in the United States in FY 2022, as part of its FY 2022 ACR filing. These data shall include additional details, such as country of origin, number of paper and electronic money orders, and information on whether they were issued by a foreign postal operator or other financial institution. These data shall additionally include information on the number of money orders cashed at Postal Service retail windows and those cashed at United States banks, as well as information on whether a fee or a commission was paid to the Postal Service, to the extent possible.

¹⁰⁵ See Responses of the United States Postal Service to Questions 1-14 of Chairman's Information Request No. 7, February 3, 2022, question 9 (Response to CHIR No. 7); see also Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 14, February 18, 2022, question 1 (Response to CHIR No. 14).

¹⁰⁶ See Order No 2825 at 6. Library Reference USPS-FY21-NP2, Excel file "FY21 IMTS Calculations for NP2.xlsx."

b. International Money Transfer Service—Outbound

In FY 2021, the IMTS—Outbound product did not cover its attributable cost. FY 2021 ACR at 86. The Postal Service notes that the methodology for distributing IMTS costs to IMTS—Outbound and IMTS—Inbound is based on the Commission’s approval of Proposal Five in Order No. 2825. *Id.*; see Order No. 2825 at 10-11. This methodology was adopted to compensate for the Postal Service’s inability to distribute the costs to IMTS—Inbound due to the lack of IMTS—Inbound In-Office Cost System (IOCS) tallies in some fiscal years. FY 2021 ACR at 86. For FY 2021, the Postal Service reports five IOCS tallies, three for the IMTS—Outbound and two for the IMTS—Inbound, and concludes that “IMTS costing remains subject to variation.” *Id.* In addition, the Postal Service reports an increase in window services costs for IMTS and maintains that the 15.8 percent increase in prices for International Postal Money Orders and Money Transfer Service, implemented in January 2022, “should further improve the financial performance of [IMTS].” *Id.* at 87.

Only the Public Representative commented on the IMTS—Outbound product. The Public Representative cites Order No. 2825, in which the Commission stated that “[t]he use of IOCS tallies is the preferred methodology to develop reliable estimates of attributable costs for the IMTS—Outbound and Inbound products,” assuming that “a robust number of tallies [could] be obtained.” PR Comments at 22. He then notes that, because the FY 2021 IOCS tallies for IMTS were insufficient to produce reliable cost estimates for the two products based on the IOCS methodology, the Postal Service distributed IMTS costs to IMTS—Outbound and IMTS—Inbound based on transaction volume, as approved by the Commission in Order No. 2825. *Id.* The Public Representative further points to the Postal Service’s acknowledgement of window services cost increases in FY 2021 and expresses a concern over the “persistent cost coverage shortfall of IMTS—Outbound.” *Id.* He concludes that the Postal Service “did not explain how it intends to bring IMTS—Outbound into compliance” with applicable provisions of Title 39 in the future. *Id.*

The Postal Service responds that the recent termination of international postal money order agreements with 13 countries “should not only lead to a significant reduction in the volume” for the IMTS—Inbound product, but also “hopefully lead to a decrease in reported costs for international postal money orders for IMTS—Outbound in FY 2022.” Postal Service Reply Comments at 9-10. The Postal Service adds that “sampling variation could potentially interfere with realization of that expectation.” *Id.* at 10.

With respect to IMTS—Outbound volume decreases, the Commission notes that the IMTS—Outbound product includes two components: hardcopy International Money Orders and Electronic Money Transfers. See MCS Section 2620. In its Response to CHIR Nos. 7 and 14, and in its reply comments, the Postal Service describes recent IMTS—Inbound agreements’ terminations as concerning international paper money orders only.¹⁰⁷ The Postal Service clarifies further that only those terminated agreements that include sales of international

¹⁰⁷ See Response to CHIR No. 7, question 9; see also Postal Service Reply Comments at 9-10; Response to CHIR No. 14, question 1.

paper money orders by the Postal Service should have an impact on revenue for International Money Orders under the IMTS—Outbound product.¹⁰⁸

With respect to the Postal Service's expectation that a decrease in costs will occur as a result of a decrease in International Money Orders transactions, the Commission observes that the opposite occurred in FY 2021. Specifically, the large decrease in total IMTS transactions (both inbound and outbound) between FY 2020 and FY 2021 was accompanied by an increase in total IMTS volume-variable costs.¹⁰⁹ Moreover, the increase in reported costs was of a larger magnitude than the decrease in reported transactions.¹¹⁰

As noted in Section IV.C.3.a. *supra*, the Commission is concerned that under the current methodology for distributing the IMTS costs to its two products, as IMTS—Inbound transactions decrease, the proportion of volume-variable and certain product-specific costs distributed to International Money Orders under IMTS—Outbound increases.¹¹¹

While the Commission agrees that the 15.8 percent price increase for IMTS—Outbound should have a positive impact on the product's FY 2022 financial performance,¹¹² the Commission emphasizes that this average price increase comprises comparable price increases for the product's two components, International Money Orders and Electronic Money Transfers.¹¹³ Such comparable price increases do not adequately account for the

¹⁰⁸ See Response to CHIR No. 7, question 9.d.; see also Response to CHIR No. 14, question 1. More specifically, the Postal Service states that some agreements include sales of international paper money orders by both parties to the agreement, while others include sales by only one party to the agreement. *Id.* Consequently, only terminations of agreements within the IMTS—Inbound product that include sales by both parties to the agreement can be expected to lead to a reduction of International Money Orders transactions within the IMTS—Outbound product.

¹⁰⁹ Library Reference USPS-FY21-NP2; see Docket No. ACR2020, Library Reference USPS-FY20-NP2, February 22, 2021.

¹¹⁰ *Id.* The Postal Service provides two reasons for IMTS cost increases: increases in window services costs, and the number of IOCS tallies (five) that determined the share of total window costs distributed to the two IMTS products (IMTS—Inbound and IMTS—Outbound). Response to CHIR No. 14, question 2.a.-b.

¹¹¹ The Commission notes that under the current IMTS cost distribution methodology, the Postal Service separately develops volume-variable costs for Electronic Money Transfers, based on an average transaction time and unit transaction cost for this service. See Order No 2825 at 6. Library Reference USPS-FY21-NP2, Excel file "FY21 IMTS Calculations for NP2.xlsx." The Postal Service distributes the remaining amount of total IMTS volume-variable costs (*i.e.*, the difference between total IMTS volume-variable costs and volume-variable costs distributed to Electronic Money Transfers) between IMTS—Inbound, based on the number of reportable transactions for this product, and IMTS—Outbound, based on the number of hardcopy International Money Orders under this product. *Id.* This leads to more stable and more predictable cost increases (such as those associated with increases in hourly wages) for the Electronic Money Transfers component of IMTS—Outbound, with any IMTS cost increases due to sampling variations or other underlying causes absorbed by reported transaction volumes for IMTS—Inbound and International Money Orders under IMTS—Outbound. With reportable IMTS—Inbound transactions decreasing, an increasing proportion of IMTS costs, including cost changes associated with sampling variations, is distributed to International Money Orders, which negatively impacts IMTS—Outbound product's cost coverage.

¹¹² In its Response to CHIR No. 14, the Postal Service states that "when FY 2021 costs became available, it became clear that the 15.8 percent increase would probably not be sufficient for the IMTS-Outbound product to cover its costs in FY 2022." Response to CHIR No. 14, question 2.a.-b. However, the Postal Service also explains that it is the number of IOCS tallies that determine the share of total window costs distributed to the two IMTS products, and that the number of IOCS tallies for FY 2022 will not be known until the filing of the FY 2022 *Annual Compliance Report* in late December 2022. *Id.*

¹¹³ See Docket No. CP2022-22, Notice of Erratum, December 22, 2021, at 2. Excel file "Intl SpecServ Calc.xlsx."

impact that the decrease in IMTS—Inbound transactions has on the proportions of total IMTS costs distributed to the two components of the IMTS—Outbound product.¹¹⁴

The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021. The Commission directs the Postal Service to propose price increases for the two components of the IMTS—Outbound product that more adequately reflect the impact that decreases in IMTS—Inbound transactions have on the proportions of total IMTS costs distributed to International Money Orders and Electronic Money Transfers, in its next request to adjust prices of general applicability for Competitive products.

c. International Ancillary Services

In FY 2021, the International Ancillary Services product did not cover its attributable cost.¹¹⁵ More specifically, Inbound Competitive International Registered Mail and Outbound International Insurance did not cover their attributable costs.¹¹⁶ FY 2021 ACR at 85-86.

(5) Inbound Competitive International Registered Mail

The remuneration that the Postal Service receives for the provision of registered mail service under Inbound Competitive International Registered Mail is governed by the Universal Postal Convention.¹¹⁷ To address the FY 2021 cost coverage for Inbound Competitive International Registered Mail, the Postal Service lists the per-item rates that applied in Calendar Year (CY) 2020 (1.3 SDR¹¹⁸ per item) and in CY 2021 (1.4 SDR per item). FY 2021 ACR at 85; *see* Second Additional Protocol, Article 28 Amended, ¶ 8. The Postal Service further describes revenue it receives due to its participation in the UPU “voluntary supplementary remuneration” program (SRP), as well as under the “Inbound Competitive PRIME Registered Service Agreement 1,” as representing separate sources of additional revenue associated with inbound registered items. *Id.* at 85-86. The Postal Service further reports a decrease in costs and a concurrent decrease in volume associated with Competitive International Registered Mail between FY 2020 and FY 2021. *Id.* at 85.

¹¹⁴ *See* n.111, *supra*. More specifically, with costs for Electronic Money Transfers developed separately, a decrease in IMTS—Inbound transactions does not impact IMTS costs distributed to Electronic Money Transfers, while it is associated with an increase in IMTS costs distributed to International Money Orders, under the IMTS—Outbound product.

¹¹⁵ FY 2021 ACR at 85. International Ancillary Services consists of International Certificate of Mailing, Competitive International Registered Mail, Outbound International Return Receipt, Restricted Delivery, Outbound International Insurance, and Customs Clearance and Delivery Fee. *See* MCS Section 2615.

¹¹⁶ The Competitive International Registered Mail component (MCS Section 2615.2) of the International Ancillary Services product includes Inbound Competitive International Registered Mail and Outbound Competitive International Registered Mail. For the remainder of the discussion on International Ancillary Services, the Commission will refer to Inbound Competitive International Registered Mail as a sub-component of the International Ancillary Services product. As for Outbound International Insurance, the Commission will refer to it as a component of the International Ancillary Services product.

¹¹⁷ *See* Universal Postal Union (UPU), Second Additional Protocol to the Universal Postal Convention, Geneva 2019 (Second Additional Protocol), Article 28 Amended, ¶ 8. *See also* Draft Acts of the Abidjan Congress 2021, August 2021 (Draft Acts of the Abidjan Congress), Article 28, ¶ 8. The Commission notes that per the Universal Postal Convention, letter post items that receive registered service are treated as format E items for operational, statistical, and accounting purposes, regardless of their shape. *See* Universal Postal Union, Regulations to the Convention, Berne 2017, Article 17-116, ¶ 13.

¹¹⁸ The Special Drawing Right (SDR) is an international reserve asset created by the International Monetary Fund. Its value is based on a basket of five currencies: the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. As of February 18, 2022, the International Monetary Fund exchange rate for 1 SDR was \$1.40 U.S. dollars. *See* https://www.imf.org/external/np/fin/data/rms_sdrv.aspx.

However, the Postal Service explains that the decrease in volume outpaced the decrease in costs, which it states contributed to the continued negative contribution for Inbound Competitive International Registered Mail in FY 2021. *Id.*

To address future cost coverage for Inbound Competitive International Registered Mail, the Postal Service lists UPU per-item rates that will apply in CY 2022 through CY 2025, and states that these scheduled CY rate increases “should help to improve [its] cost coverage.” FY 2021 ACR at 85; *see* Draft Acts of the Abidjan Congress, Article 28, ¶ 8.

Only the Public Representative commented on Inbound Competitive International Registered Mail. The Public Representative expresses concern that the failure of Inbound Competitive International Registered Mail to cover its costs “will continue to persist.” PR Comments at 23. He notes that the Postal Service does not provide an explanation for how it expects to improve cost coverage for Inbound Competitive International Registered Mail and, instead, merely lists the scheduled calendar year increases in per-item remuneration for this ancillary service through CY 2025. *Id.* He recommends that the Commission seek additional information from the Postal Service regarding its plan to address cost coverage for Inbound Competitive International Registered Mail. *Id.*

The Postal Service responded that it had subsequently provided additional information to the Commission concerning inbound registered items in its Response to CHIR No. 10,¹¹⁹ and that the provided information supports its statements in the FY 2021 ACR regarding additional sources of revenue for inbound registered items. Postal Service Reply Comments at 10-11.

The Commission observes that the Postal Service has expressed its expectation for improved cost coverage for Inbound International Registered Mail based on calendar year increases in per-item UPU remuneration since at least FY 2017.¹²⁰ However, although cost coverage for Inbound International Registered Mail improved between FY 2017 and FY 2018, cost coverage for the product has declined ever since.¹²¹

Additionally, during the same period, the Postal Service has referred to revenues earned under the UPU SRP and under the Inbound Market Dominant Registered Service

¹¹⁹ Responses of the United States Postal Service to Questions 1-3 of Chairman’s Information Request No. 10, February 9, 2022, question 3 (Response to CHIR No. 10).

¹²⁰ In FY 2017 through Postal Quarter 1 of FY 2020, Inbound International Registered Mail was included on the Market Dominant product list (MCS Section 1510.2). Starting in Postal Quarter 2 of FY 2020 through the present, Inbound International Registered Mail is included on the Competitive product list (MCS Section 2615.2). *See* Docket No. ACR2017, United States Postal Service Fiscal Year 2017 *Annual Compliance Report*, December 29, 2017, at 44 (FY 2017 ACR); Docket No. ACR2018, United States Postal Service Fiscal Year 2018 *Annual Compliance Report*, December 28, 2018, at 43 (FY 2018 ACR); Docket No. ACR2019, United States Postal Service Fiscal Year 2019 *Annual Compliance Report*, December 27, 2019, at 35 (FY 2019 ACR); *see also* FY 2020 ACR at 68; FY 2021 ACR at 85.

¹²¹ *See* Docket No. ACR2017, Library Reference PRC-LR-ACR2017-NP2, March 29, 2018; Docket No. ACR2018, Library Reference PRC-LR-ACR2018-NP2, April 12, 2019; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-NP2, March 25, 2020; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-NP2, March 29, 2021; Library Reference PRC-LR-ACR2021-NP2.

Agreement 1,¹²² or the Inbound Competitive PRIME Registered Service Agreement 1,¹²³ as separate sources of additional revenue for inbound registered items.¹²⁴ The Postal Service has provided no additional information to explain why the Commission should consider revenue received under a separate product on the MCS to evaluate the financial performance of Inbound International Registered Mail.

In response to Commission directives and requests for information in Docket No. ACR2020¹²⁵ and in the instant docket,¹²⁶ the Postal Service provides additional information concerning cost coverage calculations for inbound registered items that enter the Postal Service's mail stream under various MCS sections, including items under Inbound Competitive International Registered Mail. In the referenced responses, the Postal Service separately addresses attribution of costs and attribution of revenues between inbound registered items under respective MCS sections, and attempts to justify its past statements regarding separate sources of revenue for inbound registered items. *See generally* Docket No. ACR2020 Fourth Response; Response to CHIR No. 10, question 3. However, additional clarifications are necessary to identify a reasonable path towards improved cost and revenue attribution methodology for inbound registered items, including Inbound Competitive International Registered Mail.

The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021, and that one of its sub-components, Inbound Competitive International Registered Mail, did not cover cost. The Commission directs the Postal Service to provide a detailed analysis of the current attribution of costs and revenues for inbound registered items that entered the Postal Service's mail stream in FY 2021 under applicable MCS sections within 90 days of issuance of this ACD. This detailed analysis shall separately describe the attribution of costs and revenues associated with the delivery of host mail pieces and those associated with the provision of registered service (ancillary to delivery of host mail pieces), and be supported with data sources from the FY 2021 International Cost and Revenue Analysis. Additionally, the analysis shall identify any potential new methodology that would improve the accuracy of cost and revenue attribution for inbound registered items included under the applicable MCS sections, including items under Inbound Competitive International Registered Mail.

¹²² Previously listed as a product on MCS Section 1602.5.

¹²³ Currently listed on MCS Section 2515.10, under the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product.

¹²⁴ See FY 2017 ACR at 44; FY 2018 ACR at 43; FY 2019 ACR at 35-36; FY 2020 ACR at 68; FY 2021 ACR at 85-86.

¹²⁵ See Docket No. ACR2020, Fourth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination, July 27, 2021 (Docket No. ACR2020 Fourth Response).

¹²⁶ See Response to CHIR No. 10, question 3.

(6) Outbound International Insurance

FY 2021 revenue for Outbound International Insurance did not cover its attributable cost. FY 2021 ACR at 86. The Postal Service reports increases in window services costs and in international indemnities, stating that pieces and revenues for this component of the International Ancillary Services product remained “almost unchanged” from their FY 2020 levels. *Id.* To address future cost coverage for Outbound International Insurance, the Postal Service maintains that the 4.8 percent price increase for the component, which went into effect in January 2022, “should further improve [its] financial performance.” *Id.*

Only the Public Representative commented on Outbound International Insurance. The Public Representative suggests that in the next request to adjust prices of general applicability for Competitive products, the Postal Service set prices for Outbound International Insurance “that are compensatory” and do not “hinder the ability of the International Ancillary Services product to cover its cost.” PR Comments at 23.

The Postal Service responded to the Public Representative’s suggestion by stating that his comments “do not provide an analysis of how practicable such an increase in prices for Outbound International Insurance would be.” Postal Service Reply Comments at 11.

The Commission acknowledges the large increases in window services costs and in international indemnities between FY 2020 and FY 2021 noted by the Postal Service. The Commission agrees with the Public Representative that the Postal Service should propose prices for Outbound International Insurance that are compensatory in the next request to adjust prices of general applicability for Competitive products. Furthermore, the Commission encourages the Postal Service to investigate the causes for reported increases in international indemnities and in window service costs, which may provide the opportunity for additional, potentially more adequate corrective actions. Resorting to a price increase as the only remedy could leave some of these underlying causes unaddressed, in particular those associated with international indemnities.¹²⁷

The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021, and that one of its components, Outbound International Insurance, did not cover cost. The Commission recommends that the Postal Service investigate the increases in window service costs and international indemnities, and take adequate and appropriate corrective action that would lead to compensatory Outbound International Insurance. Such corrective action might not be limited to a price increase for Outbound International Insurance in the next request to adjust prices of general applicability for Competitive products.

¹²⁷ Outbound International Insurance is an optional insurance that may be purchased in addition to the insurance amount included with the base products (Priority Mail International, Priority Mail Express International, and Global Express Guaranteed) to protect against loss, damage, or missing content. See MCS Section 2615.5. An increase in international indemnities for Outbound International Insurance, with pieces almost unchanged, could indicate higher occurrences of loss, damage, or missing content for underlying parcels. FY 2021 ACR at 86. An investigation might reveal an operational issue that would not be corrected with a price increase.

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.¹²⁸ Functionally equivalent international NSAs are collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

The Postal Service reports volume, revenue, and cost data for each Competitive international NSA comprising Competitive international products with activity, and separately lists Competitive international NSAs with no activity during the Fiscal Year. *See* Library Reference USPS-FY21-NP2. For FY 2021, the Postal Service provided data for 499 international NSAs, 482 of which include negotiated rates for outbound mail and 17 of which include negotiated rates for inbound mail.¹²⁹

The financial results for Competitive outbound and inbound international products consisting of NSAs are discussed below.

¹²⁸ *See, e.g.*, Docket No. CP2011-34, *et al.*, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

¹²⁹ Library Reference USPS-FY21-NP2; Library Reference PRC-LR-ACR2021-NP2. The Commission counts each serial-numbered agreement included under the Global Expedited Package Services—Non-Published Rates (GEPS—NPR) products as one NSA in this summary value.

a. Competitive Outbound International Products Consisting of NSAs

Competitive outbound international products with negotiated rates are classified on the Competitive product list. Under outbound NSAs, mailers must commit to tendering specified minimum volume, revenue, or both on an annual basis in exchange for reduced rates from the Postal Service.¹³⁰ Additional postal services may be available for products with rates and fees not of general applicability.¹³¹ Table IV-2 shows the FY 2021 product category for each of these products for which the Postal Service reports FY 2021 financial results.¹³²

¹³⁰ 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.

¹³¹ See, e.g., MCS Section 2510.7.5 for additional services available to products included in the Global Reseller Expedited Package Contracts category.

¹³² The Postal Service does not report FY 2021 volume or financial results for the following Competitive outbound international products: Priority Mail International Regional Rate Boxes—Non-Published Rates; Competitive International Merchandise Return Service Agreements with Foreign Postal Operators 2; Global Plus 2C; Global Reseller Expedited Package Services 1; International Priority Airmail Contract 1; Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 7; Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 9; International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 10; GEPS—NPR 2; GEPS—NPR 3; GEPS—NPR 4; GEPS—NPR 5; GEPS—NPR 6; GEPS—NPR 7; GEPS—NPR 8; GEPS—NPR 9; GEPS—NPR 10; GEPS—NPR 11; GEPS—NPR 12; and GEPS—NPR 13.

Table IV-2
Competitive Outbound International Products by Category, FY 2021¹³³

Product Category	Product Name
Global Reseller Expedited Package Contracts	Global Reseller Expedited Package Services 2
Global Expedited Package Services (GEPS)—Non-Published Rates	GEPS—Non-Published Rates 14 GEPS—Non-Published Rates 15
Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket (PMEI, PMI, FCPIS & CeP) Contracts	PMEI, PMI, FCPIS & CeP Contract 2 PMEI, PMI, FCPIS & CeP Contract 3 PMEI, PMI, FCPIS & CeP Contract 4 PMEI, PMI, FCPIS & CeP Contract 5 PMEI, PMI, FCPIS & CeP Contract 6 PMEI, PMI, FCPIS & CeP Contract 8 PMEI, PMI, FCPIS & CeP Contract 10
International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service (IPA, CeP, PMEI, PMI & FCPIS) Contracts	IPA, CeP, PMEI, PMI & FCPIS Contract 1 IPA, CeP, PMEI, PMI & FCPIS Contract 2 IPA, CeP, PMEI, PMI & FCPIS Contract 3 IPA, CeP, PMEI, PMI & FCPIS Contract 4 IPA, CeP, PMEI, PMI & FCPIS Contract 5 IPA, CeP, PMEI, PMI & FCPIS Contract 6 IPA, CeP, PMEI, PMI & FCPIS Contract 7 IPA, CeP, PMEI, PMI & FCPIS Contract 8 IPA, CeP, PMEI, PMI & FCPIS Contract 9
International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service (IPA, CeP, PMEI, PMI & FCPIS) with Reseller Contracts	IPA, CeP, PMEI, PMI & FCPIS with Reseller Contract 1 IPA, CeP, PMEI, PMI & FCPIS with Reseller Contract 2 IPA, CeP, PMEI, PMI & FCPIS with Reseller Contract 3 IPA, CeP, PMEI, PMI & FCPIS with Reseller Contract 4 IPA, CeP, PMEI, PMI & FCPIS with Reseller Contract 5
International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service (IPA, ISAL, CeP, PMEI & FCPIS) with Reseller Contracts	IPA, ISAL, CeP, PMEI, PMI & FCPIS with Reseller Contract 1 IPA, ISAL, CeP, PMEI, PMI & FCPIS with Reseller Contract 2
International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service (IPA, ISAL, CeP, PMEI, PMI & FCPIS) Contracts	IPA, ISAL, CeP, PMEI, PMI & FCPIS Contract 1 IPA, ISAL, CeP, PMEI, PMI & FCPIS Contract 2

Source: MCS Section 2510.

¹³³ This table presents outbound international products by product category as they appear in the MCS.

The Postal Service reports financial results for each outbound international NSA within these products.¹³⁴ In FY 2021, each outbound Competitive international product consisting of NSAs and each outbound Competitive international NSA within these products covered its attributable cost. *See* Library Reference USPS-FY21-NP2; Library Reference PRC-LR-ACR2021-NP2.

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 outbound international NSA and take steps to terminate or renegotiate 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. Inbound international agreements entered into by the Postal Service and one or more FPOs provide inbound services and prices that are available only to mailers meeting defined eligibility requirements for mail preparation, content, size, and weight limitations. Table IV-3 shows the product category for each inbound international product for which the Postal Service reports FY 2021 financial results.¹³⁵

Table IV-3
Competitive Inbound International Products by Category, FY 2021¹³⁶

Product Category	Product Name
International Business Reply Service (IBRS) Competitive Contracts	IBRS Contract 3
Inbound Express Mail Service (EMS)	Inbound EMS 2
Inbound Competitive Multi-Service Agreements with Foreign Postal Operators	Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1

Source: MCS Section 2515.

The Postal Service reports financial results for each inbound Competitive NSA within these products.¹³⁷ In FY 2021, each inbound Competitive international product and each inbound Competitive NSA within these products covered its attributable cost.

¹³⁴ In FY 2021, the Postal Service reports financial results for 411 outbound international NSAs and serial-numbered agreements. For the remaining 71 outbound international NSAs and serial-numbered agreements, the Postal Service reports no activity. *See* Library Reference USPS-FY21-NP2.

¹³⁵ The Postal Service does not report FY 2021 volume or financial results for one Competitive inbound international product: International Business Reply Service Competitive Contract 1.

¹³⁶ This table presents inbound international products by product category as they appear in the MCS.

¹³⁷ In FY 2021, the Postal Service reports financial results for 12 inbound international NSAs. For the remaining 5 inbound international NSAs, the Postal Service reports no activity. *See* Library Reference USPS-FY21-NP2.

The Commission observes an increase in the proportion of inbound international mail volume that entered the Postal Service's network under Competitive inbound international NSAs between FY 2020 and FY 2021. *See* Library Reference PRC-LR-ACR2021-NP2; *see also* Library Reference PRC-LR-ACR2020-NP2. This necessitates continued monitoring of these agreements' financial performance in order to ensure their compliance with the provisions of 39 U.S.C. § 3633(a)(2) in FY 2022.

The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product. The Commission recommends that the Postal Service continually monitor the financial performance of each inbound international NSA and take steps to terminate or renegotiate agreements that are not compensatory.

5. Competitive Nonpostal Services

In FY 2021, Competitive nonpostal services¹³⁸ generated \$150.923 million in revenue and incurred \$60.895 million in expenses, which resulted in a contribution of \$90.027 million. Revised Library Reference USPS-FY21-NP27, Preface. This figure represents a 6-percent decrease in contribution compared to FY 2020, but an overall cost coverage of 247.8 percent.

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

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

39 U.S.C. § 3633(a)(3) requires the Commission to “ensure that all competitive products collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service.” 39 U.S.C. § 3633(b) requires the Commission to review the appropriate share requirement every 5 years to determine whether the requirement “should be retained in its current form, modified, or eliminated.” 39 U.S.C. § 3633(b). 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.¹³⁹ In FY 2012, the Commission conducted its first review of the appropriate share and found it suitable to maintain the requirement at 5.5 percent.¹⁴⁰

¹³⁸ The seven Competitive nonpostal products are: (1) Licensing of Intellectual Property other than Officially Licensed Retail Products; (2) Mail Service Promotion; (3) Officially Licensed Retail Products (OLRP); (4) Passport Photo Service; (5) Photocopying Service; (6) Rental, Leasing, Licensing or other Non-Sale Disposition of Tangible Property; and (7) Training Facilities and Related Services. Docket No. MC2010-24, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11, 2012, at 4 (Order No. 1575).

¹³⁹ *See* Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 90-92 (Order No. 43).

¹⁴⁰ *See* Docket No. RM2012-3, Order Reviewing Competitive Products' Appropriate Share Contribution to Institutional Costs, August 23, 2012, at 24-25 (Order No. 1449).

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.¹⁴¹ Under this approach, the appropriate share was to be updated annually as part of the ACD. Order No. 4963 at 27. FY 2019 was the first year to which the new methodology was applicable, and the formula-derived appropriate share for FY 2019 was 8.8 percent. FY 2018 ACD at 112, 116. The Commission determined in the FY 2018 ACD that the appropriate share for FY 2020 would remain at 8.8 percent. *Id.* at 116-17. The Commission determined in the FY 2019 ACD that the appropriate share for FY 2021 would be 9.1 percent. FY 2019 ACD at 87-89.

Order No. 4963 was appealed to the United States Court of Appeals for the District of Columbia Circuit, which, on April 14, 2020, remanded it to the Commission for clarification of a particular aspect of the Commission's interpretation of 39 U.S.C. § 3633.¹⁴² On November 18, 2021, the Commission issued a Supplemental Notice of Proposed Rulemaking addressing the remanded issues and re-proposing the formula-based approach to determining the appropriate share.¹⁴³ Order No. 6043 simultaneously initiated the Commission's third review of the appropriate share requirement. Order No. 6043. As the Commission explained in the FY 2020 ACD, the Commission will not use the formula-derived appropriate share amount for purposes of determining compliance with 39 U.S.C. § 3633(a)(3) until a final rule has been issued. FY 2020 ACD at 91. However, because the formula is recursive, the Commission will continue to perform the relevant calculations to determine what the formula-based appropriate share would be, in order to avoid any disruption in the formula's operation while the remand is being addressed. *Id.*

1. Comments on Appropriate Contribution Provision

The Postal Service asserts that the total Competitive product contribution for FY 2021 was \$13.193 billion, or 39.2 percent of total institutional costs, an amount that complies with the requirements of 39 U.S.C. § 3633(a)(3). FY 2021 ACR at 88-89.

The Public Representative and Pitney Bowes concur that Competitive products' contribution to institutional costs in FY 2021 complies with 39 U.S.C. § 3633(a)(3). PR Comments at 23-24; Pitney Bowes Comments at 3-4.

The Lexington Institute takes issue with the level of Competitive product contribution to institutional costs in FY 2021, suggesting that Competitive products should be responsible for more than 39.2 percent of institutional costs “[g]iven the dramatically lower

¹⁴¹ 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).

¹⁴² See *United Parcel Serv., Inc. v. Postal Regul. Comm'n*, 955 F.3d 1038 (D.C. Cir. 2020).

¹⁴³ Docket Nos. RM2017-1 and RM2022-2, Supplemental Notice of Proposed Rulemaking and Order Initiating the Third Review of the Institutional Cost Contribution Requirement for Competitive Products, November 18, 2021 (Order No. 6043).

profitability of packages.” Lexington Institute Comments at 1. It states “[i]t is disingenuous for [the Postal Service] to say that the 39.2 percent figure should apply to both Fiscal Year 2020 and 2021 when there is 12.2 percent, or \$3.5 billion, growth in the competitive business.” *Id.* at 2. Lexington Institute also takes issue with how costs are attributed based on cubic weight, and states that there are “[f]undamental [c]oncerns” with the Postal Services cost system and suggests a “Greenfield Costing Methodology” based on growing data analytics capabilities. *Id.* at 4.

In reply, the Postal Service disputes “the claim that the institutional cost recovery share should be linked to revenue...” Postal Service Reply Comments at 12. The Postal Service also states that the Lexington Institute’s assertions of “disingenuousness” with respect to the 39.2 percent figure are based on a misunderstanding of the Postal Service’s representations in the ACR. *Id.* at 13-14.

2. Commission Analysis

a. FY 2021 Appropriate Share

In FY 2021, the total institutional costs of the Postal Service were \$33.634 billion.¹⁴⁴ In FY 2021, the total contribution made by Competitive products collectively to institutional costs was \$13.193 billion¹⁴⁵ (approximately 39.2 percent of total institutional costs), which would have met either the 5.5 percent requirement or the formula-derived 9.1 percent requirement. Therefore, the Postal Service was compliant with 39 U.S.C. § 3633(a)(3).

As the Commission has explained in previous ACDs, comments pertaining to the methodology to determine the appropriate amount of contribution for Competitive products to make to institutional costs, as well as how the amount of institutional costs are determined, are outside the scope of the ACD, which determines compliance with statutory requirements using established methodologies. *See, e.g.*, FY 2020 ACD at 92. Such comments are appropriately addressed in separate dockets pertaining to that issue. *See, e.g.*, Order No. 6043.

With respect to the Lexington Institute’s assertion that the Postal Service’s representations are misleading, the Lexington Institute appears to misunderstand the Postal Service’s Report. The Lexington Institute appears to assert that Competitive product contribution to institutional costs remained unchanged from FY 2020 to FY 2021 despite increases in Competitive product revenue during FY 2021. The Commission notes this is not the case. In fact, Competitive product contribution to institutional costs did increase from FY 2020 to FY 2021; from \$11.185 billion in FY 2020 to \$13.193 billion in FY 2021. As the Postal Service indicates, this represents an increase of 17.95 percent. *Compare* FY 2020 ACD at 92 *with* FY 2021 ACR at 88.

¹⁴⁴ Library Reference PRC-LR-ACR2021-1, Excel file “FY21 Summary_NPLR-1.xlsx,” tab “Total All Mail Appendix A,” cell D84.

¹⁴⁵ *Id.* tab “Total All Mail Appendix A,” cell E24.

Moreover, the assertion that increases in Competitive product revenue should necessarily result in corresponding increases in Competitive contribution to institutional costs does not account for the role of attributable costs. Attributable costs associated with Competitive products also increased from FY 2020 to FY 2021; from \$19.426 billion in FY 2020 to \$21.040 billion in FY 2021, representing an increase of 8.3 percent. *Compare* FY 2020 ACD at 94 *with* FY 2021 ACR at 88. Thus, much of the increase in Competitive product revenue in FY 2021 was offset by increases in the attributable costs associated with Competitive products. The Lexington Institute does not address these increased attributable costs in its comments. The Commission notes that Order No. 6043 addresses Lexington Institute's concerns about how costs are attributed to individual Competitive products. Finally, and with respect to profitability of Competitive (packages) and Market Dominant (mail) products, the Commission points out that overall Competitive product cost coverage in FY 2021 was 162.7 percent and greater than overall Market Dominant cost coverage which was 153.3 percent.¹⁴⁶

The Commission finds that in FY 2021 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs.

b. FY 2022 Appropriate Share

The formula-based approach to determining the appropriate share is recursive. Each year when conducting its annual compliance review, the Commission determines the appropriate share for the upcoming fiscal year. Order No. 4963 at 26-27. In conducting its annual compliance review for FY 2020, which was carried out during FY 2021, the Commission applied the formula and determined that the appropriate share for FY 2022 would be 10.0 percent. FY 2020 ACD at 93-95.

c. FY 2023 Appropriate Share

In this section, the Commission applies the formula to determine what the appropriate share would be for FY 2023 under the formula-based approach. The appropriate share requirement for FY 2023 would be 10.4 percent under the formula-based approach. The formula and the calculation are explained in greater detail below.

¹⁴⁶ Library Reference PRC-LR-ACR2021-1, Excel file "FY21 Summary_NPLR-1.xlsx," tab "Total All Mail Appendix A," cells I24 and I60.

The first component of the formula is the Competitive Contribution Margin, which is calculated as follows:

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

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

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

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

Order No. 4963 at 25. “*Market Share*_{USPS}” refers to the Postal Service’s share of the overall parcel delivery market, expressed as a percentage. It “is determined by dividing the Postal Service’s total competitive product revenue by the sum of the Postal Service’s total competitive product revenue” and the total revenue earned by the Postal Service’s competitors collectively,¹⁴⁷ as represented in the following equation:

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

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.*

¹⁴⁷ Revenue data for the Postal Service are obtained from the Product Finances Analysis, which the Commission produces each year as part of the ACD. Revenue data for the Postal Service’s competitors are obtained from the United States Census Bureau. Order No. 4963 at 25. In its comments in a different Commission proceeding, the Postal Service observes that the Commission includes, in its Library References with each ACD, “a quarterly value for the last calendar quarter of the preceding year” for the revenue data of competitors, but does not use that value in calculations until the following ACD’s calculation of the appropriate share. Docket Nos. RM2017-1 and RM2022-2, Initial Comments of the United States Postal Service in Response to Order No. 6043, February 25, 2022, at 74 (Docket Nos. RM2017-1 and RM2022-2 Postal Service Comments). This is because the final calendar quarter responds to the next year’s first fiscal quarter. As such, the values are locked and do not “reflect any of the subsequent revisions made by the Census Bureau.” Docket Nos. RM2017-1 and RM2022-2 Postal Service Comments at 75. The Postal Service characterizes this locking as “premature” and suggests using an updated Quarter 4 figure as part of the calculation of appropriate share in the instant docket. *Id.* at 75-77. The Commission acknowledges this suggestion and will take it under consideration as part of Docket Nos. RM2017-1 and RM2022-2. However, consistent with the methodology in prior years, this year’s calculation uses the Quarter 4 2020 number that was locked in. Docket No. ACR2020, Library Reference PRC-LR-ACR2020-10, March 29, 2021.

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

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

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

Where,

AS = Appropriate Share

CCM = Competitive Contribution Margin

CGD = Competitive Growth Differential

t = Fiscal Year

Id. at 26. “ AS_t ” refers to the appropriate share value for the fiscal year during which an ACD proceeding is being conducted. Since the ACD is conducted after the close of each fiscal year, this will always be the fiscal year immediately following the fiscal year under review. For example, this ACD evaluates compliance for FY 2021, but is being conducted in FY 2022, and, as it relates to the formula, is being used to determine what the appropriate share will be in FY 2023. “ 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 2021). “ 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 2023).

For the Competitive Contribution Margin, in FY 2021, the total Competitive product revenue was \$34.233 billion. The FY 2021 total attributable cost incurred in producing Competitive products was \$21.040 billion. Therefore, the Competitive Contribution Margin value was:

$$\frac{\$34.233 \text{ billion} - \$21.040 \text{ billion}}{\$34.233 \text{ billion}} = 0.385,$$

representing a 5.5 percent increase from FY 2020.¹⁴⁸

¹⁴⁸ The following calculations can also be found in a library reference accompanying this Report. See Library Reference PRC-LR-ACR2021-10.

For the Competitive Growth Differential, the Commission calculates the revenue growth rates for both the Postal Service and its competitors in FY 2021. In FY 2020, the Postal Service's total real Competitive product revenue was \$24.523 billion, while in FY 2021 it was \$26.194 billion. The percentage change from FY 2020 to FY 2021 was 6.8 percent. In FY 2020, the total real revenue earned by the Postal Service's competitors collectively was \$88.756 billion, while in FY 2021 it was \$102.469 billion. The percentage change from FY 2020 to FY 2021 was 15.5 percent. The Postal Service's market share was 21.6 percent. The Competitive Growth Differential value for FY 2021 was thus:

$$21.6\% * (6.8\% - (15.5\%)) = -1.9\%.$$

See Library Reference PRC-LR-ACR2021-10.

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

$$10.0\% * (1 + 5.5\% + (-1.9\%)) = 10.4\%.$$

Therefore, the appropriate share requirement for FY 2023 would be 10.4 percent under the formula-based approach.

E. Pilot Program – Gift Cards

In FY 2014, the Commission approved the Postal Service's sale of Gift Cards as a product that was "likely to be mailed, similar to greeting cards and stationery" and was often involved in the sale of other postal retail products such as greeting cards.¹⁴⁹ In the Docket No. MC2014-26 Request, the Postal Service stated that it "d[id] not intend to use th[e] filing as a step into offering banking services," and if any Postal Service proposal should ever offer banking services, "such proposals would be done in a separate filing." See Docket No. MC2014-26 Request at 3, n.2.

In FY 2021, the Postal Service initiated a pilot program (Pilot Program) to allow postal retail customers to use payroll and business checks to purchase stored value Gift Cards. The Postal Service initiated the Pilot Program on September 13, 2021, at four post office retail locations in response to a request from a postal union that identified the program as "an initiative that could potentially be useful for a segment of consumers."¹⁵⁰ The Postal Service states that in order to gain insight into this market, it considered secondary

¹⁴⁹ See Docket No. MC2014-26, Request of the United States Postal Service to Add Gift Cards as a New Price Category in the Greeting Cards and Stationery Product, June 9, 2014, Attachment B at 7 (Docket No. MC2014-26 Request). See also Docket No. MC2014-26, Order Granting Request to Add Gift Cards to the Competitive Product List, August 8, 2014 (Order No. 2145).

¹⁵⁰ See Response to CIR No. 1, questions 1.a.-b. The four locations are: Baychester Post Office, 1525 E Gun Hill Road, Bronx, NY 10469; Bailey Crossroads Post Office, 6021 Leesburg Pike, Falls Church, VA 22041; National Capital (Dorthey Height) Post Office, 2 Massachusetts Ave NE, Washington, DC 20002; and, Baltimore Post Office, 900 E Fayette Street, Baltimore, MD 21233. Since all four locations already offered Gift Cards, the Postal Service asserts that minimal training was necessary for the 28 clerks and 8 management staff to allow for the additional form of payment. The training was in partnership with a major postal union and consisted of content providing a background of the pilot, discussions of check handling processes, standard work instruction for the transaction including Point-of-Sale workflow, and FAQs. *Id.*

research, including a 2019 survey by the Federal Deposit Insurance Corporation called “How America Banks: Household Use of Banking and Financial Services” as well as USPS Office of Inspector General reports on potential postal financial services. *Id.*

Under the Pilot Program, additional forms of payment accepted for Gift Cards at the four test sites are payroll or business checks, defined as a printed check with a company’s name pre-printed, made payable to the customer, and accepted in accordance with Handbook F-101.¹⁵¹ The customer is charged a fee of \$5.95 for a variable Gift Card up to \$500 (or \$5.95 per Gift Card, if the customer elects to put the value on multiple cards), the total amount loaded on the Gift Card(s) cannot exceed \$500 per day per customer, and no cash is disbursed to the customer. As with the policy for all Gift Card purchases, once the Gift Card is activated it cannot be returned for a refund or credit. *See* Response to CIR No. 1, questions 1.a.-q.

While the Pilot Program only accepts business and payroll checks made payable to the customer in connection with the sale of Gift Cards at the four test sites, the Postal Service notes that for many years it has cashed or redeemed salary checks or Money Orders in a limited number of circumstances. *See* Response to CIR No. 2, question 5. Specifically, the Postal Service has been issuing Money Orders since the Civil War, and for the past 50 years, the Postal Service has been cashing Postal Service-issued salary checks and Money Orders at no additional charge. *Id.* The Postal Service also notes that in the last 10 years, and “in cooperation with the United States Treasury, the Postal Service has cashed Treasury checks for a nominal fee.” *Id.* It further notes that “[c]ommerical checks have long been accepted as payment for purchase of postage.” *Id.*

From September 13, 2021, to January 12, 2022, a total of six Gift Cards were purchased under the Pilot Program (using the business or payroll check payment method) generating a total fee revenue of \$35.70. *See* Response to CIR No. 1, question 1.n.

The Postal Service states that the Pilot Program will assess consumer usage and whether there is a benefit to the communities involved, operational capabilities, number of business and payroll checks cashed, and funds transferred to a Gift Card. *See* Response to CIR No. 1, question 1.l. Based on the review of the Pilot Program thus far, the Postal Service ascertained that 100 percent of the transactions have been solely for the purchase of Gift Cards using business and payroll checks and did not involve the sale of other items such as postage, stationery, or cards. *See* Response to CIR No. 2, question 2. The Postal Service states that it does not track whether Gift Cards are mailed, regardless of the payment type. *See* Response to CIR No. 1, question 2.b. The Postal Service indicates that its management has not made a determination regarding potential surveys or other means to determine whether a Pilot Program customer purchasing a Gift Card will enter the card into the mail

¹⁵¹ *See* Response to CIR No. 1, questions 1.a.-q.; *see also* Response to CIR No. 2, question 5.

stream.¹⁵² The Postal Service states that it continues to monitor the Pilot Program and anticipates that more Gift Cards may be purchased using the additional forms of payment being tested. *See* Response to CIR No. 2, question 1. Furthermore, it notes that decisions or definitive plans regarding terminating, changing, or expanding the Pilot Program are pending further evaluation of the Pilot Program, although the original schedule for the Pilot Program proposed an end date in March 2022. *See* Response to CIR No. 1, questions 1.a.-q.; *see also* Response to CIR No. 2, question 7.

In response to the Commission's concern that a new form of accepted payment for Gift Cards may amount to a change to the product, the Postal Service describes the Pilot Program as a short-term test that is limited in geographic scope and is "merely testing a new form of payment for an established postal product – [G]ift [C]ards," which does not require a change to the MCS and does not constitute the provision of financial services. Response to CIR No. 1, questions 1.a.-q.

The Commission then asked the Postal Service to "explain with a full degree of specificity why the Postal Service believes that this program is not a market test as described in the Statutes and Commission regulations." *See* CIR No. 2, question 6. In response, the Postal Service states that it "considers the application of Commission rules pertaining to market tests to be inapplicable," arguing that "no new products or services are involved in the current [Pilot Program]," and that the "only products being sold are the existing gift cards [...] previously authorized by the Commission." *Id.* The Postal Service further states that the focus of the Pilot Program does not relate to the "market response to the sale of an innovative product or service not currently listed in the [MCS]," but instead relates to the "limited acceptance of an additional form of payment," which it maintains "are not products or services themselves." *Id.* In addition, the Postal Service argues that because "acceptable forms of payment for [G]ift [C]ards are not set forth in the [MCS]," they are "governed by Postal Service discretion and regulations." *Id.*

Questions remain with regard to this time-limited test and specifically whether it represents a change in the use or nature of the Gift Cards product that may require additional classification action. The Postal Service states that "no new products or services are involved" but the market research referred to in Response to CIR No. 1, suggests that the new payment option is targeted specifically at a market looking for financial services. *See* Response to CIR No. 1, question 1.b. The Postal Service's own promotional materials

¹⁵² When the Commission initially authorized the Gift Card market test, the Commission noted that an "important consideration in [the] decision" was the "requirement that the Postal Service collect data to support its supposition that the gift cards will be mailed." *See* Docket No. MT2011-2, Order Authorizing Gift Card Market Test, April 28, 2011, at 8 (Order No. 721). Furthermore, the Commission asserted that "[i]t is imperative that the Postal Service collect data on the sale of gift cards to demonstrate the portion of gift cards mailed (or likely to be mailed)." Order No. 721 at 11 (footnote omitted). In Order No. 2145, the Commission noted that "[o]n the basis of the reports filed pursuant to Order No. 721, the Postal Service concludes that there is a nexus between the use of gift cards and the use of the mails for sending gift cards because a majority of gift cards purchased at post offices will be mailed." Order No. 2145 at 10. In the Commission's analysis as to whether Gift Cards are a Postal Product, the Commission noted that "[i]n short, a majority of Postal Service gift cards are mailed and their sale fosters the use of the mails." *Id.* at 12. When the Commission concluded that "the sale of gift cards in postal facilities is ancillary to the delivery of letters and mailable packages and is a postal service" the Commission highlighted that "[a]lso significant is the similarity of gift cards to Postal Service money orders, long regarded as a postal service on the basis of a court ruling that they are likely to be mailed." *Id.* (footnote omitted).

market the product using the language “need to ‘cash’ a check?”¹⁵³ Changes in the marketing and planned usage of the product have the potential to change the nature of the product.

Additionally, although the Postal Service asserts that the Gift Card product was already approved by the Commission, the Commission stresses that the approval of the product was based on the premise that the availability of gift cards “stimulates demand for postal services, and enhances the use of the mail.” See Order No. 2145 at 4. The Postal Service’s evidence in Docket No. MC2014-26 demonstrated at the time that the majority of Gift Card sales not only involved the purchase of other postal items but were likely to be mailed. *Id.* at 5-6. In the current Pilot Program, none of the transactions have involved the sale of other postal products. Furthermore, the Postal Service does not track whether gift cards are mailed (regardless of the method of purchase) and has not made an attempt as of yet to determine via surveys or other tools whether customers are likely to mail the gift cards purchased under the Pilot Program. See Response to CIR No. 2, questions 2-3.

The Commission is monitoring the Pilot Program with interest and instructs the Postal Service to ensure that future changes and additions that have an impact on a product’s use or classification be filed with the Commission. The Commission reminds the Postal Service that the Commission regulates what products may be offered and controls the addition and removal of products through the MCS. It further notes that the Postal Service should not be making unilateral decisions on what is, or is not, a new or experimental product. Pursuant to 39 C.F.R. part 3045 and 39 U.S.C. § 3641, any market test for an experimental product, including services ancillary to only competitive products, must be first reviewed and approved by the Commission at least 30 days before initiating such tests.

The Commission will continue to monitor the attributes of the Pilot Program and determine if further classification action may be necessary.

The Commission directs the Postal Service to report quarterly information on the Pilot Program, including updates on volume and revenue, as well as future plans for the Pilot Program as long as it remains in effect. In addition, the Commission directs the Postal Service to file a notice of termination with the Commission when the Pilot Program ends, including notification no later than 14 days after the publication of the ACD whether the Postal Service is continuing the program past its initially anticipated end date of March 2022. Should the Pilot Program remain in effect after March 2022, the Commission will initiate a Mail Classification proceeding pursuant to 39 C.F.R. § 3040 to explore and review the issues discussed in this section.

¹⁵³ See Response to CIR No. 2, PowerPoint file “CIR.2.Q.4.Pictures of Promo Items.pptx.”

CHAPTER V. SERVICE PERFORMANCE

A. Service Performance Results

1. Introduction

Before the PAEA, the Postal Service had internal delivery service standards for major types of mail but lacked statutory guidance on how to establish delivery standards and did not measure and report delivery performance for most types of mail.¹⁵⁴ 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 were to be established "by regulation" and "in consultation with the Postal Regulatory Commission." *Id.* The Postal Service was permitted "from time to time thereafter by regulation [to] revise" these standards.¹⁵⁵ The PAEA also required the Postal Service to develop a "plan for meeting those [service] standards," within which it was to "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 2007.¹⁵⁶ 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."¹⁵⁷ The Postal Service has since revised these standards, most recently by lengthening the service standards for First-Class Mail and end-to-end Periodicals by up to two days, effective October 1, 2021 (the beginning of FY 2022).¹⁵⁸

¹⁵⁴ United States Government Accountability Office, Report No. GAO-06-733, U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement, published July 2006, at 2-4, available at <https://www.gao.gov/assets/260/250894.pdf> (GAO-06-733).

¹⁵⁵ *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).

¹⁵⁶ See Modern Service Standards for Market-Dominant Products, 72 Fed. Reg. 72,216 (Dec. 19, 2007) (codified at 39 C.F.R. parts 121 and 122).

¹⁵⁷ *Id.* at 72,220. The Postal Service defines service standards as "[s]tated delivery performance goals for each mail class and product that are usually measured by days for the period of time taken by [the Postal Service] to handle the mail from end-to-end (that is, from the point of entry into the mailstream to delivery to the final destination)." United States Postal Service *Publication 32, Glossary of Postal Terms*, July 2013, available at http://about.usps.com/publications/pub32/pub32_terms.htm (Postal Service *Glossary of Postal Terms*). "Established service standards also include destination entry standards for mail entered by the mailer at or near a postal destination facility. A separate set of standards is established for noncontiguous states such as Alaska and Hawaii and territories such as American Samoa and Guam." *Id.*

¹⁵⁸ See Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941 (Aug. 11, 2021) (codified at 39 C.F.R. part 121); see also Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1 Advisory Opinion). The Postal Service estimated that its proposed changes would impact 38.5 percent of First-Class Mail and 7 percent of Periodicals. See Docket No. N2021-1 Advisory Opinion at 1. The Postal Service also requested an advisory opinion from the Commission regarding revisions to service standards for a Competitive Product, First-Class Package Service, but has not implemented the new standards yet. See Docket N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021 (Docket No. N2021-2 Advisory Opinion); Response to CIR No. 3, question 4.

As required by section 302 of the PAEA, the Postal Service also prepared a plan for meeting its service standards and, as a part of that plan, developed a set of percent on-time performance targets.¹⁵⁹ Targets are set by the Board of Governors of the Postal Service each fiscal year. *See* Response to CHIR No. 18, question 1.a.i. The Postal Service has since updated these on-time targets annually and, until FY 2021, gradually increased them over time for most products. *See, e.g.*, FY 2018 ACD at 164, 178, 185, 187, 191. The Postal Service is required to include its targets for the preceding year in its ACR and must notify the Commission of any changes in targets at least 30 days prior to implementation.¹⁶⁰ The Postal Service is not required to gain approval from the Commission for these changes, but the Commission is permitted, if it sees fit, to initiate a separate proceeding to consider them. *See* 39 C.F.R. § 3055.5.

Each year, the Commission must “make a written determination” as to “whether any service standards in effect during such year were not met.” 39 U.S.C. § 3653(b)(2). The PAEA does not explicitly contain any principle by which to make this decision, but rather commits this determination to the discretion of the Commission.¹⁶¹

To make this assessment, the Commission has traditionally compared the percentage of mailpieces that achieve the stated service standard against the targets established by the Postal Service. FY 2016 ACD at 90. The D.C. Circuit upheld as reasonable the Commission’s use of the Postal Service targets as the benchmark to evaluate compliance on a nationwide basis for each product.¹⁶² However, if those targets are unreasonable, the Commission has reserved the right to initiate a rulemaking.¹⁶³

¹⁵⁹ *See* United States Postal Service, *Postal Accountability and Enhancement Act § 302 Network Plan*, June 2008, at 7; The Three R’s of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness, Hearing Before the Subcomm. on Federal Workforce, Postal Service, and Dist. of Columbia of the H. Comm. on Oversight and Gov’t Reform, 110th Cong., at 47 (July 24, 2008) (statement of Patrick R. Donahoe, Deputy Postmaster General/Chief Operating Officer, United States Postal Service) (stating that the Postal Service would fulfill its section 302 mandate by, among other things, establishing “‘percentage on-time’ targets [that] will be shared with the Commission and will serve as the basis for its annual review of [the Postal Service’s] service standards compliance[.]”).

¹⁶⁰ *See* 39 C.F.R. § 3055.2(d); 39 C.F.R. § 3055.5. Each year, including this one, the Postal Service includes these targets in Library Reference 29.

¹⁶¹ *See Am. Postal Workers Union, AFL-CIO v. Postal Regul. Comm’n*, 842 F.3d 711, 718 (D.C. Cir. 2016).

¹⁶² *See Am. Postal Workers Union, AFL-CIO*, 842 F.3d at 718.

¹⁶³ *See Am. Postal Workers Union, AFL-CIO*, 842 F.3d at 718 (“The PAEA does not, however, contain any governing principle by which to distinguish compliance from noncompliance. Rather, by its silence, the PAEA commits to the PRC’s discretion the development of legal benchmarks necessary for determining whether the Postal Service violated its service standards.”); 39 C.F.R. § 3055.5 (“The Commission may initiate a proceeding at any time to consider such changes if it appears that the changes might have a material impact on the accuracy, reliability, or utility of the reported measurement, or if the changes might have a material impact on the characteristics of the underlying product.”); *see also* Docket No. C2013-10, Order Granting Motion for Reconsideration and Granting Motion to Dismiss, May 27, 2015, at 11 n.20 (Order No. 2512) (“Although the Postal Service establishes its own goals, the Commission reserves the right to intervene if the goals are contrary to the objectives of title 39, or significantly change the nature of a postal product. Thus far, the Commission has found no instance of this occurring.”); Docket No. RM2009-11, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, May 25, 2010, at 26 (Order No. 465) (“...the Commission will have an indirect role in reviewing Postal Service initiated performance standard and target changes to these baselines as this may affect the nature of the underlying service, or the rates associated with the service in regard to the price cap.”).

The Postal Service did not establish targets for FY 2021 until the third quarter of the year.¹⁶⁴ According to the Postal Service, it deferred setting service performance targets to ensure that its targets were meaningful, considering the extraordinary conditions brought on by the COVID-19 pandemic. FY 2021 ACR at 51. As the Commission previously stated, the delayed filing left insufficient time for a full Commission review.¹⁶⁵

During FY 2021, the Postal Service lowered its targets for First-Class Mail, USPS Marketing Mail, and Periodicals.¹⁶⁶ The Postal Service explains the change in targets by stating that, historically, it has been unable to meet service performance targets for most Market Dominant products, and notes that “regulators have requested the Postal Service establish realistic targets instead of what were determined to be aspirational.” Response to CHIR No. 1, question 24.a. According to the Postal Service, its FY 2021 targets were based on historical data and “an operational performance improvement factor predicated on known network and operational changes.” *Id.* question 24.b. It explains that when the FY 2021 targets were established, they were expected to be only single-year targets to take into account the exceptional circumstances surrounding the COVID-19 pandemic. Response to CHIR No. 6, question 15.a. The Postal Service asserts that “[t]his was done with an expectation targets would be adjusted upward for FY 2022 with the continued implementation of the 10-Year Strategic Plan, which will ultimately provide an opportunity for the Postal Service to achieve service excellence by meeting or exceeding 95 percent on-time delivery.” *Id.*

The Postal Service will be changing its First-Class Mail, USPS Marketing Mail, and Periodicals targets once again in FY 2022. *See id.* question 15.d. The Postal Service expects on-time service performance for each Market Dominant product to meet or exceed its applicable service performance target in FY 2022, but observes that achievement may be hampered due to continuing COVID-19 pandemic-related impacts and uncertainties such as employee availability and contract transportation constraints. *See id.* question 15.f.

The Postal Service intends to eventually raise its service performance targets to 95 percent on-time for all Market Dominant products and categories. *See* Response to CHIR No. 18, question 1.a. It currently aims to transition targets to 95 percent over approximately the next 2 to 3 years. *See id.* question 1.a.i.1. It states that targets are typically established at or near the beginning of each fiscal year and that targets will be based on a forecast (using historical performance data) and applying expected operational improvement predicated on known network and operational changes. *See id.* question 1.a.i.3.

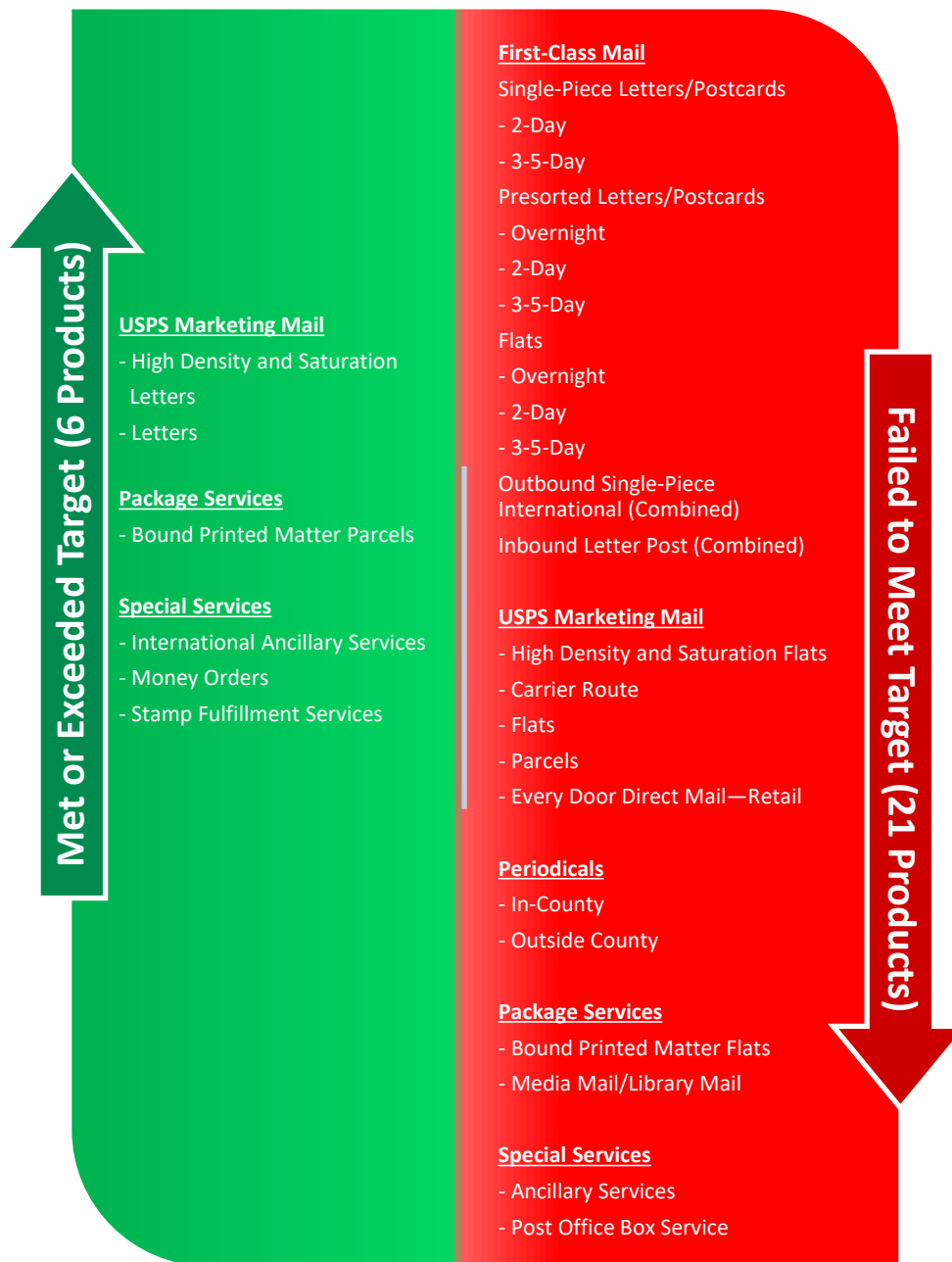
¹⁶⁴ *See* Docket No. ACR2020, Notice of the United States Postal Service of Supplements to Annual Compliance Report Folders 17 and NP30 -- Errata, May 14, 2021.

¹⁶⁵ Docket No. ACR2020, Analysis of the Postal Service’s FY 2020 Annual Performance Report and FY 2021 Performance Plan, June 2, 2021, at 20-21 (FY 2020 Analysis).

¹⁶⁶ *Compare* Docket No. ACR2020, Library Reference USPS-FY20-29, December 29, 2020, file “FY20-29 Service Performance Report.pdf,” at 4, 14, 17, *with* Library Reference USPS-FY21-29, December 29, 2021, file “FY21-29 Service Performance Report.pdf,” at 4, 10, 14.

Figure V-1 categorizes Market Dominant products according to whether or not they achieved their annual service performance targets for FY 2021.

Figure V-1
Market Dominant Products Service Performance Results, FY 2021



Source: Library Reference USPS-FY21-29, December 29, 2021, PDF file "FY21-29 Service Performance Report.pdf," at 4, 14, 21, 25 (FY 2021 Service Performance Report).

To put these results into context, this chapter begins with an overview of the events in FY 2021 that affected the service performance of all Market Dominant products. Next, the Commission describes the systems the Postal Service uses to measure service performance for Market Dominant products. Then, the Commission discusses the Postal Service's FY 2021 service performance results by class of mail. Finally, the Commission describes the findings of the special study regarding offshore service performance.

2. FY 2021 Events Affecting Service Performance for All Market Dominant Products

a. Overview

In FY 2021 (October 1, 2020 through September 30, 2021), the most significant event affecting the Postal Service, and the logistics industry more broadly, remained the COVID-19 pandemic. Because Postal Service employees perform an essential function as part of the nation's critical infrastructure, they have continued to process and deliver the nation's mail. The Commission expresses its appreciation for the continuous efforts of the frontline Postal Service workers, who are performing essential work that allows millions of Americans to minimize their exposure to the COVID-19 pandemic by maximizing their hours spent at home.

The COVID-19 pandemic had a substantial impact on the Postal Service, which became widespread and significant in Quarters 3 and 4 of FY 2020 (April 1, 2020 through September 30, 2020) and continued throughout FY 2021. The Postal Service reports that the COVID-19 pandemic primarily impacted service performance by reducing employee availability, disrupting its contract transportation arrangements, and altering the usual mail mix. Each of these factors, which are discussed separately below, had significant impacts on the Postal Service's Market Dominant service performance results. Moreover, because the timing of these events overlapped—and coincided with the Postal Service's peak season—their combination exacerbated the extent and duration of the individual impacts.

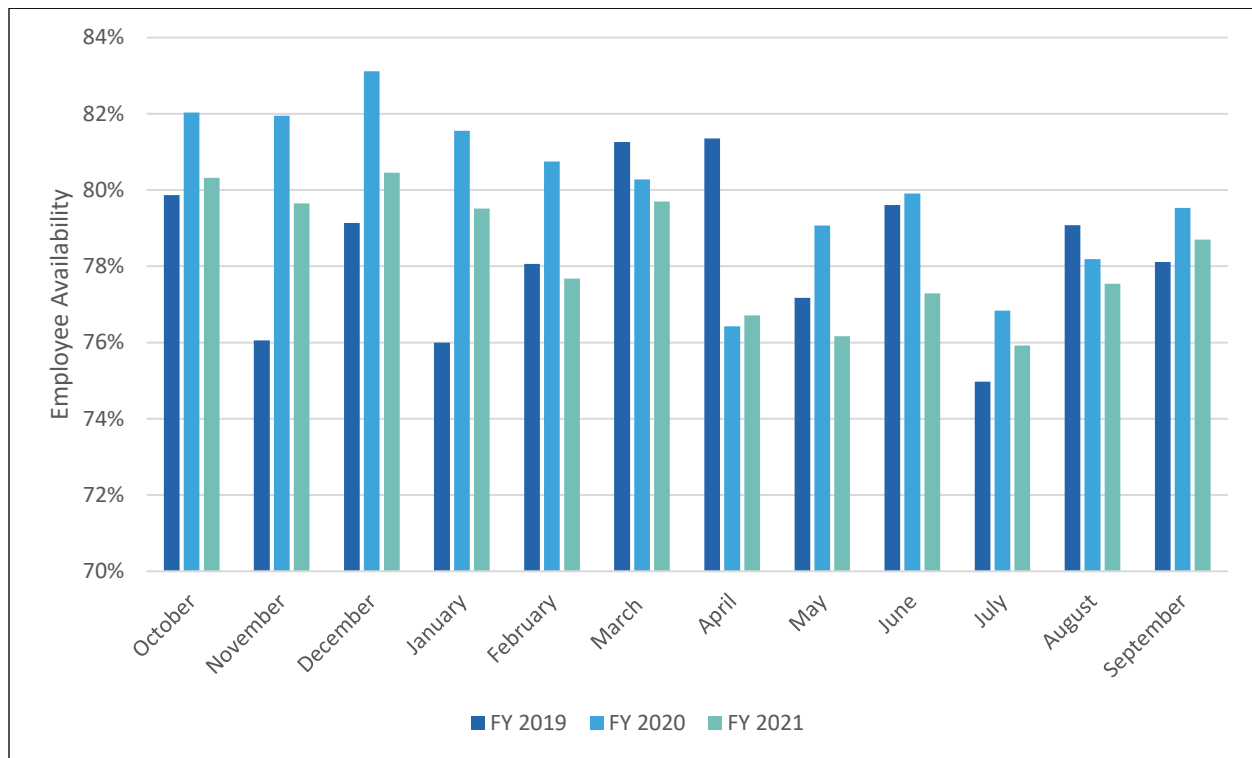
b. The COVID-19 Pandemic

(1) Reduced Employee Availability

The Postal Service explains that the COVID-19 pandemic reduced employee availability on a national level leading to significant absenteeism in "hot spots," which led to problems in the processing, transporting, and delivering of normal volume. *See* Response to CHIR No. 1, question 13.a. On average, individual usage of COVID-19 pandemic-related leave was slightly more than 2 weeks (87.6 hours). Response to CHIR No. 8, question 2.

Figure V-2 presents overall employee availability by month for FY 2019, FY 2020, and FY 2021.

**Figure V-2
Employee Availability, by Month, FY 2019–FY 2021**



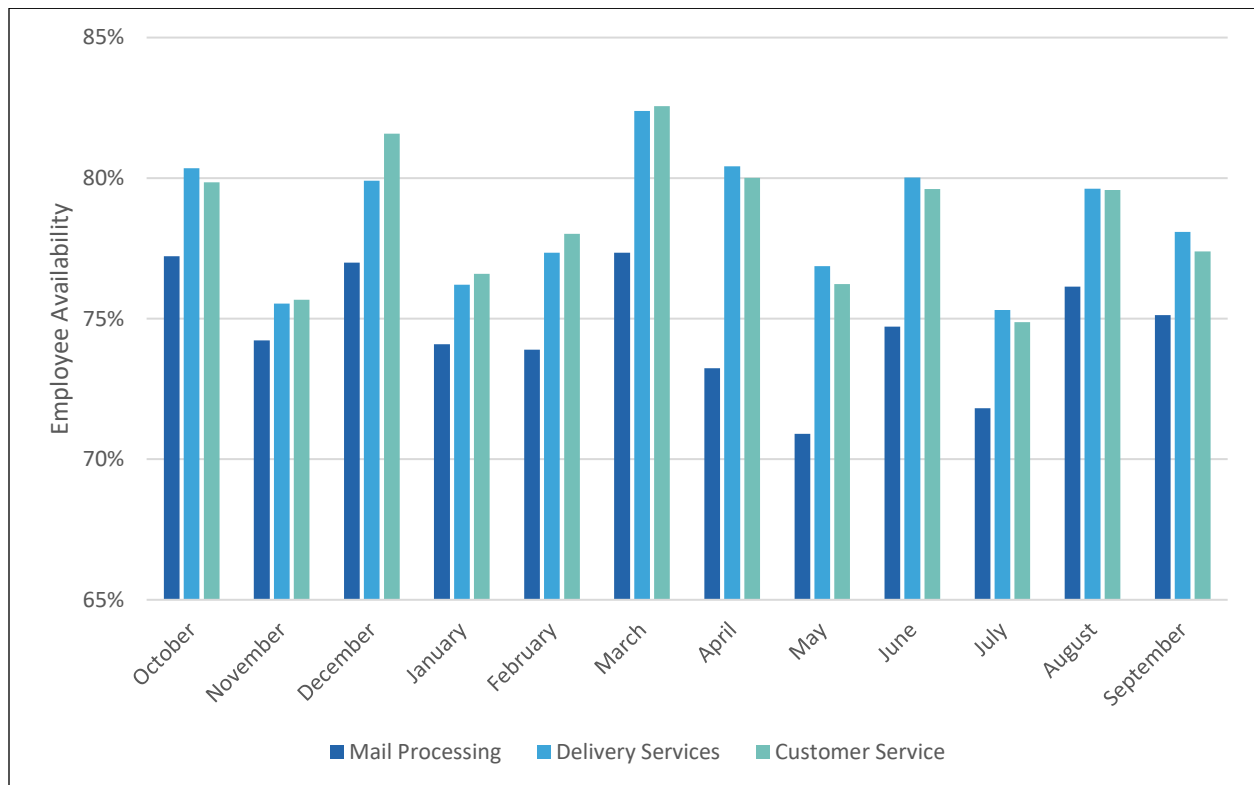
Source: Response to CHIR No. 6, question 4, Excel file “CHIR.6 Q.4_Data_CHIR.1 Q.13b;” Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-7, 10-20 of Chairman’s Information Request No. 6, February 4, 2021, question 2, Excel file “Q.2 Employee Availability Data.xlsx” (Docket No. ACR2020, February 4 Response to CHIR No. 6).

On average, employee availability increased from FY 2019 to FY 2020 and decreased from FY 2020 to FY 2021.¹⁶⁷ In FY 2019, the Postal Service reported an average employee availability of approximately 78.39 percent, which increased to 79.97 percent in FY 2020. *Id.* Employee availability then decreased to 78.30 percent in FY 2021. *Id.* In FY 2019, the maximum employee availability occurred in April at 81.36 percent, while the minimum employee availability occurred in July at 74.98 percent. In both FY 2020 and FY 2021, the maximum employee availability occurred in December, at 83.12 percent and 80.45 percent availability, respectively. *Id.* The month with the lowest employee availability in FY 2020 was April (76.43 percent), while the lowest employee availability in FY 2021 was July (75.92 percent). *Id.*

Figure V-3 displays employee availability in FY 2021 by function: mail processing (Function 1), delivery services (Function 2), and customer service (Function 4).

¹⁶⁷ See Response to CHIR No. 6, question 4, Excel file “CHIR.6 Q.4_Data_CHIR.1 Q.13b;” Docket No. ACR2020, February 4 Response to CHIR No. 6, question 2, Excel file “Q.2 Employee Availability Data.xlsx.”

**Figure V-3
Employee Availability, by Function, by Month, FY 2021**



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

Source: Response to CHIR No. 9, question 1, Excel file “CHIR.9.Q.1.FY21 – Employee Availability Data,” tab “Month_Quarter_Func.”

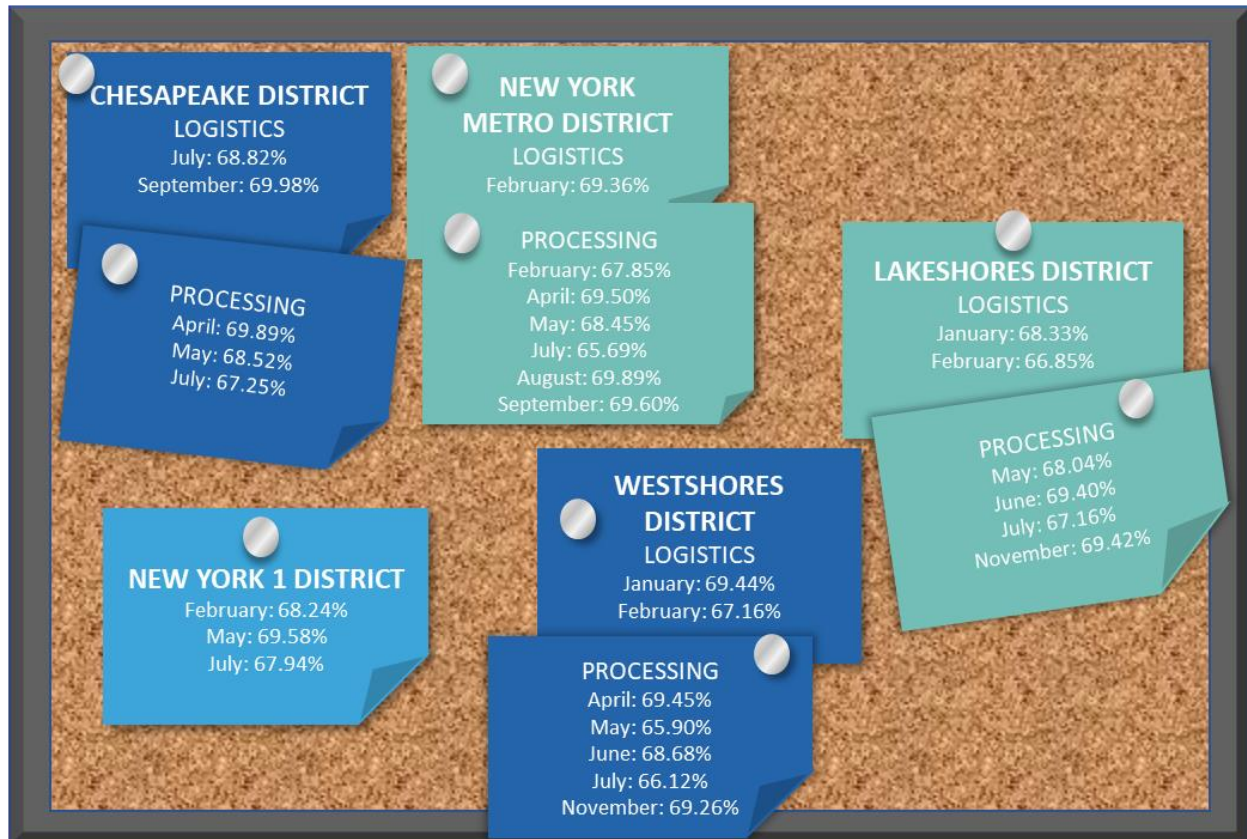
Figure V-3 provides insight into the fluctuation of employee availability, at the national level, throughout FY 2021. These data indicate that the Postal Service’s national employee availability was consistently lower for mail processing than delivery services and customer service. National employee availability for mail processing (Function 1) was most challenged during May 2021, while delivery services (Function 2) and customer service (Function 4) were most challenged during July 2021.

In addition to this national reduction in employee availability, the Postal Service refers to “numerous pockets of hot spots at different times.” Response to CHIR No. 1, question 13.a. The Postal Service explains that if one geographic hot spot has insufficient employee availability to clear the mail, mail destined for any number of downstream facilities will be delayed. Response to CHIR No. 11, question 16.a.

The Postal Service has previously explained that monthly employee availability of less than 70 percent can be “empirically [] most effective [in] distinguishing particularly-challenged

Districts.”¹⁶⁸ Figure V-4 presents a selection of districts that experienced more than 1 month of employee availability below 70 percent during FY 2021.

Figure V-4
Districts with Multiple Months of Employee Availability Below 70 Percent, FY 2021



Source: Response to CHIR No. 8, question 4.

Districts across the United States experienced monthly employee availability below 70 percent during FY 2021. The Western Region District (not shown in Figure V-4) experienced the lowest employee availability during FY 2021 with January availability at only 61.00 percent. July was a particularly challenging month for the Postal Service with 10 districts reporting employee availability below 70 percent.

The Postal Service is unable to quantify the impact of employee availability on service performance. Response to CHIR No. 11, question 16.a. Though employee availability was relatively similar in FY 2021 and FY 2019 (the year prior to the COVID-19 pandemic), on-time service performance results were generally significantly lower in FY 2021.

¹⁶⁸ Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-16 of Chairman’s Information Request No. 11, February 11, 2021, question 13.b.

The Postal Service states that it worked to address employee absenteeism starting in FY 2021 Quarter 3 “by partnering with the American Postal Workers Union and the National Postal Mail Handler Union to increase the number of career employees through a scheduled conversion process.”¹⁶⁹ It notes that by the end of FY 2021, its total career workforce had increased by over 25,000 employees compared to the end of FY 2020. Response to CHIR 1, question 13.c. Pointing to increases in service performance results in Quarters 3 and 4 for USPS Marketing Mail, Periodicals, First-Class Mail, and Package Services, the Postal Service asserts that this larger workforce resulted in increased service performance, which it believes will be sustained in FY 2022. *Id.* question 13.c.-f. The Postal Service states that it plans to continue to monitor employee availability and staffing levels through employee availability metrics and employee-on-rolls data, and will adjust staffing as needed to ensure adequate employee availability in FY 2022. *Id.* question 13.e., g.

(2) Transportation Challenges

Transit has been a major area of concern in the Commission’s past evaluations of the Postal Service’s service performance results. *See, e.g.*, FY 2020 ACD at 108-16; FY 2019 ACD at 106-12, 119-21. The COVID-19 pandemic exacerbated the Postal Service’s challenges relating to transporting mailpieces that were destined for an address outside of the local service area from which the mailpiece was mailed.¹⁷⁰ After completing origin processing, the Postal Service assigns mail to the air or surface network for transportation to a facility closer to the addressee. Because the Postal Service does not operate its own aircraft, it contracts with commercial airlines to rent space for mail on passenger flights as well as cargo-only flights.¹⁷¹ To move mail to the next facility via the surface network, the Postal Service may use contractors or Postal Service career employees as drivers.¹⁷²

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.”¹⁷³ The Postal Service explains that for Market Dominant products, processing and operating plans utilizing ground or air transportation

¹⁶⁹ Response to CHIR 1, question 13.c. The Postal Service uses the terms “career” and “regular” interchangeably. The Postal Service categorizes its workforce into two types of employees: career and non-career. Career (regular) employees serve in permanent positions on a full-time or part-time basis and typically receive full federal benefits. Non-career employees are temporary workers who do not receive the same employee benefits as career employees. *See* United States Postal Service, Office of Inspector General (OIG), Report No. 19POG001SAT000-R20, Effectiveness of the Postal Service’s Efforts to Reduce Non-Career Employee Turnover, February 12, 2020, at 4, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/19POG001SAT000-R20.pdf>.

¹⁷⁰ Local service area, or local zone, refers to a nonnumbered zone that applies to mail deposited at any Post Office for delivery to addresses within the delivery area of that Post Office. This includes ZIP Codes assigned to postal facilities, Post Office Box sections, Caller Service, vertical improved mail units in buildings, and delivery units. Postal Service *Glossary of Postal Terms*.

¹⁷¹ United States Postal Service, *Airmail: A Brief History*, March 2018, at 4-5, available at <https://about.usps.com/who-we-are/postal-history/airmail.pdf>.

¹⁷² United States Postal Service, Office of Inspector General, Report No. 20-144-R20, *Transportation Network Optimization and Service Performance*, June 5, 2020, at 8, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/20-144-R20.pdf> (OIG Report No. 20-144-R20).

¹⁷³ Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-9 of Chairman’s Information Request No. 13, February 21, 2019, question 2 (Docket No. ACR2018 Response to CHIR No. 13).

typically do not have an error margin built into planned processing that may accommodate even an hour of late mail.¹⁷⁴

In response to the Commission's inquiries regarding quantification of the impacts of the COVID-19 pandemic on transit in FY 2021, the Postal Service maintains that the impacts were negative and significant but did not provide quantitative support or identify metrics used to determine these impacts. *See* Response to CHIR No. 1, question 15; *see also* FY 2021 ACR at 50. The Postal Service asserts that the COVID-19 pandemic impacted both air and surface contract transportation. *See* FY 2021 ACR at 50. Specifically, the Postal Service's commercial carriers reduced their number of flights, changed their schedules, and used airplanes with less capacity, which meant that less volume could be assigned by the Postal Service to the Commercial Air Network. *See id.*; Response to CHIR No. 1, question 15.a. The Postal Service states that, to mitigate these impacts, it "evaluated existing surface and air routings" in order to move mail from the air to the surface network. Response to CHIR No. 1, question 16.a. It explains that it used "as need" and "rapid response" surface transportation contracts to move additional mail volume or volume that needed to be "off loaded," and suggests that it will continue to use these methods going forward. *Id.* question 16.a. Nevertheless, the Postal Service explains that these efforts were hampered by high demand for transportation services as well as the fact that mail transportation schedules are usually planned in advance. *See* FY 2021 ACR at 50. The Postal Service asserts that it is unable to quantify the impact that these mitigation efforts had on service performance results. Response to CHIR No. 1, question 16.b. Going forward, it states that it will monitor the efficacy of its attempts to mitigate transportation constraints by using its Supplier Performance Dashboard, which includes supplier, route, and trip level data and reportedly measures "on-time performance (both departure and arrival) and omitted service." *Id.* question 16.e.

The Postal Service tracks surface trips that arrive more than 4 hours late, referred to as Critically Late Trips (CLTs).¹⁷⁵ "The CLT is identified by [comparing] the actual arrival scan [to the] scheduled arrival scan at the destination facility."¹⁷⁶ The Postal Service stated that it uses its Surface Visibility diagnostic tool to identify the route, the trip, and the destination Area and District. *See* Docket No. ACR2019 Response to CHIR No. 4, question 30.b.; Docket No. ACR2017, January 17 Response to CHIR No. 2, question 7.b.iii.

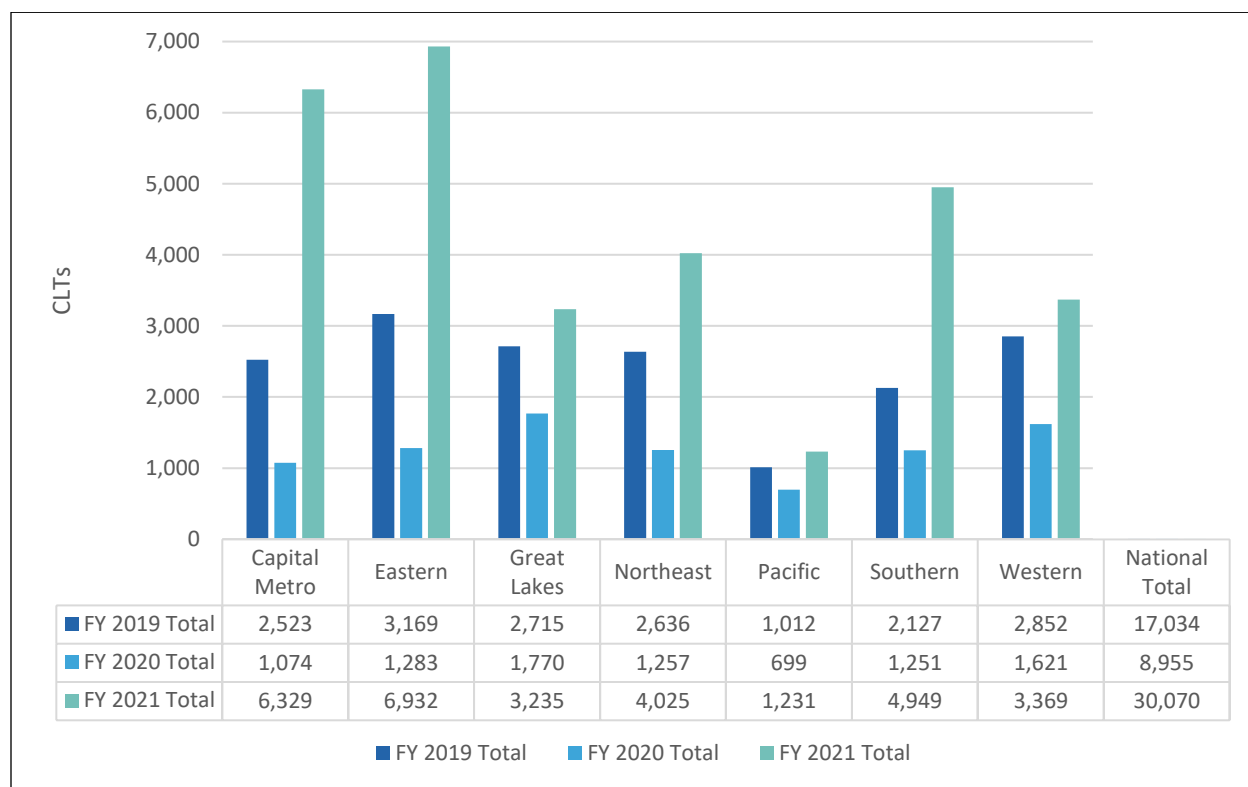
Figure V-5 illustrates the number of CLTs for First-Class Mail on Highway Contract Routes (HCRs) on an annual basis for FY 2019, FY 2020, and FY 2021.

¹⁷⁴ *See* Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-21 of Commission Information Request No. 1, January 15, 2021, question 3.a. (Docket No. ACR2020 Response to CIR No. 1).

¹⁷⁵ Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 22, November 15, 2016, question 12.b.i. (Docket No. ACR2015 Response to CHIR No. 22).

¹⁷⁶ Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 2, January 17, 2018, question 7.b.iii. (Docket No. ACR2017, January 17 Response to CHIR No. 2); *see* Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-41 of Chairman's Information Request No. 4, January 24, 2020, question 30.b. (Docket No. ACR2019 Response to CHIR No. 4).

Figure V-5
First-Class Mail CLTs for HCRs, by Area and Nation, FY 2019–FY 2021

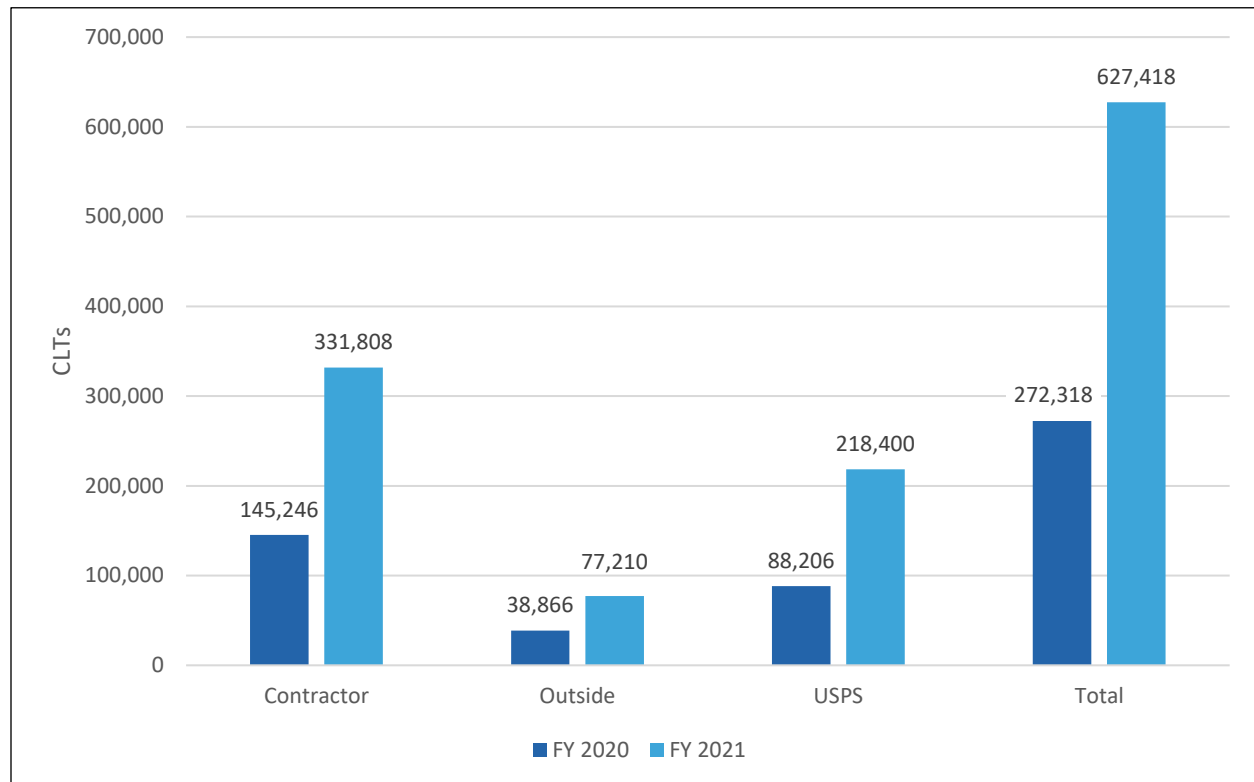


Source: Library Reference USPS-FY21-29, Excel file "FY21 FCM Q3 CLT.xlsx," tab "FY21;" Library Reference USPS-FY20-29, Excel file "FY20 FCM Q3 CLT Natl Area Dist.xlsx," tab "4.c.3 CLT;" Docket No. ACR2019, December 27, 2019, Library Reference USPS-FY19-29, Excel file "FY19 ACR FCM Q1-2-4-5 EOY.xlsx," tab "Q4;" *see also* Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 19, February 24, 2022, question 1 (Response to CHIR No. 19).

The number of nationwide First-Class Mail CLTs for HCRs has fluctuated significantly since FY 2019. In FY 2020, despite the constraints of the COVID-19 pandemic, the number of these CLTs was approximately half of the number observed in FY 2019, which the Postal Service attributed to its focus on ensuring that mailpieces were placed on the dock and/or platform in a timely manner for loading on to trucks, thus supporting on-time departure. *See* Docket No. ACR2020, February 4 Response to CHIR No. 6, question 5. The Postal Service also reported that it had been working with its suppliers to emphasize on-time arrival, loading, and departures. *See id.* However, as demonstrated above, the number of nationwide First-Class Mail CLTs for HCRs increased from 8,955 CLTs in FY 2020 to 30,070 CLTs in FY 2021, which amounts to a more than three-fold increase. The Eastern District reported the most of these CLTs with 6,932, which represents approximately 23.1 percent of the national total. The Capital Metro area also experienced a substantial number of these CLTs with 6,329, which amounts to approximately 21.0 percent of the national total. In attempting to explain the significant increase in these CLTs, the Postal Service pointed generally to the increases in each CLT cause (*i.e.*, contractor-caused, Postal Service-caused, and caused by outside factors). Response to CHIR No. 9, question 2.

Figure V-6 shows the number of total CLTs for all products, disaggregated by cause for FY 2020 and FY 2021.¹⁷⁷

Figure V-6
Total CLTs, by Responsible Party, FY 2020–FY 2021



Source: Response to CHIR No. 1, question 28, Excel file “ChIR.1.Q.28.Critical late trips.”

Total CLTs increased substantially between FY 2020 and FY 2021 for all causes. Contractor-caused CLTs increased from 145,246 in FY 2020 to 331,808 in FY 2021, which amounts to an increase of 128.4 percent. CLTs caused by outside factors (*e.g.*, weather delays) increased from 38,866 in FY 2020 to 77,210 in FY 2021, which represents an increase of 98.7 percent. Finally, CLTs related to Postal Service-caused issues increased from 88,206 in FY 2020 to 218,400 in FY 2021, which amounts to an increase of 147.6 percent.

¹⁷⁷ The cause for a given CLT is determined by platform personnel during operations using their own observations and information from the supplier operating the trip. Response to CHIR No. 1, question 28.a. CLTs designated as caused by the Postal Service include those related to dock congestion and operations, “late inbound [and] late outbound,” dock personnel issues, mail processing issues, late processing, cancelled trips, failure to bring mail to the loading dock, equipment and mechanical failures, “station/customer service op[erations],” customer delay, schedule failure, driver unavailability, “load after depart,” and “late inbound PVS.” See Response to CHIR No. 9, question 2, Excel file “ChIR.9 Q2_Late Trip Reasons FY21 vs FY20.” CLTs designated as caused by outside forces are those due to “traffic, weather, construction, and accidents.” See *id.* The Postal Service does not define what specific incidents constitute contractor failures. See *id.*

Table V-1 presents the distribution of causes as a percent of total annual CLTs for FY 2020 and FY 2021.

Table V-1
Total CLTS and Proportional Representation, by Responsible Party, FY 2020–FY 2021

Cause	FY 2020	% of FY 2020 Total	FY 2021	% of FY 2021 Total
Contractor	145,246	53.3%	331,808	52.9%
Outside	38,866	14.3%	77,210	12.3%
Postal Service	88,206	32.4%	218,400	34.8%
Total	272,318		627,418	

Source: Response to CHIR No. 1, question 28, Excel file "ChIR.1.Q.28.Critical late trips."

These data illustrate that the distribution of CLT causes remained relatively consistent between FY 2020 and FY 2021.

In the FY 2020 ACD, the Commission recommended that the Postal Service develop a metric to determine whether a late trip was caused by delays specific to moving mail between processing facilities rather than one occurring during processing operations. *See* FY 2020 ACD at 114. In response, the Postal Service now states that "Surface Visibility (SVweb) and Informed Visibility (IV) are both referenced to monitor supplier on-time performance, Postal on-time performance, and service performance by lane." Response to CHIR No. 11, question 15. According to the Postal Service, it now tracks and evaluates a given CLT by whether it was caused by suppliers, Postal Service processing issues, or events outside both parties' control (such as inclement weather) for the audited period, as shown above. *See* Response to CHIR No. 1, question 28. Although the Postal Service tracks the number of CLTs, it remains unable to quantify the impact of CLTs on service performance results. *See* Response to CHIR No. 11, question 14.

The Postal Service states that it attempted to remediate CLTs caused by its own processing failures by, as stated above, hiring more employees, acquiring more space, installing more package sorting machines, and creating more surface transfer centers (STCs). *See* Response to CHIR No. 1, question 28.b.

In terms of CLTs caused by contractors, the Postal Service states that it "continues to nationally utilize the '5 Step' process to address poor performing contract suppliers." *Id.* For delays caused by contract truck drivers, the Postal Service requires the officer that is responsible for administering the contract (Administrative Official) to take progressive corrective actions against an underperforming supplier. *See* Docket No. ACR2017, January 17 Response to CHIR No. 2, question 7.b.i.; Docket No. ACR2015 Response to CHIR No. 22, question 12.b. In the FY 2020 ACD, the Commission encouraged the Postal Service to ensure that Administrative Officials adhere to the established process of taking progressive corrective actions against an underperforming supplier and document such actions as they occur. FY 2020 ACD at 116. The Postal Service states that the Surface Logistics department,

with oversight provided by the Regional/Division Logistics Directors, is responsible for ensuring that Administrative Officials follow the appropriate due diligence process. Response to CHIR No. 1, question 29.a. In January 2022, the Postal Service reissued the relevant directives instructing Administrative Officials to follow the current established processes, with mandatory certification to be completed by the end of that month. *Id.* question 29.b. Additionally, it states that, beginning in January 2021, Administrative Officials began using the ServiceNow tool, which is referred to as the Surface Transportation Automated Forms (STAF) application,¹⁷⁸ to document and track poorly performing suppliers. Response to CHIR No. 11, question 15. The Postal Service also states that it continues to evaluate the viability of including liquidated damages clauses in its contracts with suppliers related to CLTs. Response to CHIR No. 1, question 29.d.

(3) Mail Mix Changes

In addition to the Postal Service's reduced employee availability and stressed transportation network, the Postal Service states that it received an unprecedented level of packages during the peak season of FY 2021, which it asserts contributed to decreased Market Dominant service performance during the peak season and subsequent months. FY 2021 ACR at 49-50; Response to CHIR No. 1, question 17.a.-b. The Postal Service previously explained that, as a result of the COVID-19 pandemic, many people increased their reliance on e-commerce and mail-ordering, which consequently increased the demand for packages in FY 2020 and FY 2021.¹⁷⁹ It asserts that a backlog arose because package-shaped volumes were inducted faster than they could be processed given the lack of staff and processing capacity, and that gridlock occurred due to a lack of space to stage those backlogged volumes. *See* Response to CHIR No. 1, question 17.a. Further, the Postal Service contends that the lack of space led to other disruptions such as crowded staging areas and longer wait times for drop shipments. *See id.* The Postal Service adds that "[m]any facilities were unable to maintain First-In-First-Out (FIFO) order, leading to increased cycle time and, by extension, diminished service performance." *See id.*

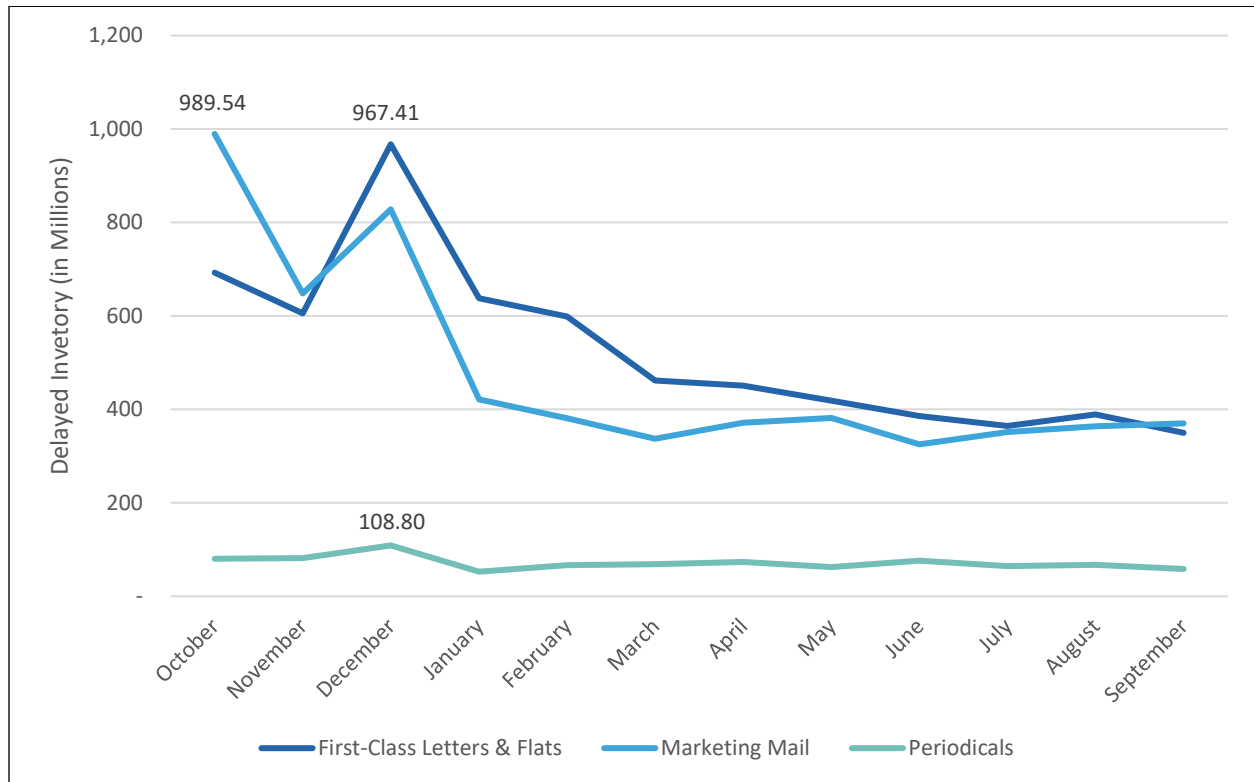
Offloads from private companies further strained the limited resources of the Postal Service. The Postal Service explains that the surge in package volume also affected private delivery companies, many of whom instituted volume capacity controls, which resulted in substantial package volume being offloaded to the Postal Service. FY 2021 ACR at 49-50. According to the Postal Service, this created additional gridlock and backlogs. *Id.* However, the Postal Service does not have specific information on how many packages were offloaded by private companies. Response to CHIR No. 1, question 27.

¹⁷⁸ *See* United States Postal Service, Office of Inspector General, Report No. 21-116-R22, Trips Operating More Than Four Hours Late, November 8, 2021, at 1, available at <https://www.uspsaig.gov/sites/default/files/document-library-files/2021/21-116-R22.pdf> (OIG Report No. 21-116-R22).

¹⁷⁹ *See* Docket No. ACR2020 Response to CIR No. 1, question 3.a.; Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-26 of Chairman's Information Request No. 3, January 22, 2021, question 22.a. (Docket No. ACR2020 Response to CHIR No. 3).

FigureV-7 shows the delayed inventory by month for FY 2021.¹⁸⁰

**Figure V-7
Delayed Inventory, by Month, FY 2021**



Source: Response to CHIR No. 1, question 17.b.

The delayed inventory for Market Dominant products varied considerably during FY 2021. Quarter 1 experienced the most delayed inventory, with 2.265 billion delayed First-Class Letters and Flats, 2.465 billion pieces of delayed USPS Marketing Mail, and 270.68 million delayed Periodicals. The month of October was the most challenging for First-Class Letters and Flats with approximately 989.54 million delayed pieces, while December was the most challenging month for USPS Marketing Mail and Periodicals with 967.41 million and 108.80 million delayed pieces, respectively.

The Postal Service explains that it took several steps to increase peak season capacity and handle its larger package volumes. FY 2021 ACR at 49. Specifically, it asserts that it: (1) hired additional employees to improve timely processing and dispatch; (2) acquired long-term and peak season annexes to create additional space and allow for more efficient management of mail volumes; and (3) added more package/bundle processing machines,

¹⁸⁰ “Delayed inventory” is defined as “mailpieces that remain on hand at their facility and that have not received their next expected processing operation scan by 0659 for destinating final processing operations and 0600 for all other operations.” Response of the United States Postal Service to Question 1 of Chairman’s Information Request No. 22, February 28, 2022, question 1.

which allowed the Postal Service to process more packages at a time and at a faster rate, thus allowing workhours to be reallocated for other purposes. Response to CHIR No. 1, question 18.a. According to the Postal Service, these changes occurred in the second half of FY 2021, leading to increased service performance over that period. *Id.* question 18.a.-b.

The Postal Service states that, going forward, it intends to “continue to assess staffing and equipment needs,” realign its facilities and processing capacity to reflect the changing mail mix, and “reevaluate mail flows and identify opportunities for simplification.” *Id.* question 18.c. The Postal Service expects that these efforts will increase service performance, and intends to monitor employee availability, equipment needs, and the network redesign in order to ensure the efficacy of its plans. *Id.* question 18.d.-e.

In addition to increased package volumes, after the onset of the COVID-19 pandemic, there were surges in volumes for Political Mail and Election Mail,¹⁸¹ and the Postal Service observed “[c]ollectively, these increases in volumes, coupled with decreased employee availability, led to competing goals of finalizing mail on time and getting it on a limited transportation network” across the nation. *See* Docket No. ACR2020 Response to CIR No. 1, question 20.a, c. Throughout FY 2020 and continuing into FY 2021, the Postal Service stated that it strived to prioritize delivery of Political Mail and Election Mail. *See* Library Reference USPS-FY21-17, at 3, 35 (*FY 2021 Annual Report*). The Commission discussed this issue in detail in its FY 2020 ACD. *See* FY 2020 ACD at 134-39. The post-election reports released by the Postal Service and the OIG detail the additional resources devoted—such as extra transportation and overtime—and extraordinary measures taken by the Postal Service to deliver Political Mail and Election Mail for the 2020 General Election held in FY 2021 Quarter 1 on November 3, 2020, and the two run-off elections for the United States Senate in Georgia held in FY 2021 Quarter 2 on January 5, 2021.¹⁸²

Table V-2 presents Political Mail and Election Mail volumes by month for FY 2021.

¹⁸¹ The Commission uses the term “Election Mail” to refer to any item mailed to or from authorized election officials that enables citizens to participate in the voting process, such as balloting materials, voter registration cards, absentee applications, and polling place notifications, and uses the term “Political Mail” to refer to any item mailed for campaign purposes by a registered political candidate, campaign committee or committee of a political party, political action committee, or organization engaging in issue advocacy or voter mobilization. *See* United States Postal Service, *Postal Bulletin* No. 22539, February 13, 2020, at 4, available at <https://about.usps.com/postal-bulletin/2020/pb22539/pb22539.pdf> (*Postal Bulletin* No. 22539).

¹⁸² United States Postal Service, 2020 Post-Election Analysis: Delivering the Nation’s Election Mail in an Extraordinary Year, updated January 12, 2021, at 19, available at https://about.usps.com/newsroom/national-releases/2021/usps_postelectionanalysis_1-12-21_georgia.pdf (Postal Service Post-Election Report); United States Postal Service, Office of Inspector General, Report No. 20-318-R21, Service Performance of Election and Political Mail During the November 2020 General Election, March 5, 2021, at 1-4, 7, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2021/20-318-R21.pdf> (OIG Report No. 20-318-R21). The Postal Service uses the term “extraordinary measures” to refer to processes it used “beyond [its] normal operations” such as “expedited handling, extra deliveries, and special pickups,” to accelerate the delivery of Election Mail, effective October 26, 2020. *See* Docket No. ACR2020, February 4 Response to CHIR No. 6, question 11.b., PDF file “Extraordinary Measures Memorandum.pdf,” at 2 (Extraordinary Measures Mem.).

Table V-2
Political Mail and Election Mail, by Month, FY 2021

Month	Political Mail	% of Total	Election Mail	% of Total
October	2,131,550,610	77.2%	141,492,831	52.0%
November	78,902,974	2.9%	2,522,801	0.9%
December	178,138,127	6.5%	2,357,429	0.9%
January	30,938,790	1.1%	6,341,150	2.3%
February	19,636,599	0.7%	6,323,678	2.3%
March	32,416,745	1.2%	5,893,626	2.2%
April	40,468,758	1.5%	9,063,548	3.3%
May	51,659,773	1.9%	6,081,588	2.2%
June	61,288,255	2.2%	3,390,548	1.2%
July	32,179,749	1.2%	9,496,980	3.5%
August	45,896,991	1.7%	68,634,587	25.2%
September	56,897,683	2.1%	10,627,072	3.9%
Total	2,759,975,054		272,225,838	

Source: Response to CHIR No. 1, question 21.

The vast majority of Political Mail and Election Mail was delivered in October 2020 (the first quarter of FY 2021). During October, the Postal Service delivered approximately 2.1 billion pieces of Political Mail and 141.5 million pieces of Election Mail. These volumes represent approximately 77.2 percent and 52.0 percent of the annual totals, respectively.

More information on the measures taken by the Postal Service to deliver Political Mail and Election Mail in FY 2021 is available in both the Postal Service's and the OIG's post-election analyses. See Postal Service Post-Election Report; OIG Report No. 20-318-R21. The Commission will publish a separate discussion related to the Postal Service's preparations for the November 2022 primary and general elections, which the Postal Service described in its FY 2020 Annual Performance Report and FY 2021 Annual Performance Plan. See, e.g., FY 2020 Analysis at 23.

c. Comments and Related Commission Analysis

Comments specific to each class of mail are summarized and responded to in Section V.A.4., *infra*. The comments (and reply comments, if applicable) that pertain more generally to events affecting service performance for all Market Dominant products in FY 2021 are organized by topic, summarized, and responded to below.

Significance of the COVID-19 pandemic. In its comments, NAPM commends the Postal Service for improving service performance in the latter part of FY 2021. NAPM Comments at 13. On the other hand, Lexington expresses concern that the Postal Service's ACR "does not address in a full, more forthright manner the historically low mail service standards that occurred in December 2020-January 2021" and asserts that the Postal Service

minimizes the impact of the delays on its customers.¹⁸³ Lexington also contends that the Postal Service's ACR offered a "passing reference to 'package volume' as a reason for those mail delays," and that the impact of package volume on service performance during FY 2021 "merits a full-fledged, exhaustive, and independent investigation." LI Comments at 4.

The Commission appreciates the improvement in service performance that occurred in the second half of FY 2021 but, as discussed in more detail in Section A.2.d., *infra*, notes that seasonal improvement in service performance over the latter half of fiscal years has historically been commonplace and does not necessarily mean that such improvement will continue into the next year. In terms of Lexington's remarks, although numerous CHIRs were issued to address the lack of detail in the Postal Service's ACR, the Commission reiterates its expectation that the Postal Service file relevant quantitative and/or qualitative support for its principal assertions with its ACR filing. Additional Commission analysis appears in Section V.A.2.d., *infra*.

FY 2021 Service Performance Targets. The Public Representative notes that, because the Postal Service did not file its FY 2021 service performance targets until the third quarter of FY 2021, there was insufficient time for a robust review of the targets by the Commission and the public. PR Comments at 34. He observes that "[t]he significance to be attached to an on-time service performance target depends upon its purpose and upon the adequacy of the basis for its selection." *Id.* at 33. He asserts that if the purpose of the targets is to provide an incentive to improve service performance, a higher target is appropriate, while if the purpose is to give customers a reliable expectation of what service is to be expected, a more moderate, realistic target is in order. *Id.* He states that the Postal Service has not explained the purpose of the new targets, nor "provided a clear explanation or basis or reasons for the specific targets it has chosen," thus making it difficult to assess the significance of achieving or failing to achieve a given target. *Id.* at 34.

The Postal Service responds that it sought to set realistic targets using actual historical data, but that the COVID-19 pandemic created unforeseen challenges. Postal Service Reply Comments at 17. It also reiterates that it set the FY 2021 targets with an expectation that they would be raised as the 10-Year Strategic Plan was implemented. *Id.* at 17-18.

NPPC asserts that, by unilaterally setting service performance targets, the Postal Service inherently assumes that it will not achieve its service standards 100 percent of the time. NPPC Comments at 20. According to NPPC, the Postal Service "deserves no credit for achieving 'targets' that are less than the actual service standards," and instead should be tasked with meeting the service standard itself. *Id.* The Postal Service responds that "the practicalities of delivering billions of pieces of mail across the country six days a week throughout the year necessarily means that not every mailpiece is going to be delivered in accordance with the established service standards," necessitating the use of targets to measure compliance under 39 U.S.C. § 3653. Postal Service Reply Comments at 19-20.

¹⁸³ Comments of the Lexington Institute, January 31, 2022 (LI Comments).

NAPM commends the Postal Service for establishing higher interim service performance targets for certain products for FY 2022. NAPM Comments at 14.

The Commission acknowledges the difficulties in setting targets that the Postal Service faced in FY 2021 due to the COVID-19 pandemic. However, the Commission expects the Postal Service to identify targets that are both operationally realistic and promote continuous improvement. The Commission also notes that greater clarity from the Postal Service regarding the purpose and basis behind changed targets would help the Commission evaluate the reasonableness of such targets and would promote public transparency.

Additionally, the Commission questions the Postal Service's strategy of setting targets for FY 2021 service performance after nearly half of FY 2021 had already elapsed and notes that the Commission rules do not contemplate that the Postal Service would set its targets mid-year. The Postal Service Reform Act of 2022 requires the Postal Service to provide its targets to the Commission no later than 60 days after the start of each fiscal year.¹⁸⁴ The Commission expects that, going forward, the Postal Service will identify changes to its service performance targets 30 days prior to their implementation. *See* 39 C.F.R. § 3055.5. Consistent with precedent, the Commission reserves the opportunity to initiate a rulemaking, if appropriate.¹⁸⁵

The Commission points out, in regard to NPPC's comments, that the argument that only 100 percent compliance by the Postal Service with its service standards would be sufficient for legal compliance has been considered and rejected by the D.C. Circuit.¹⁸⁶

Service Performance Outlook for FY 2022. The Public Representative asserts that, given the ongoing presence of the COVID-19 pandemic, the Postal Service will continue to face serious challenges resulting from employee absenteeism, transportation constraints, elevated parcel volume, and restricted access to postal facilities. PR Comments at 60. He states that, "[f]or service to improve, in addition to its ongoing service performance improvement efforts, it will be necessary to build on its FY 2020 and FY 2021 efforts to meet the challenges of the pandemic." *Id.*

The Postal Service acknowledges that it has long-standing service performance challenges and points to its 10-Year Strategic Plan as an effort to further service performance not only in the context of the COVID-19 pandemic but also "for the long term." Postal Service Reply Comments at 14-15.

The Commission generally concurs with the Public Representative that, given the ongoing COVID-19 pandemic and the recent development of new variants, even greater efforts by

¹⁸⁴ *See* Postal Service Reform Act of 2022, H.R. 3076, 117th Cong. § 201 (2022).

¹⁸⁵ *See* 39 C.F.R. § 3055.5; *see also* Order No. 2512 at 11, n. 20; Order No. 465 at 26.

¹⁸⁶ *See Am. Postal Workers Union, AFL-CIO*, 842 F.3d at 718.

the Postal Service will be needed if it is to improve service performance in the current national environment. The Commission will closely monitor the Postal Service's efforts to implement its 10-Year Strategic Plan and the consequent impacts that these efforts have on service performance going forward.

Access to Postal Service Information and Support. PostCom states that the Postal Service should share more unedited information about service performance collected through the Postal Service's IV platform, suggesting that open access to this information would benefit all parties. PostCom Comments at 11.

NAPM states that its members often reach out to the Postal Service to resolve discrete service issues, with limited success. NAPM Comments at 15. NAPM asserts that:

With all the data, visibility, tools and resources the USPS has in place today, it is hard to understand the inability to 'see' where mailpieces have moved within the postal system and what may be causing performance issues – or in some cases where a mailing has ended up when the customer is seeing no delivery scan data.

Id. To this end, NAPM recommends that the Postal Service explore improving its customer support in the area of service performance. *Id.* at 16.

The Commission generally encourages open data initiatives as a means of increasing transparency and accountability.¹⁸⁷ The Commission encourages the Postal Service to consider the feasibility of PostCom's suggestion as a potential path to mitigate service issues, but recognizes the challenges faced by the Postal Service in developing a system that appropriately safeguards its customer and employee identities and minimizes its administrative burden.

The Commission also encourages the Postal Service to explore alternative methods of providing customer support for service performance issues.

d. Commission Analysis of Overall FY 2021 Impacts and
FY 2022 Outlook

The Commission reiterates its appreciation for the tremendous efforts of the frontline Postal Service workers to provide continuous mail service to the nation during the COVID-19 pandemic. Frontline Postal Service workers continue to perform essential services that allow millions of Americans to minimize their exposure to COVID-19 by remaining at home.

As described above, the COVID-19 pandemic in FY 2021 presented serious service performance challenges for the Postal Service. The three primary challenges—reduced

¹⁸⁷ See, e.g., Docket No. PI2022-2, Notice and Order Providing an Opportunity to Comment on the Service Performance Dashboard, February 10, 2022, at 3-4 (Order No. 6104).

employee availability, contract transportation disruptions, and changes in the mail mix—are likely to persist into FY 2022.

Each of these challenges, which are discussed separately above, had significant impacts on service performance. The Commission observes that the combination of all effects together increased the extent and duration of the impact. The interconnectivity of the mail network is sensitive to internal and external disruptions. For instance, the Postal Service explains that certain “hot spots” in one geographic area can impact downstream operations in other facilities. *See* Response to CHIR No. 11, question 16.a. This appears to be particularly applicable to transportation challenges. Due to this interconnectivity, the Postal Service must ensure that it thoroughly examines the service performance impact of adapting operations to respond to the challenges posed by the COVID-19 pandemic. The Commission has taken this into account with respect to formulating its recommendations and directives.

Despite these challenges, the Postal Service asserts that, “as the effects of the pandemic on transportation and absenteeism waned somewhat in the later part of FY 2021, and as the Postal Service worked to stabilize and improve operations and address the substantial increase in package volume, overall service performance for Market Dominant products improved” in the second half of FY 2021. *See* FY 2021 ACR at 51-52. The Commission notes that this seasonal improvement in service performance is not a phenomenon unique to FY 2021. With the exception of the extraordinary circumstances of FY 2020 (when COVID-19 appeared in the United States during Quarter 2), and as explained in prior ACDs, 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). *See, e.g.,* FY 2019 ACD at 105.

However, the Postal Service considers the improvements seen in the second half of FY 2021 to be representative of “improvements in annual service performance trends,” rather than an effect of seasonal variation. Response to CHIR No. 2, question 24.a. In support, the Postal Service points to the fact that service performance in Quarter 4 of FY 2021 improved relative not only to Quarters 1 and 2 of FY 2021, but to Quarter 4 of FY 2020 as well. *Id.* question 24.b. According to the Postal Service, because both FY 2020 and FY 2021 occurred during the COVID-19 pandemic, the explanation for this year-over-year growth is most likely its service improvement strategies. *Id.*

The Commission recognizes the service improvement seen in Quarter 4 of FY 2021. Nevertheless, it cautions again that 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. This is particularly true in FY 2021, where, according to the Postal Service’s own admission, the second half of the year coincided with a relative easing of the effects of the COVID-19 pandemic. *See* FY 2021 ACR at 51-52.

The Postal Service expects on-time service performance for each Market Dominant product to meet or exceed its applicable service performance target in FY 2022 but observes that achievement may be hampered due to continuing COVID-19 pandemic-related impacts and uncertainties such as employee availability and contract transportation constraints. *See* Response to CHIR No. 6, question 15.f. As detailed in Section V.A.4., *infra*, multiple products performed below their targets for years prior to the COVID-19 pandemic, and generally results have decreased over time. *The Commission recommends that the Postal Service carefully evaluate which of its long-standing efforts are the most impactful on improving service performance results.*

The Postal Service is required to include in its ACR filing an explanation of why each service performance target is not met and a plan describing the steps that have been or will be taken to ensure that the product achieves the target. *See* 39 C.F.R. § 3055.2(h); *see also* 39 U.S.C. § 3652(d), (e). Additionally, the Postal Service must provide a more detailed analysis regarding its failures to achieve stated goals for on-time delivery standards if the Commission observed and commented upon the same matter in the ACD for the previous fiscal year. *See* 39 C.F.R. § 3050.20(c). Last year, the Commission noted that “the Postal Service’s FY 2020 ACR filing lacked quantitative or qualitative support for its generalized assertions regarding the impact of the COVID-19 pandemic and the steps taken to restore service performance.” FY 2020 ACD at 145. In fact, the Commission noted that “[o]verall, more information regarding the nature and extent of service performance issues experienced in FY 2020 was obtained via responses to the CIR and the CHIRs than through the Postal Service’s FY 2020 ACR filing.” *Id.* (footnote omitted). The Commission stated its expectation that the Postal Service “be attentive to filing relevant quantitative and/or qualitative support for its principal assertions with its FY 2021 ACR filing” in order to “improve regulatory efficiency and transparency for the general public.” *Id.* at 146. Although the Commission commends the Postal Service for the additional information it provided regarding Periodicals, in general, the Commission believes that the Postal Service again fell short in providing quantitative and qualitative support for its generalized assertions regarding the service performance challenges it faced in FY 2021, the steps it took to attempt to combat these challenges, and the plans it will initiate to resolve its service performance difficulties in the future. *The Commission expects that Postal Service will be increasingly attentive to filing relevant quantitative and/or qualitative support for its principal assertions with its FY 2022 ACR filing.*

In the FY 2020 ACD, the Commission found that the Postal Service had undertaken several operational initiatives—particularly one cutting down on “late and extra trips”—that had a pronounced impact on service performance. *See* FY 2020 ACD at 148. The Commission also determined that this initiative was implemented without undertaking sufficient advance study or analysis. *Id.* at 149. As a result, the Commission directed the Postal Service to “file with the Commission a service performance impact analysis for initiatives that are planned for implementation on or before the issuance of the next ACD (March 29, 2022) and are reasonably foreseeable to impact service performance results.” *Id.* at 149-50 (footnote omitted). On June 4, 2021, the Postal Service filed its Response, informing the Commission that it intended to implement a plan that would authorize the Surface Planner Group—the

entity tasked with deciding which supplier to use when extra trips are requested—to deny requests for extra trips when a trip would either not be service standard responsive or would transport only a very small mail volume.¹⁸⁸ The Postal Service also filed a motion to clarify the preliminary injunction regarding late and extra trips issued in the U.S. District Court for the District of Columbia, asking the court to confirm that it was not prohibited from denying extra trips in these specific circumstances.¹⁸⁹ The court confirmed that its injunction did not prohibit the Postal Service’s proposed actions. Civ. No. 20-2340 EGS, Memorandum Opinion and Order at 13-15. The Postal Service implemented this plan on November 1, 2021 (after the conclusion of FY 2021), and as of November 22, 2021, had only denied five of a possible 3,518 extra trips requested.¹⁹⁰ *The Commission commends the Postal Service for considering the service performance impact of its plan prior to implementation and encourages it to continue analyzing the service performance impact of future initiatives prior to implementation.*

Beginning in FY 2020 and continuing into FY 2021, the Postal Service reorganized its operations into separate functions: “retail and delivery on one hand and processing and logistics on the other.” See FY 2020 ACR at 39. The Postal Service believes this reorganization positively impacted service performance in FY 2021. Response to CHIR No. 6, question 12. Although it cannot quantify this impact, the Postal Service explains that the reorganization allowed the Retail and Delivery Operations unit to develop a “Rapid Response process” that allowed the Postal Service to “quickly respond to service impacts such [as] customer service backlogs or delivery issues” that previously could have taken 3 to 6 days to resolve. *Id.* question 12.b. The Postal Service also explains that the Logistics and Processing Operations unit¹⁹¹ was able to implement a national holiday plan within days (rather than weeks) of development. *Id.* *The Commission commends the Postal Service for these improvements and encourages the Postal Service to continue to leverage both efficient advance planning and its Rapid Response process to address service issues before and after they occur.*

Beginning in FY 2020 and continuing into FY 2021, the Postal Service also divided its legacy reporting Areas into new areas and districts (for Retail and Delivery Operations) and into new regions and divisions (for Logistics and Processing Operations).¹⁹² The Postal Service illustrates the geographic organization of each unit in the Postal Service’s FY 2021 Annual

¹⁸⁸ See Docket No. ACR2020, Response of the United States Postal Service to Commission Request for Additional Information in the FY 2020 Annual Compliance Determination, June 4, 2021, at 2-4.

¹⁸⁹ See *State of New York, et al. v. Joseph R. Biden, Jr., et al.*, Civ. No. 20-2340 EGS, Memorandum Opinion and Order, at 1-4 (D.D.C. August 23, 2021) (Civ. No. 20-2340 EGS, Memorandum Opinion and Order).

¹⁹⁰ Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-6 of Chairman’s Information Request No. 33, November 29, 2021, question 5.

¹⁹¹ Within the Logistics and Processing Operations business unit, the Postal Service created a so-called “Headquarters In-Plant Support Letter and Flat, Planning and Implementation group,” discussed in more detail in the FY 2020 ACD. See FY 2020 ACD at 141, 146-47, 199-200. The Postal Service states that the group met its goal of “creat[ing] site-specific achievable operating plans for letters and flats” and began efforts to adjust reporting standards and “strategically stabiliz[e] all letter and flat-shaped products.” Response to CHIR No. 6, question 13.a. The Postal Service explains that, because the site-specific operation plans did not go into effect until FY 2022, it does not have quantitative support to show the impact of the plans. *Id.* question 13.b.

¹⁹² Library Reference USPS-FY20-17, December 29, 2020, at 16-17 (*FY 2020 Annual Report*).

Report to Congress. *FY 2021 Annual Report* at 16-17. It asserts that this geographic reorganization improved service performance, although it explains that “it is not possible to isolate only the portion of the improvement that would be related solely to the redivision from the legacy Areas to new regions and divisions.” Response to CHIR No. 6, question 14. Although it cannot quantify this impact, the Postal Service explains that the geographic reorganization streamlined internal communication processes, which enabled a revised holiday operating plan approved by senior leadership to be communicated via division directors to Plant Managers for rapid and consistent execution. *See id.* at 14.b. *The Commission commends the Postal Service for these improvements and encourages the Postal Service to continue to leverage its streamlined communication processes before and during implementation of future initiatives to ensure messaging between the executive level, field managers, and personnel across the nation is timely, clear, and consistent.*

e. Commission Directives

Of the 27 Market Dominant products/categories measured, 21 products/categories (more than 77 percent) did not meet their targets in FY 2021, and some were substantially below the applicable target. *See* Figure V-1, *supra*. Moreover, of the 25 measured Market Dominant products that generated comparable annual results for FY 2020 and FY 2021,¹⁹³ service performance results for 21 products/categories were lower than in FY 2020. This systemic and continued decline in service performance results is troubling. As described above, the COVID-19 pandemic was an external factor contributing to the decline in service performance to which the Postal Service has made reasonable efforts to respond. The Commission will monitor these efforts through its class- and product-specific directives. The exact requirements of these directives are discussed in Sections V.A.4.a.6., b.6., c.6., d.6., and e.6., *infra*.

Moreover, as explained above, though the Commission recognizes the COVID-19 pandemic-related difficulties faced by the Postal Service in setting on-time service performance targets, it expects the Postal Service to identify targets that are both operationally realistic and promote continuous improvement. Additionally, greater clarity from the Postal Service regarding the purpose and basis behind targets is beneficial for all parties. During FY 2021, the Postal Service initiated its 10-Year Strategic Plan,¹⁹⁴ which it designed to address both the near-term challenges posed by the COVID-19 pandemic and its long-standing service performance challenges. *See* Postal Service Reply Comments at 14-15. In conjunction with the implementation of its 10-Year Strategic Plan, the Postal Service stated that over time, it aims to raise its service performance targets to 95 percent on-time for all Market Dominant products and categories. *See id.* at 15, 18. *Therefore, at the time of filing the FY 2022 ACR, if the Postal Service maintains its current goal to “transition over approximately the next two to three years” all Market Dominant product service performance targets to 95 percent on-time*

¹⁹³ Note that In FY 2021, internal Service Performance Measurement (SPM) replaced the International Mail Measurement System (IMMS) as the official system of measurement and reporting for Outbound Single-Piece International and Inbound Letter Post. As a result, service performance results for these two products in FY 2021 are not directly comparable to results from previous fiscal years.

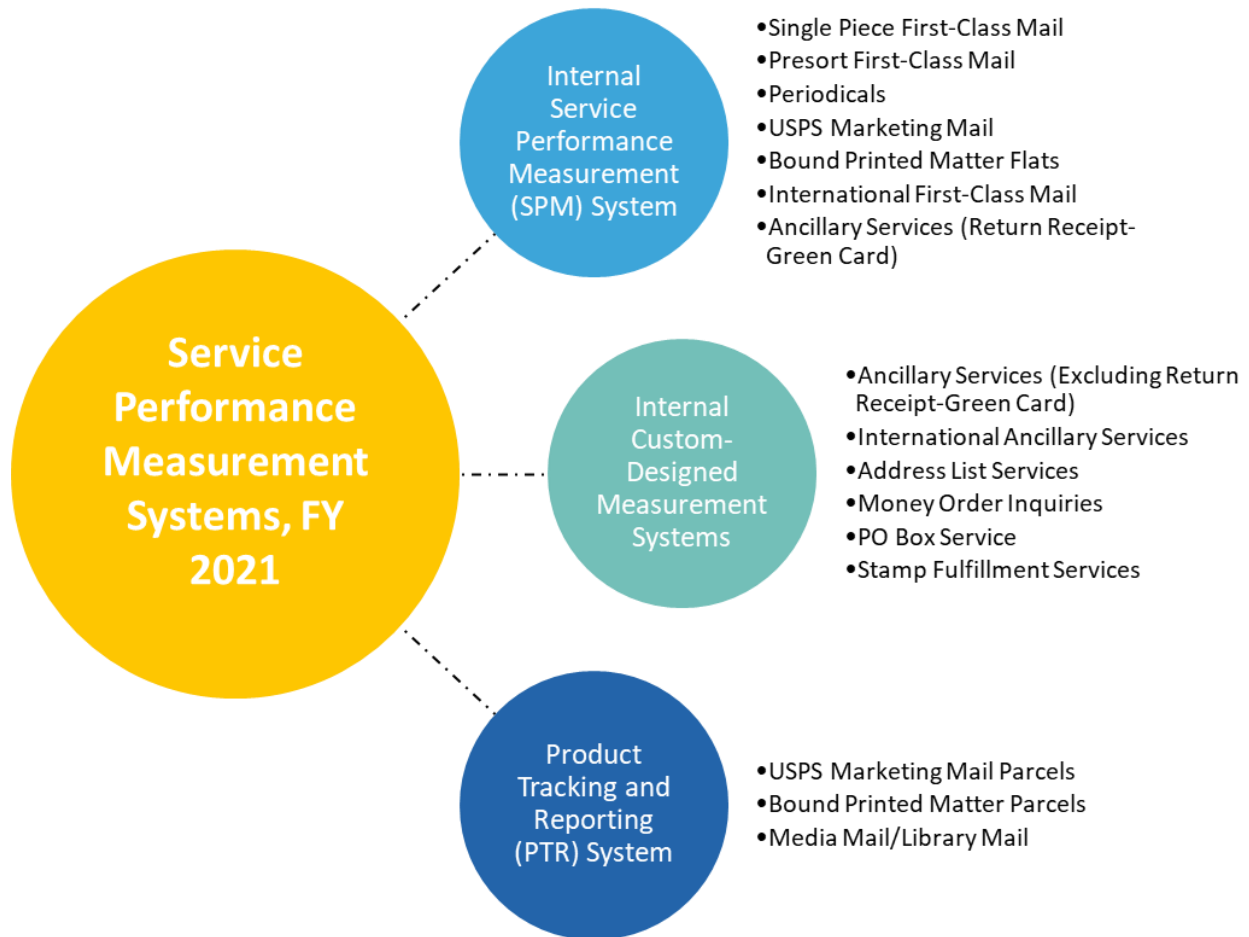
¹⁹⁴ United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf.

(see Response to CHIR No. 18, question 1.a.i.1.), the Commission directs the Postal Service to include as a part of its FY 2022 ACR filing a specific plan for moving service performance targets from their current interim levels to 95 percent for each Market Dominant product. This plan should include a proposed timeline for setting interim targets and key criteria for each product that the Postal Service uses to assess what those interim targets will be. In developing this plan, the Postal Service should balance the interests of setting realistically achievable interim targets with its stated goal of moving service performance targets up to 95 percent over “approximately the next two to three years.” If the Postal Service does not maintain this goal at the time of filing the FY 2022 ACR, the Commission directs the Postal Service to identify its revised goal and the rationale for the change as a part of its FY 2022 ACR filing.

3. FY 2021 Service Performance Measurement Systems

The Postal Service began reporting service performance results for most Market Dominant products in the third quarter of FY 2011. Since then, the Postal Service’s measurement systems have evolved. Figure V-8 identifies the systems used by the Postal Service during FY 2021 to measure service performance for Market Dominant products. The Commission uses the following acronyms and abbreviations: IMb for “Intelligent Mail barcode,” PTR for “Product Tracking and Reporting System,” and Internal SPM for “Internal Service Performance Measurement System.”

Figure V-8
Service Performance Measurement Systems, FY 2021



Source: Library Reference USPS-FY21-29, PDF file "FY21-29 Methodologies Report.pdf" (FY 2021 Methodologies Report); Response to CHIR No. 9, question 5.

a. Internal Service Performance Measurement System
 (Internal SPM)

Effective in FY 2019 Quarter 1, the Postal Service began to use Internal SPM to generate data to report service performance results of products within domestic First-Class Mail, Periodicals, USPS Marketing Mail, and Package Services.¹⁹⁵ Accordingly, service performance results for these mailpieces are comparable for FY 2019 through FY 2021.

¹⁹⁵ See Docket No. PI2015-1, Order Approving Use of Internal Measurements Systems, July 5, 2018, at 17-19, 21, 66-67 (Order No. 4697); Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771); FY 2021 Methodologies Report at 1; see also Docket No. PI2018-2, Order Conditionally Approving Modifications to Market Dominant Service Performance Measurement Systems, November 5, 2018 (Order No. 4872). The measurement systems used prior to FY 2019 are discussed in the FY 2019 ACD. FY 2019 ACD at 92-93.

Beginning in FY 2021, First-Class Mail Outbound Single-Piece International, Inbound Letter Post, and Return Receipt-Green Card (a component of Ancillary Services) have also started to be measured by Internal SPM.¹⁹⁶

Internal SPM divides measurement into the following three independent segments. First Mile, which applies only to single-piece First-Class Mail, measures the time between collection and the first processing operation. FY 2021 Methodologies Report at 1; Order No. 4697 at 17-19. Processing Duration measures the time between the first processing operation and the last processing operation.¹⁹⁷ Last Mile measures the time between the last processing operation and final delivery. FY 2021 Methodologies Report at 1; Order No. 4697 at 17-19.

The Commission requires the Postal Service to continue its external auditing program and file quarterly audit reports regarding Internal SPM. *See* Order No. 4697 at 67. The Postal Service reports that the COVID-19 pandemic affected several of the 29 audit measures— Audit Measures 2, 11, and 15.¹⁹⁸ The Postal Service explains that it fell short on Measure 2 (that carrier sampling weekly compliance rates should exceed 80 percent for most districts) because of the significant impacts of the COVID-19 pandemic, including the unprecedented parcel volumes. FY 2021 Q1 Audit Response at 3. The Postal Service explains that it will improve First Mile compliance rates through training, biweekly meetings, and IV monitoring. *Id.* For Measures 11 and 15 (low rates of Last Mile imputed volumes and low margins of error for reporting/processing duration, respectively), the Postal Service states that shortfalls were largely caused by the decline in mail volume due to the COVID-19 pandemic. *See, e.g., id.* at 4. The Postal Service acknowledges that these Measures will remain difficult to achieve until sufficient volume is sent to each District and expects that as volume returns to pre-COVID-19 pandemic levels, fewer Districts will require imputed data and suffer from high margins of error. *See id.*

Formerly, the IMMS was used to measure the domestic leg of transit time for international First-Class Mail using test mailpieces.¹⁹⁹ However, the Commission granted the Postal Service's request to report service performance for First-Class Mail Outbound Single-Piece International and Inbound Letter Post based on data generated from Internal SPM, beginning in FY 2021; thus, Internal SPM replaced IMMS in FY 2021. *See* Order No. 5576 at 10. The Commission specified that the FY 2021 ACR must explain any significant service performance discrepancies between the Internal SPM versus the legacy systems and

¹⁹⁶ *See* Docket No. PI2019-1, Order Granting Request and Approving Use of Internal Service Performance Measurement System, July 1, 2020, at 10-11 (Order No. 5576).

¹⁹⁷ FY 2021 Methodologies Report at 1. Mailpieces for which the first processing scan is the same event as the last processing scan may be included in measurement of Processing Duration. Order No. 4697 at 19 n.40.

¹⁹⁸ *See* United States Postal Service, Transmittal Letter for FY 2021 Q1 Audit Report, Audit Response, and Measured/Unmeasured Volumes Report, February 26, 2021, PDF file "FY21 Q1 USPS Audit Resp.pdf," at 3-4 (FY 2021 Q1 Audit Response); United States Postal Service, Transmittal Letter for FY 2021 Q2 Audit Report, Audit Response, and Measured/Unmeasured Volumes Report, June 1, 2021, PDF file "FY21 Q2 USPS Audit Resp.pdf," at 4 (FY 2021 Q2 Audit Response).

¹⁹⁹ *See* Docket No. ACR2020, Library Reference USPS-FY20-29, PDF file "FY20-29 Methodologies Report.pdf," at 8 (FY 2020 Methodologies Report).

propose a method of comparing Internal SPM versus legacy service performance data, where appropriate. *See id.* at 11. In its Response to CHIR No. 2, the Postal Service explained that the performance scores produced by the legacy sampling process and the SPM measurement system are statistically valid; however, if both systems were used to measure the same time period, then the results would not align precisely. *See* Response to CHIR No. 2, question 3.a.

b. Product Tracking and Reporting System (PTR)

The Postal Service measures service performance for parcels using PTR, a system that records all scan events captured from USPS Marketing Mail Parcels, BPM Parcels, and Media Mail/Library Mail with a trackable service feature. FY 2021 Methodologies Report at 8. PTR is based on over-the-counter and delivery confirmation scans of retail products, as well as barcode scans of parcels that utilize the Postal Service's tracking service.²⁰⁰ PTR uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock). *See* Docket No. ACR2016, February 17 Response to CHIR No. 16, question 3.

c. Intelligent Mail Barcode (IMb)

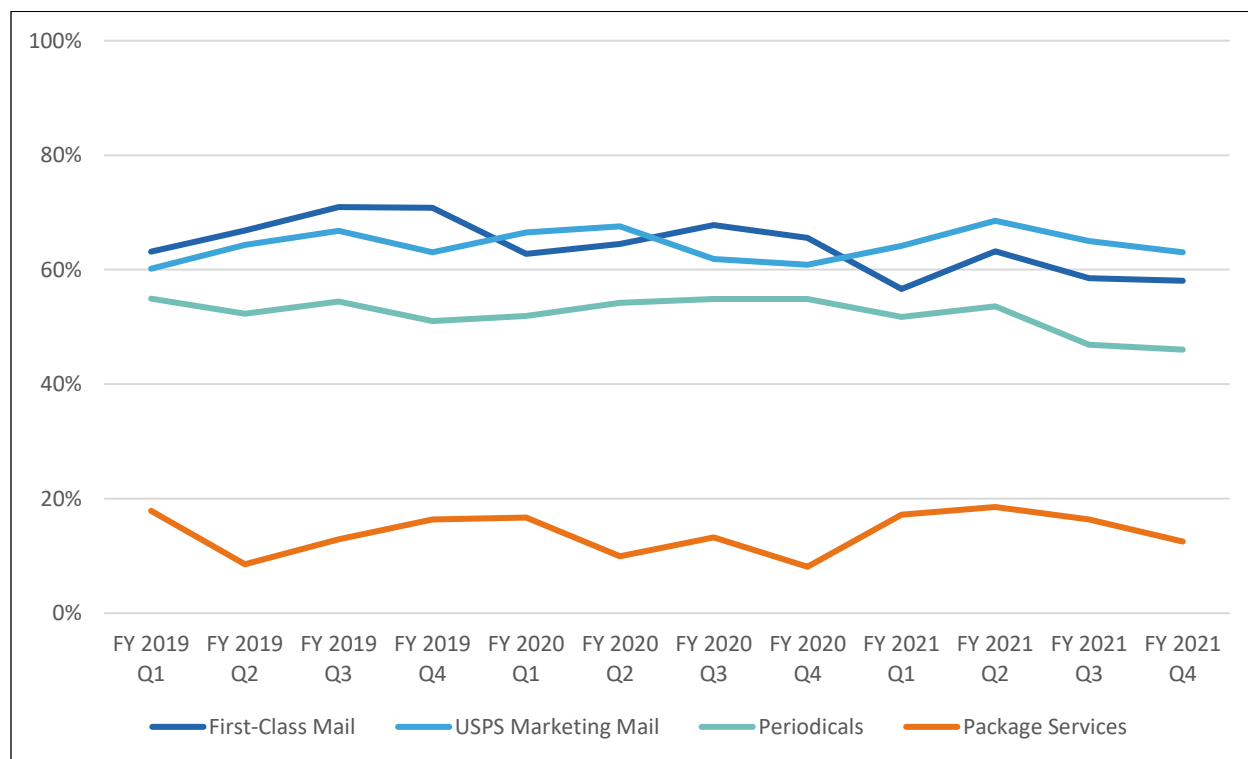
In Quarter 3 of FY 2011, the Postal Service began using IMbs to measure service performance for USPS Marketing Mail, Periodicals, BPM Flats, and some First-Class Mail products. Full-Service IMb generates IV electronic scan data that can be used to track mailpieces as they pass through automated scan operations.²⁰¹ Mailers receive a discount for applying an IMb to mailpieces prior to entering them into the mailstream. However, for various reasons the Postal Service is not able to include all IMb mailpieces in its performance measurement system.

Figure V-9 displays the percentage of total mailpieces entered into the mailstream that are measured by Full-Service IMb for FY 2019 through FY 2021.

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 (Docket No. ACR2016, February 17 Response to CHIR No. 16).

²⁰¹ *See* United States Postal Service, Mailing Standards of the United States Postal Service, Domestic Mail Manual, January 24, 2021, § 507.10.1.1 (DMM).

Figure V-9
Nationwide Market Dominant Mail Measured by Full-Service IMb,
by Percentage, by Quarter,
FY 2019–FY 2021



Note: BPM Flats is the only Package Services product measured using IMb; the remaining Package Services products are measured using PTR. FY 2021 Service Performance Report at 19-20.

Source: Response to CHIR No. 1, question 22; Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-38 of Chairman's Information Request No. 1, January 19, 2021, question 34 (Docket No. ACR2020 Response to CHIR No. 1); Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-22 of Chairman's Information Request No. 3, January 21, 2020, question 21 (Docket No. ACR2019 Response to CHIR No. 3); FY 2019 through FY 2021 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail, USPS Marketing Mail (formerly known as Standard Mail), Periodicals, and Package Service Scores Reports, available at <https://www.prc.gov/dockets/quarterly-performance>.

The percentage of mailpieces measured by IMb has remained relatively consistent since FY 2019. The Commission observes that the percentage of mail measured by Full Service IMb decreased for both First-Class Mail and Periodicals. Conversely, there was an increase in the percentage of BPM Flats measured by IMb. At each quarterly measurement point, the Postal Service achieved a higher percentage in FY 2021 relative to the same point in FY 2020. The Commission will continue to monitor trends in Full-Service IMb measurement.

Generally, the more mailpieces that are measured, the more representative, accurate, and reliable such measurements will be. The Commission continues to monitor mailpieces

excluded from measurement.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

Table V-3 displays the percentage of mail that received the Full-Service IMb discount and was included in measurement, and the percentage of mail that received the Full-Service IMb discount but was excluded from measurement since FY 2019.

Table V-3
Mail in Measurement and Excluded from Measurement, by Percentage,
FY 2019–FY 2021

Class/Product(s)	Percent of Mail Entered at Full-Service IMb Prices and Included in Measurement			Percent of Mail Processed as Full-Service IMb, but Excluded from Measurement		
	FY 2019	FY 2020	FY 2021	FY 2019	FY 2020	FY 2021
First-Class Mail						
Presorted Letters/Postcards	73.75	71.95	66.10	26.25	28.05	33.90
Flats	70.51	66.50	62.20	29.49	33.50	37.80
USPS Marketing Mail						
High Density and Saturation Letters	77.99	79.87	79.63	22.01	20.13	20.37
High Density and Saturation Flats/Parcels	65.64	63.92	53.68	34.36	36.08	46.32
Carrier Route Letters	74.70	75.41	72.62	25.30	24.59	27.38
Flats	80.12	81.83	80.47	19.88	18.17	19.53
Flats	75.52	75.45	71.49	24.48	24.55	28.51
Every Door Direct Mail–Retail	Not Applicable					
Parcels	Data Not Available					
Total USPS Marketing Mail	78.63	80.00	78.23	21.37	20.00	21.77
Periodicals						
In-County	Data Not Available					
Outside County	Data Not Available					
Package Services						
Bound Printed Matter Flats	49.37	48.05	26.39	50.63	51.95	73.61

Source: Response to CHIR No. 1, question 23; Docket No. ACR2020 Response to CHIR No. 1, question 35; Docket No. ACR2019 Response to CHIR No. 3, question 22.

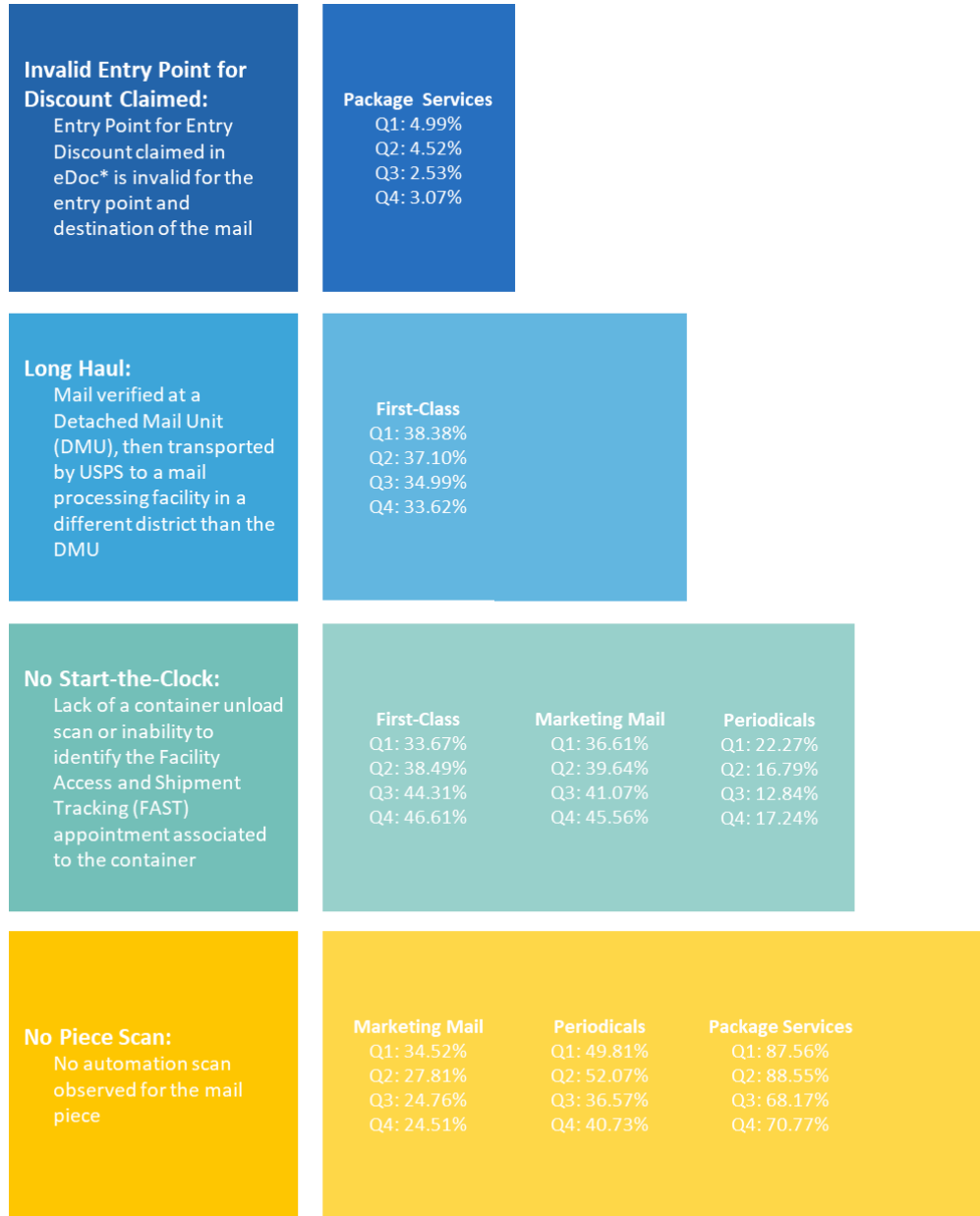
²⁰² See, e.g., FY 2015 ACD at 99-102; FY 2016 ACD at 96-99; FY 2017 ACD at 103-06; FY 2018 ACD at 133-36; FY 2019 ACD at 98-101; FY 2020 ACD at 155-59.

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

The percentage of mail entered at Full-Service IMb and included in measurement conveys a concerning pattern. There was a decline between FY 2020 and FY 2021 for all products. The two largest declines occurred for High Density and Saturation Flats/Parcels and Bound Printed Matter Flats, with declines of 10.24 and 21.66 percentage points, respectively.

Figure V-10 displays the top two reasons that a mailpiece was excluded from measurement in FY 2021, and the corresponding percent for each class of mail. Not all reasons applied to all classes of mail although “No Start-the-Clock” and “No-Piece Scan” affected multiple mail classes.

Figure V-10
Reasons for Mailpiece Exclusions, by Percentage, by Quarter, FY 2021



Source: United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 10, 2021, Excel file "AttachA_ExclusionReasonBreakdown_FY21_Q4.xlsx," tab "Exclusions" (FY 2021 Postal Service Q4 Service Performance Report).

The most common reason for mailpiece exclusion for USPS Marketing Mail was reported to be "No Start-the-Clock," which occurs when the Postal Service lacks a container unload scan or is unable to identify the Facility Access and Shipment Tracking (FAST) appointment

associated with the container.²⁰⁴ The Postal Service excludes these mailpieces from measurement because the Postal Service cannot determine when the measuring process should begin without an initial scan or an identified FAST appointment. *See* FY 2020 ACD at 159.

For First-Class Mail, the most common reported reason for exclusion was “No Start-the-Clock” in FY 2021 Quarter 1 and shifted to “Long Haul” in FY 2021 Quarters 2, 3, and 4.²⁰⁵ This was the same pattern—a shifting reason for exclusion from “No Start-the-Clock” to “Long Haul” over the course of the year—that occurred during FY 2020. “Long Haul” occurs when a mailpiece verified at a Detached Mail Unit (DMU) is transported by the Postal Service to a mail processing facility in a different District than the DMU. *Id.* The Postal Service excludes these mailpieces from measurement because this type of operational failure results in a loss of visibility of the mailpiece. *See* FY 2015 ACD at 101-02.

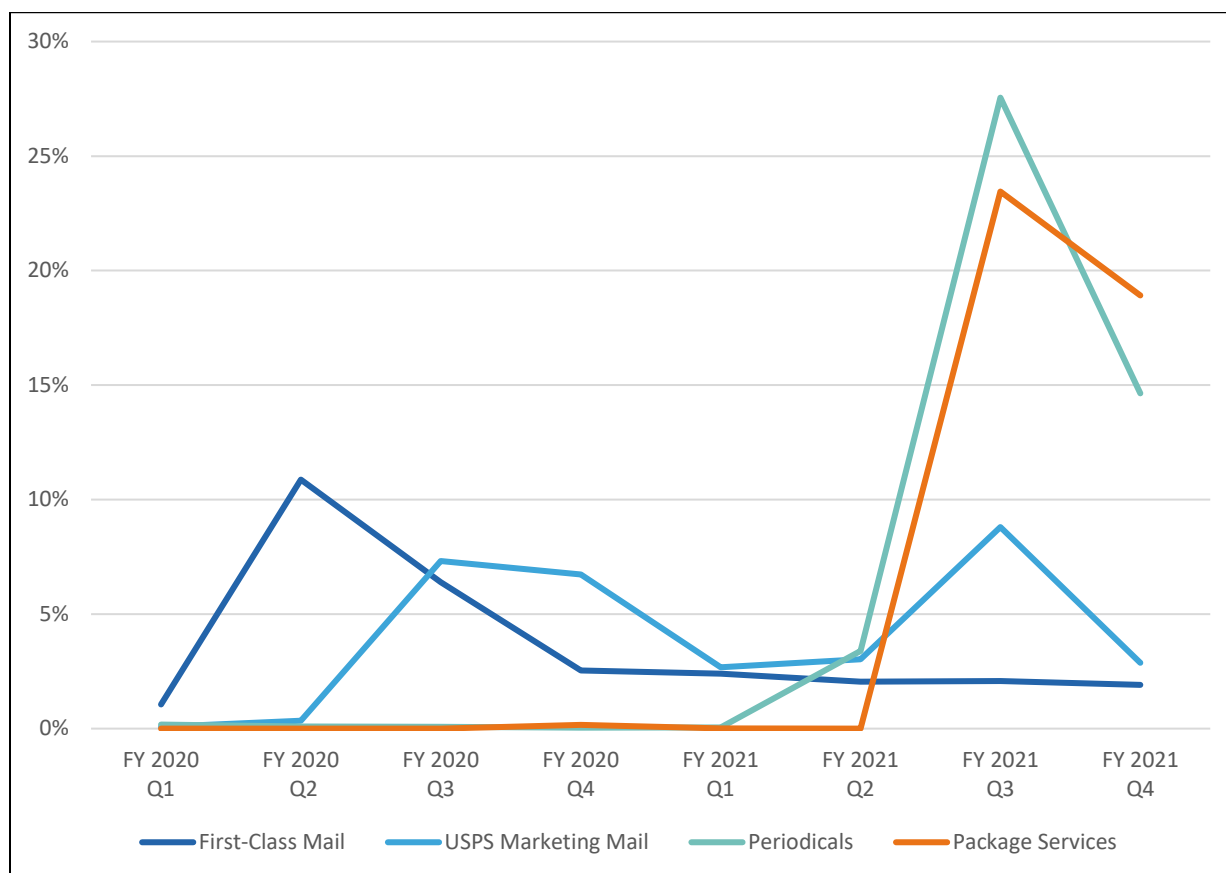
For Periodicals and Package Services, the most common reason for mailpiece exclusion was reported to be “No Piece Scan,” which occurs when no automation scan is observed for the mailpiece.²⁰⁶ The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2019 ACD at 101.

²⁰⁴ FY 2021 Postal Service Q4 Service Performance Report, Excel file “AttachA_ExclusionReasonBreakdown_FY21_Q4.xlsx,” tab “Exclusions.”

²⁰⁵ FY 2021 Postal Service Q4 Service Performance Report, Excel file “AttachA_ExclusionReasonBreakdown_FY21_Q4.xlsx,” tab “Exclusions.”

²⁰⁶ FY 2021 Postal Service Q4 Service Performance Report, Excel file “AttachA_ExclusionReasonBreakdown_FY21_Q4.xlsx,” tab “Exclusions.”

Figure V-11
Non-Compliance as an Exclusion Reason, FY 2020–FY 2021



Source: FY 2021 Postal Service Q4 Service Performance Report, Excel file "AttachA_ExclusionReasonBreakdown_FY21_Q4.xlsx," tab "Exclusions;" United States Postal Service, Quarterly Service Performance Report, Quarter 4, November 9, 2020, Excel file "AttachA_ExclusionReasonBreakdown_FY20_Q4.xlsx," tab "Exclusions" (FY 2020 Postal Service Q4 Service Performance Report).

Figure V-11 shows the trend of "Non-Compliant" as an exclusion reason for FY 2020 and FY 2021. "Non-Compliant" is defined by the Postal Service as "Mail identified as non-compliant due to inaccuracies in mail preparation."²⁰⁷ The Commission observes that for the Periodicals and Package Services mail classes, non-compliance became a major contributing factor for exclusion in FY 2021 Quarters 3 and 4. Pieces in these classes may be considered non-compliant when they do not meet the requirements for "Full-Service." Response to CHIR No. 16, question 2.a. The Postal Service states that, after conducting an investigation, it concluded that a single major mailer contributed approximately 99 percent of the non-compliant volumes between February 2021 and September 2021. *Id.* question 2.b. The Postal Service explains that this was caused by the mailer using a new Customer Registration Identification (CRID) because, when volumes are mailed using a new CRID, the volume associated with that CRID is initially placed on a temporary non-compliant status so that the Postal Service can evaluate the new mailer's compliance with Full-Service

²⁰⁷ FY 2021 Postal Service Q4 Service Performance Report, Excel file "AttachA_ExclusionReasonBreakdown_FY21_Q4.xlsx," tab "Exclusions."

requirements. *Id.* question 2 a.-b. As a result, the Commission does not expect this issue to reoccur in FY 2022 and will continue to monitor exclusion trends going forward.

In its comments, NAPM suggests that “efforts to move more mail into measurement be more aggressively pursued,” asserting that “in looking at the percent of mail not in measurement and the main reasons behind it for each mail class, the needle has not moved much in years, despite the annual review by the Commission and USPS collection and reporting of measurement data exclusions.” NAPM Comments at 15-16. The Postal Service responds that it already reports to the Commission quarterly on its mail in measurement, and “given the extensive data collection and reporting that the Postal Service already performs...pursuing additional reporting is unnecessary and likely counter-productive.” Postal Service Reply Comments at 20-21.

As explained above, the Commission recognizes that the percentage of mail in measurement continued the largely unpredictable trend of increasing by several percentage points for some products while decreasing several percentage points for others. Moreover, all products saw a decline between FY 2020 and FY 2021 for their percentages of mail entered at Full-Service IMb and included in measurement. The Commission will continue to monitor trends in measurement and the reasons for exclusions. *The Commission recommends that, as the impacts to the Postal Service caused by the COVID-19 pandemic begin to abate, the Postal Service renew its focus on analyzing and improving its mail in measurement.*

4. FY 2021 Service Performance Results by Class

a. First-Class Mail

(1) FY 2020 Directives

Finding that no First-Class Mail products met their FY 2020 service performance targets, the Commission directed the Postal Service to improve service performance. FY 2020 ACD at 163, 180. Determining that Single-Piece Letters/Postcards remained out of compliance, and Outbound Single-Piece International was not in compliance for FY 2020, the Commission issued a series of directives to monitor the progress and efficacy of the Postal Service’s service performance improvement initiatives. *See id.* at 180-85. First, to evaluate the Postal Service’s nationwide initiatives to improve transit and Last Mile performance, the Commission directed the Postal Service to report on its progress and plans for remedying those issues. *See id.* at 180-81.

Second, to evaluate the Postal Service’s Division-level initiatives to address the top root causes of failure to deliver First-Class Mail on time, the Commission directed the Postal Service to report on its Division-level progress and plans for remedying those issues. *See id.* at 181-82.

Third, to facilitate the consistent monitoring of First-Class Mail service performance (particularly for Single-Piece Letters/Postcards), the Commission directed the Postal

Service to provide Area- and District-level data concerning: the top five root cause point impacts for First-Class Mail; air carrier capacity; the number of CLTs; the performance for each national operating plan target; and the 10 facilities with the most failures in meeting each national operating plan target during FY 2021. *See id.* at 182-83.

Fourth, to monitor the Postal Service's initiatives to improve service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directed the Postal Service to report on its progress at addressing processing deficiencies at International Service Centers (ISCs) and plans for remedying those issues. *See id.* at 183-84.

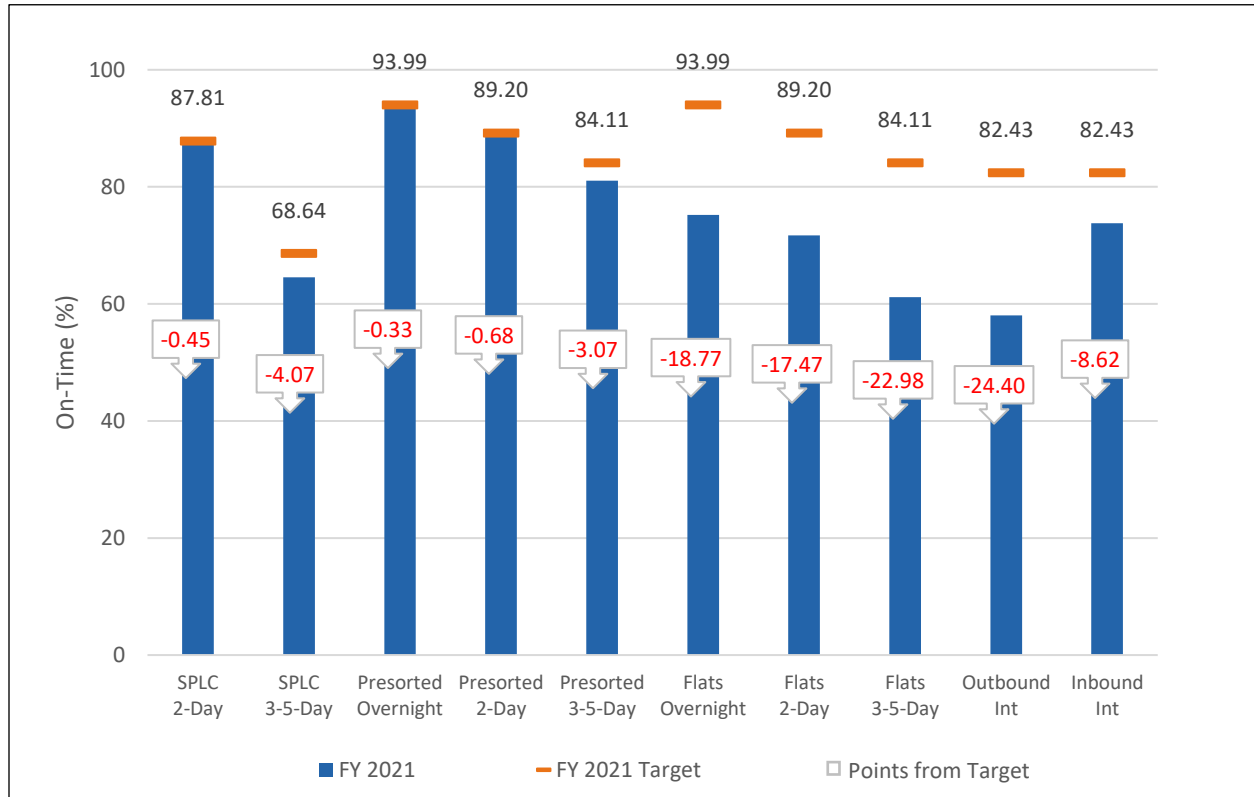
Fifth, the Commission directed the Postal Service to evaluate the feasibility and status of developing point impact data for international mail. *See id.* at 184.

Sixth, to monitor the Postal Service's initiatives to remediate service performance declines from FY 2019 to FY 2020, the Commission directed the Postal Service to provide national service performance results, disaggregated by month, for Single-Piece Letters/Postcards and Outbound Single-Piece International (all service standards and combined). *See id.* at 184-85.

(2) FY 2021 Results

Figure V-12 shows the FY 2021 service performance results compared to the annual targets for all First-Class Mail products.

**Figure V-12
First-Class Mail
Service Performance Results, by Percent, FY 2021**



In the legend, "Points from Target" represents the difference between the Postal Service's stated service performance target and the FY 2021 service performance result.

"SPLC 2-Day" and "SPLC 3-5-Day" refer to the 2-Day and 3-5-Day service standards for the Single-Piece Letters/Postcards product, respectively. "Presorted Overnight," "Presorted 2-Day," and "Presorted 3-5-Day" refer to the 1-Day, 2-Day, and 3-5-Day service standards for the Presorted Letters/Postcards product, respectively. "Flats Overnight," "Flats 2-Day," and "Flats 3-5-Day" refer to the 1-Day, 2-Day, and 3-5-Day service standards for the Flats product, respectively. "Outbound Int" refers to the combined result for the Outbound Single-Piece International product. "Inbound Int" refers to the combined result for the Inbound Letter Post product.

Source: FY 2021 Service Performance Report at 4.

Table V-4 summarizes service performance results compared to the annual targets for all First-Class Mail products for FY 2019, FY 2020, and FY 2021.

Table V-4
First-Class Mail
Service Performance Results, by Percent, FY 2019–FY 2021

Product	FY 2019	FY 2019 Target	FY 2020	FY 2020 Target	FY 2021	FY 2021 Target
Single-Piece Letters/Postcards						
2-Day	92.52	96.50	92.03	96.50	87.36	87.81
3-5-Day	81.44	95.25	79.67	95.25	64.57	68.64
Presorted Letters/Postcards						
Overnight	95.66	96.80	94.95	96.80	93.66	93.99
2-Day	94.28	96.50	93.03	96.50	88.52	89.20
3-5-Day	92.10	95.25	90.15	95.25	81.04	84.11
Flats						
Overnight	81.50	96.80	80.32	96.80	75.22	93.99
2-Day	81.49	96.50	77.52	96.50	71.73	89.20
3-5-Day	76.63	95.25	73.35	95.25	61.13	84.11
Outbound Single-Piece International						
Combined	79.73	94.00	71.98	94.00	58.03	82.43
Inbound Letter Post						
Combined	64.82	94.00	66.18	94.00	73.81	82.43

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

(3) Postal Service Report

The Postal Service describes significant adverse impacts occurring during the first half of FY 2021, primarily due to the COVID-19 pandemic, but also due to natural disasters and weather events, which negatively impacted service performance for First-Class Mail. FY 2021 ACR at 49-51; FY 2021 Service Performance Report at 6. The Postal Service emphasizes that significant improvement in on-time service performance occurred during the second half of FY 2021, with Single-Piece Letters/Postcards and Presort Letters/Postcards exceeding targets for all reported categories by the fourth quarter of the fiscal year. FY 2021 ACR at 51-53; FY 2021 Service Performance Report at 6. The Postal Service attributes this improvement to a reduction in root cause failures due to the Postal Service's mitigation and improvement initiatives, specifically with regard to transit and processing failures. See FY 2021 Service Performance Report at 6-7.

As directed in the FY 2020 ACD, the Postal Service provided evaluations of its nationwide initiatives in FY 2021 to improve transit and Last Mile performance and its Division-level progress in addressing the top root causes of failure to deliver First-Class Mail on time, along with plans to further improve transit and Last Mile performance and address the top

root causes of service failures in FY 2022.²⁰⁸ The Postal Service also, as directed by the Commission, submitted data for FY 2021 with respect to the top five root cause point impacts for First-Class Mail; air carrier capacity; the number of CLTs; the performance for each national operating plan target; and the 10 facilities with the most failures in meeting each national operating plan target.²⁰⁹ In addition, the Postal Service filed monthly service performance results for First-Class Mail Single-Piece Letters/Postcards and Outbound Single-Piece International during FY 2021.²¹⁰

(4) Comments and Related Commission Analysis

Comments concerning First-Class Mail service performance are organized by topic, summarized, and responded to below.

Domestic products: The Public Representative notes that the Postal Service revised the on-time service performance targets for all First-Class Mail products in FY 2021, and that the new targets, while they vary by product, are all lower than the previous targets. PR Comments at 37-38. He comments that the Postal Service “offered only general and vague explanations for the changes[,]” and he further notes that even with the target reductions all domestic First-Class Mail products failed to meet their targets in FY 2021. *Id.* at 38. Moreover, he observes that actual on-time performance scores in FY 2021 fell short of the levels achieved in FY 2019 and FY 2020. *Id.* He observes that on-time service performance for most First-Class Mail products improved steadily from the second quarter through the fourth quarter of FY 2021, which he describes as encouraging, but he cautions that fourth-quarter results for FY 2021 still have not recovered to the level of the second quarter of FY 2020, when the COVID-19 pandemic began. *Id.* at 41. He concludes that “[i]n order for domestic First-Class Mail service performance to recover during FY 2022, it will be necessary for the Postal Service to build upon its FY 2021 efforts to deal with the impacts of the pandemic[,]” and “[u]ntil the pandemic is brought under control, the Postal Service will have to continue to contend with the unavailability of numbers of employees, constrained transportation, and the challenges of increased package volume.” *Id.* at 43.

NPPC observes that “the Postal Service once again failed to achieve its advertised service standards for First-Class Presort Mail[,]” and “[s]ervice for First-Class Flats was worse

²⁰⁸ See Library Reference USPS-FY21-29, PDF file “Preface USPS-FY21-29.pdf” (Library Reference USPS-FY21-29 Preface); Library Reference USPS-FY21-29, PDF file “USPS Division Report.pdf” (FY 2021 Division Report); Library Reference USPS-FY21-29, PDF file “USPS Division Report - Attachment A.pdf” (FY 2021 Division Report Attachment A); Docket No. ACR2020, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination, June 28, 2021, at 1-8 (Docket No. ACR2020 Third Response); PDF file “Division Reports - 6-28-21.pdf.”

²⁰⁹ See Library Reference USPS-FY21-29, December 29, 2021, Excel files “FY21 FCM Q1 Point Impact for Area.xlsx,” “FY21 FCM Q1 Point Impact for Nation.xlsx,” “FY21 FCM Q3 CLT.xlsx,” “FY21 FCM Q4 24 hr clock.xlsx;” Library Reference USPS-FY21-NP30, December 29, 2021, Excel files “NONPUBLIC FCM Q2 - Air Capacity.xlsx,” “NONPUBLIC FCM Q5 - Facility Failures.xlsx;” Docket No. ACR2020, Third Response Excel files “Question 4c3-CLT FY21 Q1Q2.xlsx,” “Questions 4c1 4c4 7b.xlsx;” Docket No. ACR2020, Library Reference USPS-FY20-NP50, June 28, 2021, files “NONPUBLIC-Question 4c2-Air Cap.xlsx,” “NONPUBLIC-Question 4c5-Facilities.xlsx.”

²¹⁰ See Docket No. ACR2020, First Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination (Docket No. ACR2020 First Response), May 10, 2021, Excel file “PER-SPFC-OSPI Oct19-Mar21.xlsx;” Docket No. ACR2020, Fifth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination, August 9, 2021 (Docket No. ACR2020 Fifth Response), Excel file “PER-SPFC-OSPI Apr21-Jun21;” Docket No. ACR2020, Eighth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination, November 9, 2021 (Docket No. ACR2020 Eighth Response), Excel file “PER-SPFC-OSPI Jul21-Sep21.xlsx.”

still.” NPPC Comments at 18. NPPC asserts that “[t]his poor service quality continues to diminish the value of First-Class Mail...” *Id.* NPPC contends that “adverse weather and other factors are normal occurrences, and the postal system should anticipate them and be prepared to overcome them.” *Id.* at 19. Similarly, while “Covid-19 has brought additional challenges,...FY 2021 was the second year in which the Postal Service has dealt with them.” *Id.* With respect to increased package volumes, NPPC asserts that “the Postal Service’s declared decision to pivot to a packages-focused business is impairing the quality of service provided to First-Class Mail.” *Id.* NPPC also urges the Commission to modify service performance reporting requirements to include a report on the service quality accorded to remittance mail. *Id.* at 19.

The Postal Service replies by noting the severity of the adverse impacts the Postal Service experienced in FY 2021 and the improvements in service performance that occurred during the second half of FY 2021. Postal Service Reply Comments at 14-15. The Postal Service disputes the allegation that it is focusing on package growth to the detriment of other types of mail, maintaining instead that growth in package volumes is a result of pandemic-related changes in consumer demand, and given these changes in demand and the reality that packages, flats, and letters are all handled simultaneously, modifications to the Postal Service’s processing and delivery networks to accommodate increased package volumes are necessary to stabilize service performance for all other postal products, as well. *Id.* at 18-19.

The Commission acknowledges that the COVID-19 pandemic exacerbated pre-existing service performance challenges for the Postal Service and has taken that into account in formulating its directives. Accordingly, the Commission has developed directives aimed to elicit information and data regarding the efficacy of the Postal Service’s service performance initiatives and the steps that the Postal Service will take to restore service performance for its domestic First-Class Mail products, which are detailed below in Section V.A.4.a.6., *infra*.

The Commission finds that NPPC’s suggestion that the Commission should modify service performance reporting requirements to include a report on the service quality accorded to remittance mail is beyond the scope of the ACD, which determines compliance with existing requirements using established methodologies. Proposed changes to the reporting requirements appearing in 39 C.F.R. part 3055 are properly the subject of a rulemaking proceeding. *See* 39 U.S.C. § 3652(e)(2)(B).

International products: The Public Representative observes that even though on-time service performance targets were lowered for both international First-Class Mail products in FY 2021, both products nevertheless failed to meet the revised targets. PR Comments at 44.

The Postal Service states that it is striving for further improvements in service performance for international First-Class Mail in FY 2022. Postal Service Reply Comments at 21.

The Commission shares the Public Representative's concern regarding the service performance results for the Postal Service's international First-Class Mail products and has taken this into account in formulating its directives, which are detailed below in Section V.A.4.a.6., *infra*.

(5) Commission Analysis

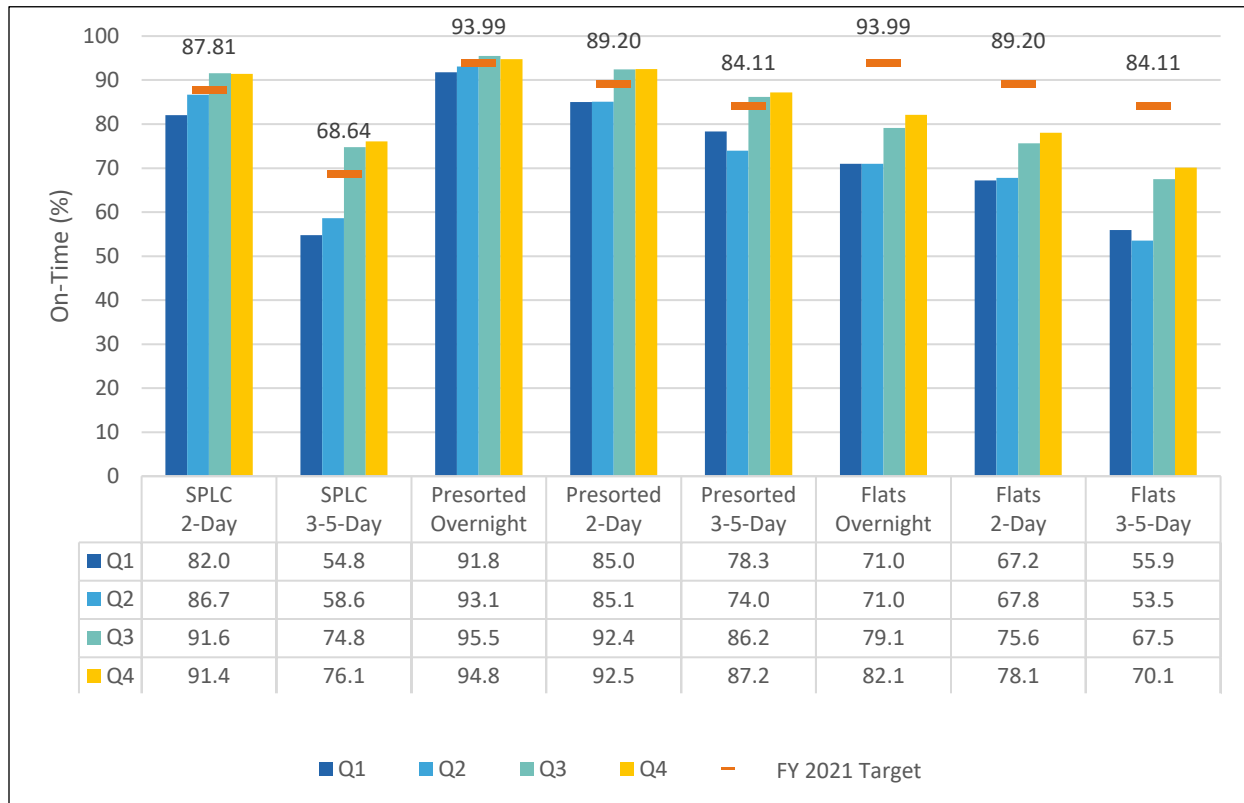
(a) Overview

For the seventh consecutive year, no First-Class Mail product category achieved its service performance target. *See* Figure V-12, *supra*. The best indicator of improvement (or decline) in service performance is to compare service performance results from one period to the same period in the prior fiscal year. *See* FY 2019 ACD at 105, 117. FY 2021 results for each domestic product category declined compared to results for the prior fiscal year. FY 2021 results for both international products are not directly comparable to results from previous fiscal years due to a change in measurement systems. *See, e.g., id.* at 94. Below, the Commission provides further analysis for the three domestic and two international products.

(b) Domestic Products

Figure V-13 displays quarterly results for FY 2021, disaggregated by shape, service standard, and whether the mailpiece was presorted or single-piece.

**Figure V-13
Domestic First-Class Mail
Service Performance Results, by Quarter, FY 2021**



Source: Library Reference USPS-FY21-29, Excel file "FY21 ACR First-Class Mail.xlsx."

Service performance improved for all domestic product categories in the second half of FY 2021 relative to the first half of the fiscal year. The Commission notes that no First-Class Mail product (or shape or service standard category) achieved its annual target levels in the FY 2021 Quarter 1 and Quarter 2 period. It should also be noted, however, that all domestic letter products met the annual FY 2021 targets during Quarter 3 and Quarter 4. This trend reflects the pattern observed in most previous fiscal years, as results in the second half of the fiscal year have tended to outperform the first half of the fiscal year, largely due to seasonal trends. *See, e.g.,* FY 2020 ACD at 165.

In recent years, the Postal Service has reported that it planned to address service performance issues by driving local facilities' adherence to the Postal Service's existing multi-year national data-driven strategies. *See* FY 2019 ACD at 106, 118. The Commission has therefore obtained data and information at and below the national level to monitor the connection between the Postal Service's national headquarters and the field. *Id.* These data were obtained to increase transparency as to how the Postal Service sets operational targets for the local facilities, provides local facilities with resources and training to meet those targets, measures local facilities' performance in a meaningful and consistent

manner, and holds local facilities accountable for gaps between the target and actual performance. *Id.*

Generally, the various narrative reports submitted by the Postal Service indicate that issues related to processing, transit, and the Last Mile have the most impact on delivering First-Class Mail on time.²¹¹ The data confirm that failures in transit and the Last Mile are the known root causes that had the most impact on service performance results for First-Class Mail in FY 2021.²¹²

The Postal Service reports that in order to address transportation and processing capacity constraints and prevent the gridlock experienced during the first half of FY 2021 from recurring, it acquired long-term Package Support Annexes (PSAs) in over 40 locations (with additional annexes for peak season), purchased over 100 additional package sorting machines, converted over 64,000 pre-career employees to full-time career status, and backfilled the non-career positions with new employees.²¹³ In the spring of FY 2021, the Postal Service reports that it commenced the “Third Party Canine (3PK9)” program, pursuant to which third party providers are now able to perform the requisite cargo screening in order for more packages to be transported on commercial air networks, increasing air capacity and permitting the Postal Service to scale back usage of certain freight air networks.²¹⁴ The Postal Service contends that these initiatives should benefit all mail products, including First-Class Mail, by increasing the overall capacity and fluidity of the processing and delivery network and reducing the number of late trips due to mail not being ready for transport as a result of late processing.²¹⁵

The Postal Service also focused on optimizing its surface transportation network and schedules. FY 2021 Division Report at 4; Response to CHIR No. 2, questions 25, 28. In particular, the Postal Service reports that its STC redesign, implemented in September 2020, streamlined the surface transportation network by adding and expanding designated centers to process First-Class Mail for downstream sites, and STC operations were further expanded in FY 2021 through the acquisition of new, larger facilities. FY 2021 Division Report at 4; Response to CHIR No. 2, questions 25, 28.

Other improvement initiatives in FY 2021 included:

²¹¹ FY 2021 Service Performance Report at 6; Library Reference USPS-FY21-29 Preface at 4; Library Reference USPS-FY21-29, PDF file “USPS Division Report.pdf” (FY 2021 Division Report); Response to CHIR No. 2, questions 26.a., 27.a.

²¹² Library Reference USPS-FY21-29, Excel file “FY21 FCM Q1 Point Impact for Nation.xlsx.”

²¹³ FY 2021 Service Performance Report at 6; Library Reference USPS-FY21-29 Preface at 4; FY 2021 Division Report at 1-2; Response to CHIR No. 2, questions 26.a., 27.a.

²¹⁴ FY 2021 Service Performance Report at 6; FY 2021 Division Report at 2; Response to CHIR No. 2, question 26.a.

²¹⁵ See FY 2021 Service Performance Report at 6; Library Reference USPS FY21-29 Preface at 4; FY 2021 Division Report at 1-2; Response to CHIR No. 2, questions 26.a., 27.a.

- The continued monitoring of processing, transit, and Last Mile operations by using visualization tools and Grid analysis to identify root causes of failure and develop mitigation plans.²¹⁶
- Expediting air mail to and from Terminal Handling Service (THS) by utilizing liaisons to monitor mailflow. FY 2021 Division Report at 4.
- Conducting training sessions with local management on the topic of developing and implementing supplier performance improvement plans and removing contracted suppliers from surface routes whose performance is unsatisfactory. Library Reference USPS-FY21-29 Preface at 4.
- Implementing site-specific operating plans for processing letters and flats (as opposed to the former network-wide operating plans), which the Postal Service reports led to an increase in operational clearance time compliance across all Divisions. FY 2021 Division Report at 2; Response to CHIR No. 6, question 13.
- Implementing a FSS Compression initiative to remove delivery points with little or no average daily volumes from the FSS sort program, thereby allowing sites to process more FSS volume within the same operating window, which the Postal Service asserts should benefit all flat-shaped mail products, including flat-shaped First-Class Mail. FY 2021 Service Performance Report at 17; Response to CHIR No. 2, questions 25.a., 31.
- Integrating the reporting of NDCs into each NDC's host Division, which the Postal Service asserts should make it easier to react to equipment failures or other adverse circumstances at processing facilities by shifting volumes to NDCs for processing. FY 2021 Division Report at 2; Response to CHIR No. 11, question 9.
- Introduction of the "Mail Arrival Quality/Plant Arrival Quality (MAQ/PAQ)" program, which "give[s] plants and delivery units in all Divisions the opportunity to provide feedback to each of their respective Divisions about mail arrival[.]" in order to "identify opportunities for improvement and create plans to mitigate discrepancies that may lead to last mile failures."²¹⁷
- The creation of a "National Joint Service Task Force" to "identify actionable opportunities for improvements to key service indicators...", which, among other things, focuses on delivery-related issues.²¹⁸

²¹⁶ FY 2021 Division Report at 3-5; Library Reference USPS-FY21-29 Preface at 4-5; Response to CHIR No. 2, question 25; Response to CHIR No. 6, question 2; Response to CHIR No. 11, questions 8, 10.

²¹⁷ FY 2021 Division Report at 3; FY 2021 Service Performance Report at 7; Response to CHIR No. 2, questions 25.a., 29.

²¹⁸ Library Reference USPS-FY21-29 Preface at 4; Response to CHIR No. 6, question 3. The National Joint Service Task Force was created pursuant to a Memorandum of Understanding with a labor union. Response to CHIR No. 6, question 3. Specific areas of focus include, *inter alia*, exploring the modification of current case configurations and work methods to identify more efficient techniques; exploring various combinations of office and street functions; addressing issues regarding city carrier complements, starting times, employee availability, and transportation schedules; determining the most efficient and effective mix of letter routes and parcel routes; and exploring the use of technology, data, advanced analytics, and machine learning. *Id.*

- Emphasizing the maintenance of First-In-First-Out (FIFO) order at processing facilities, with managers and supervisors conducting on-site walkthroughs stressing FIFO adherence. Response to CHIR No. 2, question 25.a.
- Sharing best practices between headquarters and field operations and providing training to employees. Library Reference USPS-FY21-29 Preface at 4-5.

In response to information requests, the Postal Service reported that it is unable to quantify the impact of any of these initiatives on service performance.²¹⁹ The Postal Service reports that it intends to continue employing the foregoing strategies in FY 2022, in addition to implementing the network modifications specified in the Postal Service's Ten-Year Strategic Plan.²²⁰

The Commission finds the Postal Service's inability to quantify the impact of any of its improvement initiatives problematic. For an improvement initiative to be successful, it must be possible to identify its impact and determine whether or not the initiative had the desired effect on service performance results. The Postal Service generally claims that there is no way to tell how any one individual improvement initiative contributed to overall service performance scores in internal SPM.²²¹ Generally, the Postal Service indicates that it will use key performance indicators (KPIs) to monitor the efficacy of its strategies to achieve its service performance targets for Market Dominant products. *See* Response to CHIR No. 6, question 15.f.i. The Commission, therefore, finds that additional reporting regarding the KPIs established for specific improvement initiatives is necessary. The Commission also continues to find that narrative reporting and quantifiable data regarding the Postal Service's FY 2022 progress are imperative to ensure transparency and accountability of the Postal Service's improvement and recovery initiatives from the COVID-19 pandemic. Consequently, the Commission directs the Postal Service to provide additional information, as described in Section V.A.4.a.6., *infra*.

i. Single-Piece Letters/Postcards

Single-Piece Letters/Postcards is a retail product made available to the general public and includes stamps and postage paid through meters. *See* MCS Section 1105. Since FY 2015, the Commission has determined that this product has been out of compliance and issued directives to monitor the Postal Service's remediation initiatives. *See* FY 2019 ACD at 101-02, 119 (summarizing past ACD findings); FY 2020 ACD at 180-85. There are two service

²¹⁹ Response to CHIR No. 2, questions 8.a.-c., 26.b.-d., 27.c.-d., 28.b.-c., 29.b.-d., 31.b.-d.; Response to CHIR No. 6, question 2.b., 3.b.-c., e., 13.b.; Response to CHIR No. 11, questions 8.c.-e., 9.b.-c., 10.c.-d.

²²⁰ FY 2021 Service Performance Report at 6; Response to CHIR No. 2, question 25.b. *See* United States Postal Service, Delivering For America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf (Ten-Year Strategic Plan).

²²¹ *See, e.g.*, Response to CHIR No. 2, questions 5.c., 8.a.-c., 10.b.-c., 17.a.-b., 19.a.-b., 20.a.-b., 21.a.-b., 26.b.-d., 27.d., 28.a.-c., 29.b.-d., 30.c., 31.b.-d.; Response to CHIR No. 5, question 4.b.; Response to CHIR No. 6, questions 2.b., 3.b.-c., e., 11.b., 12.b., 13.b., 14.b.; Response to CHIR No. 11, questions 8.c.-e., 9.b.-d., 10.c.-d., 12.c.-d.

standards for this product: 2-Day and 3-5-Day.²²² The 2-Day service standard only applies to Single-Piece Letters/Postcards in the continental U.S.A. if the drive time between the origin processing and distribution center/facility (P&DC/F) and destination ADC is 6 hours or less.²²³ Generally, the Commission focuses its discussion on Single-Piece Letters/Postcards with the 3-5-Day service standard, which has experienced a more pronounced decline than 2-Day Single-Piece Letters/Postcards because 3-5-Day Single-Piece Letters/Postcards require transportation over longer distances and, therefore, experience more processing and transportation delays.²²⁴ From FY 2020 to FY 2021, service performance results for 3-5-Day Single-Piece Letters/Postcards and 2-Day Single-Piece Letters/Postcards declined by 15.1 and 4.7 percentage points, respectively.²²⁵

Postal Service data illustrate that the top five root causes of failures to meet service standards for 3-5-Day Single-Piece Letters/Postcards remained similar in FY 2020 and FY 2021; however, First Mile failures replaced Last Mile failures in the top five root causes.²²⁶ Figure V-14 displays the top five root causes for the failure of 3-5-Day Single-Piece Letters/Postcards to be delivered on time in FY 2021, along with the corresponding point impact and percent change from FY 2020.

²²² See 39 C.F.R. § 121.1(b)(2), (c), (d), (e). Effective February 1, 2015 (FY 2015 Quarter 2), the Postal Service generally eliminated the overnight service standard for this product; only certain presorted First-Class Mail pieces may now qualify for the overnight service standard. See Revised Service Standards for Market-Dominant Mail Products, 77 Fed. Reg. 31,190, 31,194 (May 25, 2012) (codified at 39 C.F.R. pt. 121); see also Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 49.

²²³ See 39 C.F.R. § 121.1(b)(2); see also 77 Fed. Reg. 31,190, 31,194. With respect to the non-continental U.S.A., the 2-Day standard also applies to Single-Piece Letters/Postcards that originate and destinate within Puerto Rico, the U.S. Virgin Islands, American Samoa or specific 3-Digit ZIP Code areas in Alaska. 39 C.F.R. § 121.1(b)(2).

²²⁴ See, e.g., FY 2020 ACD at 168; FY 2019 ACD at 101; FY 2015 ACD at 132; FY 2016 ACD at 119.

²²⁵ Compare FY 2021 Service Performance Report at 4, with Docket No. ACR2020, Library Reference USPS-FY20-29, December 29, 2020, PDF file "FY20-29 Service Performance Report.pdf," at 4 (FY 2020 Service Performance Report).

²²⁶ Compare Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx," tab "SPFC," with Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "SPFC."

Figure V-14
3-5-Day First-Class Mail Single-Piece Letters/Postcards
FY 2021 National Top 5 Root Causes and Point Impact

Root Cause	Point Impact		% Change
	FY 2021	FY 2020	
Transit Late Destination Primary Scan	14.61	6.59	121.62%
Unable to Assign	5.76	3.24	77.73%
Origin Missent	4.26	2.70	58.09%
Transit Missing Destination Primary Scans	3.31	2.01	64.58%
First Mile	1.80	1.48	21.69%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx;" Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

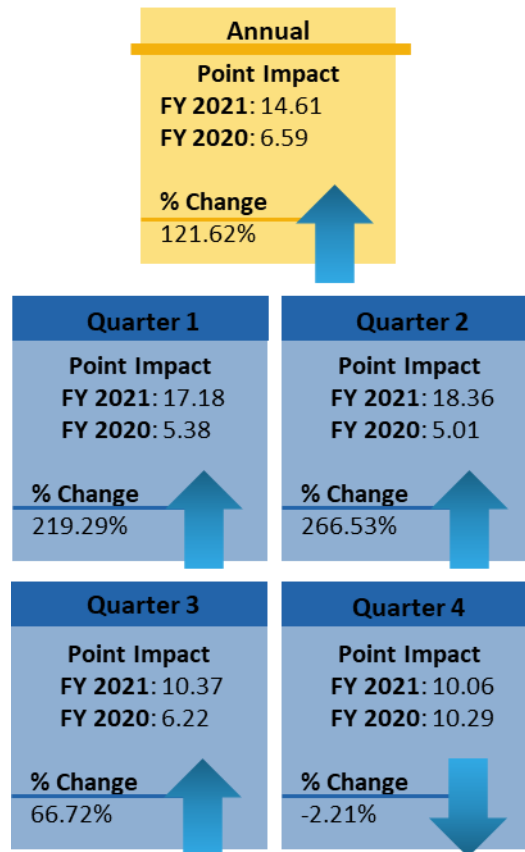
Root causes related to transportation and processing provided the top three point impacts in FY 2021, and the impact of all three increased substantially over FY 2020. The Postal Service asserts that transit failures were "a result of overburdened air networks, driver shortages, and delays due to lack of staging space." See FY 2021 Service Performance Report at 6.

Transit Late Destination Primary Scan increased 121.62 percent in point impact, from 6.59 in FY 2020 to 14.61 in FY 2021. This indicator is assigned if the last outgoing scan of any type at an origin facility is on time and the First Incoming Primary Scan at the expected destination facility is late.²²⁷

Due to the large percentage increase, the Commission performed further analysis on this indicator. Figure V-15 compares the point impacts reported for this indicator annually and disaggregated by fiscal quarter for FY 2020 and FY 2021.

²²⁷ Response to CHIR No. 2, question 23.b., Excel file "ChIR.2.Q.23.RootCause.DefintnHier.xlsx."

Figure V-15
3-5-Day First-Class Mail Single-Piece Letters/Postcards
FY 2021 Point Impact for Transit Late Destination Primary Scan



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx;" Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "CHIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

The year-over-year overall increase was largely driven by significant increases reported for Quarters 1 and 2 of FY 2021 compared to the corresponding periods in FY 2020.

The second highest root cause category, Unable to Assign, increased 77.73 percent in point impact from 3.24 in FY 2020 to 5.76 in FY 2021. This indicator is applied to mailpieces for which there is insufficient information to determine the root cause. FY 2021 Division Report at 5.

Figure V-14 also shows that First Mile failures replaced Last Mile failures in the top five root causes. This is a result of First Mile failures increasing while Last Mile failures decreased in point impact in FY 2021 relative to FY 2020. The Postal Service contends that

Last Mile failures improved due to the introduction of the MAQ/PAQ program in March 2021 (Quarter 2), which gives plants and delivery units the opportunity to provide feedback to their counterparts about mail arrival. *See* FY 2021 Service Performance Report at 7. However, as with its other improvement initiatives, the Postal Service is unable to quantify any impact that the MAQ/PAQ program had on service performance. Response to CHIR No. 2, questions 29.c.-d.

ii. Presorted Letters/Postcards

Presorted Letters/Postcards is a commercial product made available to mailers that adhere to volume, sortation, and/or drop-shipment requirements. *See* MCS Section 1110. There are three service standards for this product: overnight, 2-Day, and 3-5-Day. *See* 39 C.F.R. § 121.1(a)(2), (b)(2), (c), (d), (e).

The Postal Service's data illustrate that the rankings for the top five root causes of failures to meet service standards for each service standard category of Presorted Letters/Postcards changed slightly from FY 2020 to FY 2021. Figure V-16 displays the top five root causes for Presorted Letters/Postcards in FY 2021 nationwide, along with corresponding data for FY 2020.

Figure V-16
First-Class Mail Presorted Letters/Postcards
FY 2021 National Top 5 Root Causes and Point Impact

	Root Cause	Point Impact		% Change
		FY 2021	FY 2020	
Service Standard 1-Day	1 Last Mile	2.27	2.11	7.56%
	2 Transit Late Secondary Scan	2.01	1.35	49.22%
	3 Transit Missing Outgoing Scan	1.13	0.70	60.48%
	4 Unable to Assign	0.40	0.48	-15.28%
	5 First Mile	0.39	0.32	21.40%
Service Standard 2-Day	1 Transit Late Secondary Scan	4.57	2.35	94.11%
	2 Transit Missing Outgoing Scan	2.77	1.35	105.61%
	3 Last Mile	2.40	2.18	10.06%
	4 Unable to Assign	1.29	0.89	45.56%
	5 Transit Missing Destination Primary Scans	0.20	0.09	114.95%
Service Standard 3-5-Day	1 Transit Late Secondary Scan	7.28	3.27	122.54%
	2 Transit Missing Outgoing Scan	6.04	2.58	134.38%
	3 Unable to Assign	2.61	1.56	67.13%
	4 Last Mile	1.97	1.97	-0.26%
	5 Transit Missing Destination Primary Scans	0.82	0.32	160.62%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, file "FY21 FCM Q1 Point Impact for Nation.xlsx;" Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

Figure V-16 illustrates that Presorted Letters/Postcards experienced similar trends to the point impact results for Single-Piece Letters/Postcards from FY 2020 to FY 2021. The FY 2021 point impacts related to transportation and processing increased from the levels observed in FY 2020 for Presorted Letters/Postcards. These data also show that the point impact related to Last Mile decreased slightly for the 3-5-Day service standard from FY 2020 to FY 2021 but increased for the Overnight and 2-Day service standards.

Similar to Single-Piece Letters/Postcards, failures during the transit phase had a significant impact on all service standard levels of Presorted Letters/Postcards. As noted above, the Postal Service asserts that transit failures were “a result of overburdened air networks, driver shortages, and delays due to lack of staging space.” See FY 2021 Service Performance Report at 6. To address these issues, the Postal Service implemented initiatives such as procuring new PSAs to add additional staging space and the “3PK9” program to increase transit capacity. *Id.* In addition, the Postal Service deployed additional STCs, which it states freed up space in other facilities to use for package and other mail processing and reduced yard congestion and load/unload cycle time within the surface transportation network. *Id.* at 7. As with its other service performance initiatives, the Postal Service was unable to quantify any impact on service performance from these initiatives.

The Transit Late Secondary Scan indicator for Presorted Letters/Postcards experienced similar trends to the corresponding Transit Late Destination Primary Scan indicator for Single-Piece Letters/Postcards—significant percent increases in Quarter 1 and Quarter 2 of FY 2021 compared to the same Quarter in FY 2020.²²⁸ This root cause is assigned if there are no outgoing scans (at the origin facility) or Incoming Primary scans (at the expected destination facility), and the First Incoming Secondary scan (at the expected destination facility) is late.²²⁹ Table V-5 compares the point impacts reported for this indicator disaggregated by fiscal quarter for FY 2020 and FY 2021.

²²⁸ Compare Library Reference USPS-FY21-29, Excel file “FY21 FCM Q1 Point Impact for Nation.xlsx,” tab “PFCM” with Docket No. ACR2020, Response to CHIR No. 3, question 16, folder “ChIR 3 Question 16,” Excel file “ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx,” tab “PFCM.”

²²⁹ See Response to CHIR No. 2, question 23.b., Excel file “ChIR.2.Q.23.RootCause.DefintnHier.xlsx.”

Table V-5
Presorted Letters/Postcards
FY 2021 Point Impact for Transit Late Secondary Scan

Quarter	Service Standard	Point Impact for Transit Late Secondary Scan		
		FY 2021	FY 2020	% Change
Q1	1	3.29	1.31	151.65%
	2	6.63	2.10	216.25%
	3 to 5	8.59	2.76	210.76%
Q2	1	2.39	0.92	159.36%
	2	6.47	1.80	259.36%
	3 to 5	10.80	2.28	374.72%
Q3	1	1.06	0.94	11.97%
	2	2.39	2.06	16.12%
	3 to 5	4.67	3.04	53.48%
Q4	1	1.00	2.36	-57.61%
	2	2.28	3.56	-35.98%
	3 to 5	4.21	5.21	-19.20%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx;" Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

The point impacts of Transit Late Secondary Scan failures increased by more than 150 percent for all service standards of Presorted Letters/Postcards during Quarter 1 and Quarter 2 of FY 2021 compared to the same periods in FY 2020. Specifically, the point impact for Transit Late Secondary Scan increased by 151.65 percent for the Overnight service standard, 216.25 percent for the 2-Day service standard, and 210.76 percent for the 3-5-Day service standard.²³⁰ Further, comparing Presorted Letters/Postcards during Quarter 2 of FY 2021 to the same Quarter in FY 2020, the point impact for "Transit Late Secondary Scan" increased by 159.36 percent for the Overnight service standard, 259.36 percent for the 2-Day service standard, and 374.72 percent for the 3-5-Day service standard.²³¹

²³⁰ Compare Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx," tab "PFCM," with Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "PFCM."

²³¹ Compare Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx," tab "PFCM," with Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "PFCM."

iii. Flats

The Commission has previously observed the significant challenges the Postal Service has experienced in processing and delivering flat-shaped mailpieces across all Market Dominant classes. *See, e.g.*, FY 2015 ACD at 160-82. Since FY 2015, the Commission has separately evaluated the long-standing cost and service issues for flat-shaped mailpieces.²³² In FY 2019, the Commission finalized rules for the Postal Service to provide additional information to improve transparency into cost and service performance issues with respect to flats, as well as increase the accountability of the Postal Service with respect to operational initiatives directed at flats. *See* Order No. 5086. The Commission noted that these challenges have persisted despite numerous operational initiatives to improve cost and service for flat-shaped mailpieces. *See* FY 2019 ACD at 155.

The Flats product includes both retail (single-piece) and commercial (presorted) mailpieces that are flat-shaped. *See* FY 2021 Service Performance Report at 2; *see also* MCS Section 1115. The Postal Service attributes Flats' poor on-time service performance scores in FY 2021 to the ongoing COVID-19 pandemic and its adverse effects on the Postal Service's operations. Response to CHIR No. 2, questions 4.a.-b. The Postal Service's current initiatives to improve service performance for Flats include the work of the National Joint Service Task Force, which is intended to reduce Last Mile failures; the sharing of best practices between headquarters and field operations; the use of visualization tools to identify processing and delivery issues, and training employees. Response to CHIR No. 2, question 4.c. As with its other improvement initiatives, the Postal Service was unable to quantify the impact of these initiatives on service performance.

The Postal Service's data illustrate that point impact results increased for most root causes associated with both retail and commercial categories of Flats. Figures V-17 and V-18 display point impacts for the top five root causes of failures to meet service standards for Flats in FY 2021, along with corresponding data for FY 2020, disaggregated for single-piece and presorted mailpieces, respectively.

²³² *See* FY 2015 ACD at 160-82; FY 2016 ACD at 158-70; FY 2017 ACD at 174-82; FY 2018 ACD at 213-23; FY 2019 ACD at 155-75; FY 2020 ACD at 236-62; Chapter VI., *infra*.

Figure V-17
First-Class Mail Single-Piece Flats
FY 2021 National Top 5 Root Causes and Point Impact

	Root Cause	Point Impact		% Change
		FY 2021	FY 2020	
Service Standard 2-Day	1 Last Mile	8.80	7.58	16.09%
	2 First Mile	6.55	4.11	59.43%
	3 Transit Late Destination Primary Scan	2.97	1.49	98.39%
	4 Unable to Assign	2.42	3.16	-23.39%
	5 Origin Missent	2.32	1.53	51.31%
Service Standard 3-5-Day	1 Transit Late Destination Primary Scan	8.47	4.35	94.65%
	2 Origin Missent	8.09	5.61	44.21%
	3 First Mile	7.42	5.48	35.47%
	4 Last Mile	6.08	6.23	-2.49%
	5 Unable to Assign	4.53	3.80	19.12%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx"; Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "CHIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

**Figure V-18
First-Class Mail Presorted Flats
FY 2021 National Top 5 Root Causes and Point Impact**

	Root Cause	Point Impact		% Change
		FY 2021	FY 2020	
Service Standard 1-Day	1 Last Mile	7.18	6.78	5.84%
	2 Transit Missing Outgoing Scan	6.08	4.31	41.03%
	3 Transit Late Secondary Scan	4.33	2.80	54.88%
	4 Unable to Assign	2.69	1.84	46.15%
	5 Transit Missing Destination Primary Scans	2.30	2.20	4.10%
Service Standard 2-Day	1 Transit Missing Outgoing Scan	9.47	6.85	38.24%
	2 Last Mile	7.03	7.29	-3.48%
	3 Unable to Assign	5.38	3.70	45.54%
	4 Transit Late Secondary Scan	5.06	4.13	22.30%
	5 Transit Missing Destination Primary Scans	1.50	1.01	58.61%
Service Standard 3-5-Day	1 Transit Missing Outgoing Scan	10.91	6.86	59.16%
	2 Unable to Assign	7.06	5.03	40.32%
	3 Transit Late Secondary Scan	6.01	4.35	38.30%
	4 Last Mile	5.94	6.14	-3.38%
	5 Transit Missing Destination Primary Scans	3.56	2.12	67.86%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx;" Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

The point impacts caused by transportation-related issues increased for all categories of Flats from FY 2020 to FY 2021—especially for the first half of the fiscal year (Quarters 1 and 2).²³³ These results are consistent with the results for the letter-shaped products and likely illustrate the impact of overburdened air networks and driver shortages due to the COVID-19 pandemic and delays due to lack of staging space.

Last Mile failures remain as the top root cause for Single-Piece 2-Day Flats. Last Mile failures increased in point impact from 7.58 in FY 2020 to 8.80 in FY 2021, which amounts to an increase of 16.09 percent. The second highest root cause failure was First Mile, which increased from 4.11 in FY 2020 to 6.55 in FY 2021, an annual increase of 59.43 percent. For Single-Piece 3-5-Day Flats, the top root cause was Transit Late Destination Primary Scan, which increased from 4.35 in FY 2020 to 8.47 in FY 2021, an increase of 94.65 percent.

The top root causes in FY 2021 for presorted Flats were Last Mile failures and Transit Missing Outgoing Scan. For the Overnight service standard, Last Mile failures were the top root cause, with a point impact of 7.18 in FY 2021 compared to a point impact of 6.78 in FY 2020. For both the 2-Day and 3-5-Day service standard, the top root cause was Transit Missing Outgoing Scan. In FY 2021, Presorted 2-Day Flats had a point impact of 9.47, compared to 6.85 in FY 2020, which represents an increase of 38.24 percent. For the 3-5-Day standard, the point impact in FY 2021 was 10.91, compared to a point impact of 6.86 in FY 2020; an increase of 59.16 percent.

Table V-6 shows the point impacts reported for each top transportation-related indicator, disaggregated by Quarter for FY 2020 and FY 2021, for 3-5-Day Presorted and Single-Piece Flats.

²³³ Compare Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx," tabs "SPFC" and "PFCM," with Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tabs "SPFC" and "PFCM."

Table V-6
3-5-Day First-Class Mail Flats
Top Transit Root Cause Point Impact, by Quarter, FY 2021

Quarter	Single-Piece 3-5-Day Transit Late Destination Primary Scan			Presorted 3-5-Day Transit Missing Outgoing Scan		
	FY 2021	FY 2020	% Change	FY 2021	FY 2020	% Change
Q1	9.00	3.51	156.11%	13.59	5.61	142.05%
Q2	11.18	3.29	239.49%	15.02	5.15	191.60%
Q3	6.67	4.55	46.75%	7.67	7.28	5.42%
Q4	6.46	6.63	-2.58%	6.94	9.64	-27.95%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 FCM Q1 Point Impact for Nation.xlsx;" Docket No. ACR2020, Response to CHIR No. 3, question 16, folder "ChIR 3 Question 16," Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx."

The overall point impact for these transportation-related indicators increased year-over-year from FY 2020 to FY 2021. This year-over-year overall increase was largely driven by significant increases reported for Quarters 1 and 2 of FY 2021, compared to the corresponding periods in FY 2020. As described above in Section V.A.4.a.5.b.i.-ii., *supra*, these data corroborate that the COVID-19 pandemic exacerbated existing transportation-related challenges for the Postal Service. Further, Table V-6 illustrates that during Quarter 2 of FY 2021 (January 1, 2021 through March 31, 2021), the point impacts for these top transportation-related indicators nearly tripled compared to the same Quarter in FY 2020.

(c) International Products

Outbound Single-Piece International is a retail product made available to the general public to send postcard-, letter-, and flat-shaped mailpieces to addressees outside of the U.S.A. See MCS Section 1125. Inbound Letter Post includes postcards, aerograms, and letter-shaped mailpieces, which originate outside of the U.S.A., contain only documents, and are intended for delivery inside of the U.S.A.²³⁴

²³⁴ See MCS Section 1130. This definition took effect January 1, 2020, which occurred at the beginning of FY 2020 Quarter 3. See Docket Nos. MC2019-17 and CP2019-155, Order Granting Postal Service's Motion and Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, December 19, 2019, at 2, 18 (Order No. 5372).

Annual results for Inbound Letter Post and Outbound Single-Piece International have remained below their applicable service performance targets since FY 2009.²³⁵

In FY 2021, the on-time service performance score for Outbound Single-Piece International was 58.0 percent on-time, which was 24.43 percentage points below the applicable target of 82.43 percent on-time. FY 2021 Service Performance Report at 4. The on-time service performance score for Inbound Letter Post was 73.8 percent on-time, which was 8.62 percentage points below the same applicable target of 82.43 percent on-time. *Id.* In FY 2021, internal SPM replaced the IMMS as the official system of measurement and reporting for Outbound Single-Piece International and Inbound Letter Post. *See* Order No. 5576. As a result, service performance results for Outbound Single-Piece International and Inbound Letter Post in FY 2021 are not directly comparable to results from previous fiscal years. *See, e.g.,* FY 2019 ACD at 94.

Generally, the Postal Service's handling of both international products is similar to its handling of their domestic analogs; however, service performance for both international products has continued to underperform compared to their domestic analogs.²³⁶ The Postal Service attributes the significantly below-target service performance score for Outbound Single-Piece International in FY 2021 to the fact that the routing of Outbound Single-Piece International mailpieces is different than the routing of domestic First-Class Mail. Response to CHIR No. 2, question 3.c. In particular, the vast majority of Outbound Single-Piece International volume is routed through a single ISC and thus, tends to require more air transportation than domestic First-Class Mail. *Id.* The Postal Service explains that in FY 2021, air transportation continued to be subject to significant disruptions due to the ongoing COVID-19 pandemic. *Id.*

The Postal Service attributes the below-target service performance score for Inbound Letter Post to the fact that the processing of Inbound Letter Post is more complex than most domestic First-Class Mail. *Id.* question 3.e. Unlike domestic First-Class Mail, which is largely barcoded and may also be presorted, Inbound Letter Post mailpieces typically need

²³⁵ Prior to FY 2009, the Postal Service provided an aggregate on-time percent result for both products without a target. *See* Docket No. ACR2008, *Annual Compliance Determination*, March 30, 2009, at 42 (FY 2008 ACD) (displaying an on-time percent result, aggregated for both products, for FY 2007 and FY 2008). For FY 2009 and FY 2010, the Postal Service set a target for the aggregate annual result of both products across all service standard categories. *See* Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011, at 61 (FY 2010 ACD) (comparing an aggregate result for both products to the 94.0 percent target); Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 52 (FY 2009 ACD) (same for FY 2009). From FY 2011 to FY 2020, the Postal Service set separate (but equal to 94.0 percent on-time) targets for Inbound Letter Post across all service standards as well as for Outbound Single-Piece International across all service standards. *See, e.g.,* Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 71 (FY 2011 ACD) (comparing FY 2011 Combined Inbound Letter Post result to the 94.0 percent target and FY 2011 Combined Outbound Single-Piece International result to the 94.0 percent target); Docket No. ACR2012, *Annual Compliance Determination*, March 28, 2013, at 54 (FY 2012 ACD) (same for FY 2012); FY 2018 ACD at 164 (same for FY 2013-FY 2018); FY 2019 ACD at 116 (same for FY 2019); FY 2020 Service Performance Report at 4 (same for FY 2020). In FY 2021, the Postal Service lowered targets for both international products to 82.43 percent on-time. FY 2021 Service Performance Report at 4.

²³⁶ *See* FY 2020 Service Performance Report at 8; Docket No. ACR2019 Third Response at 3; Docket No. PI2019-1, Library Reference USPS-LR-PI2019-1/1, May 21, 2019, PDF file "iSPM RevPlan RED-LINE 52119.pdf," at 30, 50. Therefore, the Postal Service's domestic transit improvement initiatives described above generally apply to its service performance for international mailpieces. Similarly, First Mile and Last Mile improvement initiatives apply to outbound and inbound international mailpieces, respectively.

to be barcoded and are not presorted, so a large percentage of Inbound Letter Post mailpieces cannot be processed in the same operation as most domestic First-Class Mail. *Id.* To monitor the Postal Service's initiatives to improve service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directed the Postal Service in the FY 2020 ACD to report on its progress at addressing processing deficiencies at ISCs and plans for remedying such issues. *See* FY 2020 ACD at 183-84. As directed, the Postal Service filed an evaluation of its FY 2021 improvement initiatives, along with an FY 2022 improvement plan.²³⁷ The Postal Service also, as directed, filed monthly service performance results for Outbound Single-Piece International.²³⁸ In addition, the Postal Service reports that it implemented root cause reporting for Outbound Single-Piece International beginning in Quarter 3 of FY 2021.²³⁹

²³⁷ *See* Library Reference USPS-FY21-29, PDF file "FY21-29 Supplement - International.pdf," at 15-25 (FY 2021 International Supplement); Library Reference USPS-FY21-NP30, PDF file "NONPUBLIC Preface USPS-FY21-NP30.pdf;" Docket No. ACR2020 Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination (Questions 1, 5, and 6), July 2, 2021; Docket No. ACR2020, Library Reference USPS-FY20-NP51, July 6, 2021, PDF file "FY20.NP51.Preface ACD 3rd Response.Q1.5,NonPublic.pdf."

²³⁸ *See* Docket No. ACR2020 First Response, Excel file "PER-SPFC-OSPI Oct19-Mar21.xlsx;" Docket No. ACR2020 Fifth Response, Excel file "PER-SPFC-OSPI Apr21-Jun21.xlsx;" Docket No. ACR2020 Eighth Response, Excel file "PER-SPFC-OSPI Jul21-Sep21.xlsx."

²³⁹ FY 2021 International Supplement at 24. The Postal Service also, in response to a separate directive in the FY 2020 ACD, reported on the status of its initiatives to improve Inbound Letter Post service performance for purposes of the Universal Postal Union (UPU) Quality of Service Link to UPU Terminal Dues. *See* FY 2020 ACD at 63. Under the UPU Quality Link Measurement System (QLMS), terminal dues with respect to Inbound Letter Post mailpieces can be adjusted downward 5 percent if the Postal Service does not achieve the UPU-established annual service performance target; they can also be adjusted upward 5 percent if the Postal Service does achieve the target. United Postal Union, Regulations to the Convention, Final Protocol, Article 30-109, Berne 2017, available at <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/nonPermanentActs/actNonPermanentRegulationsConventionFinalProtocolEn.pdf>. In CY 2019 and January through October of FY 2020, Inbound Letter Post did not achieve the annual QLMS target, and results showed deterioration from CY 2019 to CY 2020. FY 2020 ACD at 60. The Postal Service attributed the decline to the initiation of international peak volume season in October 2019 and the onset of the COVID-19 pandemic in March 2020, along with issues related to staffing and availability of transportation across the Postal Service's network. *Id.* at 61. The Commission directed the Postal Service in the FY 2020 ACD to report on the status of this issue in FY 2021, including, *inter alia*, the Postal Service's initiatives to improve QLMS service performance for Inbound Letter Post. *See id.* at 63.

In CY 2020 and January through October of CY 2021, Inbound Letter Post did not achieve the annual QLMS target. *See* Library Reference USPS-FY21-NP30, PDF files "NONPUBLIC UPU QS Link Performance December 2020 -Redacted.pdf" and "NONPUBLIC UPU QS Link Performance October 2021 -Redacted.pdf." The Postal Service reports (under seal) the amount of revenue forfeited due to not meeting the UPU service performance target in FY 2021. *See* Library Reference USPS-FY21-NP30, PDF file "NONPUBLIC Preface USPS-FY21-NP30.pdf."

The Postal Service reports that its initiatives to improve service performance for purposes of QLMS in FY 2021 primarily involved Phase I of international mail processing, during which Inbound Letter Post mailpieces enter an ISC and undergo Radio Frequency Identification (RFID) Gateway Detection Monitoring. FY 2021 International Supplement at 7. The Postal Service explains that QLMS scores are based on measurement conducted through terminal dues gates, which are "RFID antennae and readers installed at the identified and approved handover points..." *Id.* at 4 (internal citations omitted). If an Inbound Letter Post mailpiece does not go through the appropriate RFID gateway upon entry into an ISC and the appropriate scan does not occur, then that mailpiece will not be included in the QLMS scoring process. *Id.* at 8. For every mailpiece for which this occurs, the Postal Service states that it is possible that the Postal Service's QLMS score could be negatively affected. *Id.*

The Postal Service reports that it has determined that one of the possible reasons for its low QLMS scores is that a certain percentage of Inbound Letter Post volume entering ISCs is not passing through an RFID Gateway and, thus, is not being measured. *Id.* Another possible reason involves missed scans occurring at the induction of Inbound Letter Post mailpieces into ISCs through the RFID gateways. *Id.* at 12. The Postal Service reports that it is in the process of mapping out process flows for each ISC and its surrounding offload sites to ensure that appropriate processes are being followed, and the Postal Service is reviewing additional entry points and adding more RFID scanners to ensure that scans occur throughout all process flows. *Id.* at 9. The Postal Service is also inspecting current RFID equipment to ensure that it is in working order. *Id.* The Postal Service is conducting RFID Audit Reviews at each ISC to determine whether Inbound Letter Post volume is passing correctly through the appropriate RFID gateway. *Id.* These reviews are also focused on identifying root cause failures at each ISC, including those related to the bypassing of RFID scanners. *Id.*

For Outbound Single-Piece International, the Postal Service identifies relevant processing deficiencies as being “somewhat similar to those identified in the domestic network[,]” given that Outbound Single-Piece International mailpieces are measured from origin acceptance to the final outgoing processing scan at the ISC, which is all considered to be part of the domestic network. FY 2021 International Supplement at 18, 20. For Inbound Letter Post, the Postal Service identifies relevant processing deficiencies as occurring within Phase II of international mail processing—during which Inbound Letter Post mailpieces are accepted and cleared through Customs at the ISC and then enter the domestic network—and Phase III of international mail processing—during which Inbound Letter Post mailpieces travel through the domestic network to their final destination. *Id.* at 19-20.

The Postal Service reports that during FY 2021 it carried out “Operation 848 initiatives,” which involved placing a barcode on the back of Inbound Letter Post mailpieces so that they could be tracked through the Postal Service’s network to identify improper mailflows and processing operations. *Id.* at 13. Through Operation 848 initiatives, the Postal Service reports that it was able to address deficiencies in mailflow at certain ISCs, which led to improvement in on-time service performance scores. *Id.* at 20, 22.

For both Outbound Single-Piece International and Inbound Letter Post, the Postal Service reports that during FY 2021 it focused on achieving measured targets for turnover between tours for all operational categories during shift changeover. Response to CHIR No. 2, question 5.a. The Postal Service also focused on enhancing machine utilization and monitoring machine run plan performance. *Id.* As with its other improvement initiatives, the Postal Service reports that it is unable to quantify the impact that any of these measures had on service performance, but the Postal Service asserts that they “likely improved service performance...in FY 2021.” Response to CHIR No. 2, question 5.b.-c. As noted in the analysis pertaining to domestic First-Class Mail in Section V.A.4.a.5.b., *supra*, the Commission finds the Postal Service’s inability to quantify the impact of any of its service performance initiatives to be problematic because for an improvement initiative to be successful, it must be possible to determine whether or not the initiative had the desired effect on service performance results. Generally, the Postal Service indicates that it will use KPIs to monitor the efficacy of its strategies to achieve its service performance targets for Market Dominant products. *See* Response to CHIR No. 6, question 15.f.i. The Commission, therefore, finds that additional reporting regarding the KPIs established for specific improvement initiatives is necessary, as described in Section V.A.4.a.6., *infra*.

The Postal Service reports that in FY 2022 it plans to continue Operation 848 monitoring with respect to Phase II of international mail processing for Inbound Letter Post.²⁴⁰ With

²⁴⁰ *See* FY 2021 International Supplement at 22. Additional detail was provided by the Postal Service under seal. *See* Library Reference USPS-FY21-NP30, PDF file “NONPUBLIC Preface USPS-FY21-NP30.pdf,” at 3-6.

respect to Phase III, the Postal Service reports that it plans to review international mailflows to their final destinations within the domestic network.²⁴¹

Because the point impact data the Postal Service submitted for international mail products in FY 2021 only covers Quarters 3 and 4, the data are not representative of service performance throughout the entirety of FY 2021. Therefore, the Commission is unable to meaningfully analyze the top root causes and point impacts for international mail products in FY 2021. The Commission will continue to monitor the point impact data and seek to identify relevant trends in future fiscal years.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for its First-Class Mail products in FY 2022. The Commission recognizes that the COVID-19 pandemic has continued to exacerbate the Postal Service's difficulty in achieving its service performance targets and takes that into account in formulating its directives.

The Commission is concerned that FY 2021 is the seventh consecutive year that no First-Class Mail product category achieved its service performance target and over that time, service performance results for First-Class Mail have continued to decline, particularly for the 3-5-Day product categories. The Commission has found Single-Piece Letters/Postcards out of compliance since FY 2015,²⁴² and Single-Piece Outbound International out of compliance since FY 2020. See FY 2020 ACD at 180. However, Presorted Letters/Postcards has also been below target since FY 2015 for all categories.²⁴³ Flats have been below-target since FY 2010 for all categories.²⁴⁴ Inbound Letter Post, like Single-Piece Outbound International, has been below-target since FY 2009.²⁴⁵ In FY 2021, the Postal Service revised service performance targets substantially downward for every First-Class Mail product category, yet every product category still failed to achieve its applicable service performance target, in some cases (as with Flats and Single-Piece Outbound International) by a significant margin. Given the long-standing problems the Postal Service has had achieving its service performance targets, and given that every category of First-Class Mail missed its service performance target in FY 2021 even after the targets had been revised substantially downwards, the Commission determines that all First-Class Mail products were out of compliance in FY 2021.

²⁴¹ See FY 2021 International Supplement at 22. Additional detail was provided by the Postal Service under seal. See Library Reference USPS-FY21-NP30, PDF file "NONPUBLIC Preface USPS-FY21-NP30.pdf," at 3-6.

²⁴² See FY 2015 ACD at 136.

²⁴³ See FY 2020 ACD at 161 Table V-16; FY 2019 ACD at 116 Table V-10; FY 2018 ACD at 164 Table V-19 (collecting prior service performance results).

²⁴⁴ See FY 2020 ACD at 161 Table V-16; FY 2019 ACD 116 Table V-10; FY 2018 ACD at 164 Table V-19 (collecting prior service performance results); FY 2012 ACD at 52 Table VI-2; FY 2011 ACD at 69-70; FY 2010 ACD at 60 Table VI-2.

²⁴⁵ See FY 2020 ACD at 161 Table V-16; FY 2019 ACD 116 Table V-10; FY 2018 ACD at 164 Table V-19 (collecting prior service performance results); FY 2012 ACD at 52 Table VI-2; FY 2011 ACD at 69-70; FY 2010 ACD at 60 Table VI-2.

The Commission directs the Postal Service to provide information on the following five 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 should file a motion for clarification in Docket No. ACR2021, if necessary. Where appropriate, the Postal Service shall explain the reasons for any differences in the calculation of data in FY 2022 versus FY 2021 and shall propose a method for comparing the FY 2022 data to the FY 2021 data.

(a) FY 2022 Nationwide Transit and Last Mile Improvement Initiatives

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.

- 1. The transit evaluation shall explain how the progress made in FY 2022 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2022. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*
- 2. The Last Mile evaluation shall explain how the progress made in FY 2022 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2022. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2022. Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally,²⁴⁶ the Commission will allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories

²⁴⁶ See, e.g., 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 22 (Docket No. ACR2018 Response to CHIR No. 1).

of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated evaluation and plan shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(b) FY 2022 Division Improvement Initiatives

Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement initiatives are led by personnel in the Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.

- 1. For each Division, the Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2022. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2022.*
- 2. For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will allow the Postal Service to describe its progress and plans at a class level.²⁴⁷ However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization. The report for each Division shall be filed within 90 days of the

²⁴⁷ See generally FY 2021 Division Report; FY 2021 Division Report - Attachment A.

issuance of this ACD (by June 27, 2022). An updated report from each Division shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) Consistent Data

Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directs the Postal Service to provide the following data, described in items 1 through 5. Data shall be provided for FY 2022 Quarter 1, Quarter 2, and “mid-year”²⁴⁸ within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, “second-half”²⁴⁹ and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022). The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.

1. *The top five root cause point impacts for First-Class Mail, disaggregated by shape/product and service standard, presented for the nation and each Area.²⁵⁰ Present results for Flats at the product level and disaggregated by the single-piece and presorted categories.²⁵¹*
2. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.²⁵²*
3. *The number of CLTs (any HCR that is late by more than 4 hours), presented for the nation, each Area, and each District.²⁵³*
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.²⁵⁴*
5. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2022. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2022, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2021.²⁵⁵*

(d) FY 2022 ISC Improvement Initiatives

To monitor the Postal Service’s initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility

²⁴⁸ Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2022.

²⁴⁹ Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2022. Annualized refers to the aggregation of the data for all four quarters of FY 2022.

²⁵⁰ See, e.g., Library Reference USPS-FY21-29, Excel files “FY21 FCM Q1 Point Impact for Area.xlsx;” “FY21 FCM Q1 Point Impact for Nation.xlsx;” Library Reference USPS-FY21-NP30, Excel file “NONPUBLIC FY21 Q3-Q4 SPFC International.xlsx.”

²⁵¹ See, e.g., Library Reference USPS-FY21-29, Excel files “FY21 FCM Q1 Point Impact for Area.xlsx;” “FY21 FCM Q1 Point Impact for Nation.xlsx.”

²⁵² See, e.g., Library Reference USPS-FY21-NP30, Excel file “NONPUBLIC FCM Q2 - Air Capacity.xlsx.”

²⁵³ See, e.g., Library Reference USPS-FY21-29, Excel file “FY21 FCM Q3 CLT.xlsx.”

²⁵⁴ See, e.g., Library Reference USPS-FY21-29, Excel file “FY21 FCM Q4 24 hr clock.xlsx.”

²⁵⁵ Library Reference USPS-FY21-NP30, Excel file “NONPUBLIC FCM Q5 - Facility Failures.xlsx.”

responsible for processing Outbound Single-Piece International) on the following matters, described in items 1 and 2.

1. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International by describing the facility's progress made toward addressing the identified deficiencies related to each facility's adherence to processing requirements and explaining how the facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2022.*
2. *For each facility, the Postal Service shall provide a detailed plan to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations described in items 1 and 2 above shall include quantitative analysis that identifies the KPI(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece International volume it processed each Quarter and provide corresponding quantification for the same period during FY 2021. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report from each facility shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

With respect to Inbound Letter Post specifically, the Postal Service shall further provide information on the following matters, described in items 3 and 4.

3. *In its FY 2022 ACR, the Postal Service shall provide both SPM and QLMS CY 2021 and CY 2022 reports, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve QLMS service performance. The Postal Service shall state in its FY 2022 ACR whether it forfeited revenue in CY 2021 and CY 2022 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2021 and CY 2022, the Commission directs the Postal Service to provide the forfeited amounts for CY 2021 and for CY 2022 based on all results available to date and explain how this amount is calculated based on service performance results.*
4. *The Postal Service shall file a report within 90 days of issuance of this ACD (by June 27, 2022) that includes the following: QLMS service performance reports for CY 2021 and all available reports for CY 2022; a status update on projects and initiatives to improve QLMS service performance in FY 2021, and their*

effectiveness in improving service performance based on available KPI(s); root cause failures identified through coordination with the UPU and International Post Corporation (IPC) and steps that have been taken to address them; and the amount of Inbound Letter Post forfeited revenue due to not meeting UPU service performance targets in CY 2021 and CY 2022. The Postal Service shall provide an update to this report at the time of the FY 2022 ACR (by December 29, 2022).

(e) National Monthly Service Performance Results

To monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national service performance results, disaggregated by month, for each First-Class Mail product (all service standards and combined).²⁵⁶ These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022),²⁵⁷ August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).²⁵⁸

b. USPS Marketing Mail

(1) FY 2020 Directives

Finding that five USPS Marketing Mail products did not meet their FY 2020 service performance targets (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail), the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance. FY 2020 ACD at 193. The Commission further directed the Postal Service, for any USPS Marketing Mail product failing to achieve its service performance targets in FY 2021, to provide specific data with respect to the top five root cause point impacts for the product, and report on the Postal Service's progress and plans for remedying issues with the product's service performance. *Id.*

(2) FY 2021 Results

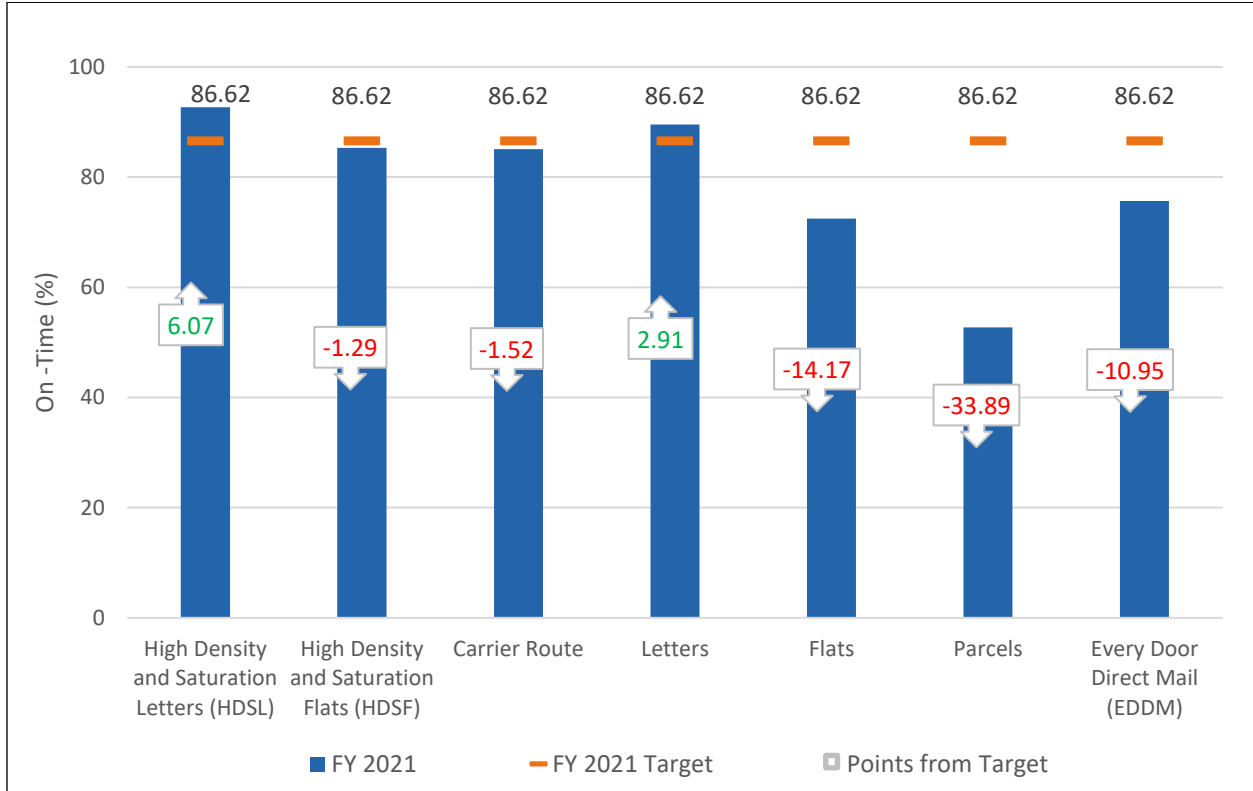
Figure V-19 shows the service performance results compared to the FY 2021 targets for USPS Marketing Mail products for FY 2021.

²⁵⁶ This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements, rather than replaces, the requirements of 39 C.F.R. part 3055.

²⁵⁷ The Commission acknowledges that for Single-Piece Letters/Postcards and Outbound Single-Piece International, monthly results have already been provided for October 2021 through December 2021; thus, only monthly results for January 2022 through March 2022 are due for these two products on May 10, 2022, pursuant to an existing directive. See FY 2020 ACD at 185; Docket No. ACR2020, Responses of the United States Postal Service to Items 1 & 2 of the Ninth Response to the Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination, February 10, 2022 (monthly results for October 2021 through December 2021 for Single-Piece Letters/Postcards and Outbound Single-Piece International). For the remaining First-Class Mail products, monthly results for October 2021 through March 2022 are due May 10, 2022.

²⁵⁸ By the issuance of the next ACD in March 2023, the Commission will evaluate whether or not monthly results will continue to be necessary beyond this schedule.

**Figure V-19
USPS Marketing Mail
Service Performance Results, by Percent, FY 2021**



Source: FY 2021 Service Performance Report at 10; FY 2020 Service Performance Report at 14.

Table V-7 summarizes service performance results compared to the annual targets for Marketing Mail products for FY 2019, FY 2020, and FY 2021.

Table V-7
Marketing Mail
Service Performance Results, by Percent, FY 2019–FY 2021

Product	FY 2019	FY 2019 Target	FY 2020	FY 2020 Target	FY 2021	FY 2021 Target
High Density and Saturation Letters (HDSL)	93.08	91.80	93.22	91.80	92.69	86.62
High Density and Saturation Flats (HDSF)	89.36	91.80	87.53	91.80	85.33	86.62
Carrier Route Letters	89.96	91.80	87.78	91.80	85.10	86.62
Flats	77.58	91.80	75.65	91.80	72.45	86.62
Parcels	97.94	91.80	96.70	91.80	52.73	86.62
Every Door Direct Mail (EDDM)	75.66	91.80	76.99	91.80	75.67	86.62

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

(3) Postal Service Report

The Postal Service describes significant adverse impacts occurring during the first half of FY 2021, primarily due to the COVID-19 pandemic, but also natural disasters and weather events, which negatively affected service performance for USPS Marketing Mail. FY 2021 ACR at 49-50; FY 2021 Service Performance Report at 12. The Postal Service emphasizes that on-time service performance for all USPS Marketing Mail products improved over the course of FY 2021. FY 2021 ACR at 51; FY 2021 Service Performance Report at 12.

As directed in the FY 2020 ACD, for USPS Marketing Mail products that failed to achieve their on-time service performance targets in FY 2021, the Postal Service provided evaluations of its progress at improving service performance in FY 2021 and plans for further remedying issues with respect to those products' service performance in FY 2022. See FY 2021 Service Performance Report at 12-13. The Postal Service also provided data with respect to the top five root cause point impacts for those products.²⁵⁹

The Postal Service reports that, as with First-Class Mail, mitigation and improvement initiatives for USPS Marketing Mail in FY 2021 included increasing network capacity by procuring additional PSAs and package processing machines and hiring additional employees. FY 2021 Service Performance Report at 12-13. The Postal Service states that this freed up space to permit plants to better manage FIFO order for all mail, including USPS Marketing Mail. *Id.* Other improvement initiatives in FY 2021 included:

²⁵⁹ See Library Reference USPS-FY21-29, Excel file "FY21 Marketing Mail Root Cause.xlsx."

- Employing visualization tools to identify root causes and developing mitigation plans. FY 2021 Service Performance Report at 13; Response to CHIR No. 2, question 25.a.
- Deploying personnel to opportunity sites to assist in evaluating and correcting processes. FY 2021 Service Performance Report at 13.
- Conducting on-site walkthroughs stressing FIFO adherence. Response to CHIR No. 2, question 25.a.
- Focusing on cycle time improvements. *Id.*
- Increasing bundle capacity through bin expansion and by adding additional bundle processing machines. *Id.*
- The FSS Compression initiative, which applies to all flat-shaped products, including USPS Marketing Mail. Response to CHIR No. 2, question 25.a; *see supra* at Section V.A.4.a.5.b.
- Encouraging processing plants to advance USPS Marketing Mail volumes by processing them earlier than planned when possible, thereby reducing the risk of USPS Marketing Mail volumes being delayed. Response to CHIR No. 2, question 25.a.; Response to CHIR No. 11, question 11.a.

In response to information requests, the Postal Service reported that it is unable to quantify the impact of any of these initiatives on service performance for USPS Marketing Mail. *See* Response to CHIR No. 2, questions 8.a.-c., 10.b., 26.b.-d., 31.b.-d.; Response to CHIR No. 11, questions 11.b.-c. As part of its plans to improve service performance for USPS Marketing Mail in FY 2022, the Postal Service states that it will continue using the foregoing strategies. FY 2021 Service Performance Report at 13; Response to CHIR No. 2, question 25.b.

(4) Comments and Related Commission Analysis

The Public Representative observes that the Postal Service lowered on-time service performance targets for all USPS Marketing Mail products in FY 2021, but despite this reduction, only three USPS Marketing Mail products achieved their targets. PR Comments at 49. He notes that for USPS Marketing Mail Parcels in particular, the on-time service performance score fell from 96.7 percent on-time in FY 2020 to 52.7 percent on-time in FY 2021. *Id.* He notes that the Postal Service succeeded at improving on-time service performance for all USPS Marketing Mail products over the course of FY 2021, such that by Quarter 4 of FY 2021 many USPS Marketing Mail products were exceeding their revised annual on-time service performance targets. *Id.* at 52. He asserts that the significance of this fact “depends upon the reasonableness of those targets.” *Id.* Nevertheless, he states that he is encouraged by the fact that by Quarter 4 of FY 2021 four USPS Marketing Mail products had achieved on-time service performance that would have met even the annual targets in place prior to FY 2021. *Id.* at 51-52.

MPA observes that on-time service performance for USPS Marketing Mail Flats fell to 72.5 percent on-time, “its lowest level in the last five years[.]” MPA Comments at 2. The Postal Service replies that MPA overlooks the severity of the adverse impacts the Postal Service faced in FY 2021 and the improvements in service performance that occurred during the second half of FY 2021. Postal Service Reply Comments at 18.

The Commission acknowledges that the COVID-19 pandemic exacerbated pre-existing service performance challenges for the Postal Service and has taken that into account in formulating its directives. Accordingly, the Commission has developed directives aimed to elicit information and data regarding the efficacy of the Postal Service’s service performance initiatives and the steps that the Postal Service will take to restore service performance for its USPS Marketing Mail products, which are detailed below in Section V.A.4.b.6., *infra*.

(5) Commission Analysis

USPS Marketing Mail is designed for bulk mailings of items that are not required to be mailed as First-Class Mail or authorized for mailing as Periodicals. *See* MCS Section 1200.1; *see also* DMM §§ 243.1.1, 243.2.1. FY 2021 service performance results for two USPS Marketing Mail products (Letters and High Density and Saturation Letters) exceeded the applicable targets set by the Postal Service. High Density and Saturation Letters scored 6.08 percentage points above the applicable target. FY 2021 Service Performance Report at 10. Letters scored 2.88 percentage points above the applicable FY 2021 target of 86.62 percent, and its performance declined slightly from FY 2020.²⁶⁰ The Commission urges the Postal Service to seek continuous improvement for this product, particularly given that the Postal Service has indicated it plans to raise this product’s target to 91.84 percent for FY 2022. *See* Response to CHIR No. 6, question 15.d.

Table V-8 presents the quarterly service performance results for Marketing Mail products for FY 2020 and FY 2021.

²⁶⁰ Compare *id.* with FY 2020 Service Performance Report at 14.

Table V-8
Marketing Mail
Service Performance Results, by Quarter, by Percent, FY 2020–FY 2021

Product	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021
High Density and Saturation Letters (HDSL)	93.7	88.2	95.0	91.6	94.8	95.6	89.5	96.2
High Density and Saturation Flats (HDSF)	88.0	84.1	89.3	83.4	87.0	86.0	86.2	88.4
Carrier Route	89.9	81.9	93.5	82.0	84.3	89.6	85.7	92.4
Letters	89.5	85.9	92.0	86.9	91.3	92.2	86.7	94.2
Flats	78.4	69.1	81.9	66.9	71.7	76.9	72.1	82.7
Parcels	98.4	51.7	98.5	48.3	95.7	54.1	92.0	58.5
Every Door Direct Mail (EDDM)	75.3	73.6	78.0	75.3	77.6	76.4	74.9	77.3

Note: Red text indicates service performance in the quarter FY 2021 was below service performance of the corresponding quarter in FY 2020. Green text indicates service performance in the quarter in FY 2021 was above service performance of the corresponding quarter in FY 2020.

Source: Library Reference USPS-FY21-29, Excel file "FY21 ACR Marketing Mail.xlsx;" Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx."

Five of the seven USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Carrier Route, Flats, Parcels, and Every Door Direct Mail—Retail) did not achieve their service performance targets. On-time results for every USPS Marketing Mail product declined compared to FY 2020.²⁶¹ All USPS Marketing Mail results were worse during the first half of FY 2021 (Quarters 1 and 2) when compared to the corresponding periods of FY 2020, whereas results for most products improved during the second half of FY 2021 (Quarters 3 and 4) compared to the corresponding periods of FY 2020.²⁶² Specifically, in FY 2021 Quarter 1 and Quarter 2, all seven products posted results lower than the same Quarter in FY 2020.²⁶³ However, that trend reversed in Quarters 3 and 4. In FY 2021 Quarter 3, four products posted results better than the same Quarter in FY 2020; in FY 2021 Quarter 4, six of the seven products posted results better than the same Quarter in FY 2020.²⁶⁴

Parcels performed particularly poorly in FY 2021 when compared to FY 2020. In FY 2020, the on-time service performance results for parcels was 96.7 percent, which exceeded the applicable FY 2020 target of 91.8 percent. FY 2020 Service Performance Report at 14. In FY

²⁶¹ Compare FY 2021 Service Performance Report at 10, with FY 2020 Service Performance Report at 14.

²⁶² Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation."

²⁶³ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation."

²⁶⁴ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Marketing Mail.xlsx," tabs "Aggregation" and "HDSF Aggregation."

2021, on-time service performance results decreased to 52.7 percent, which is substantially below the applicable FY 2021 target of 86.62. FY 2021 Service Performance Report at 10. The Postal Service states that this significant decrease was due to “changes made in the source system in October 2020 [that] caused a flaw in the logic used to generate the service scores for USPS Marketing Mail Parcels[,]” which “caused the measurement system to revert to inaccurate start-the-clock event for destination entered USPS Marketing Mail Parcels.” Response to CHIR No. 2, question 6.a. The Postal Service states that it expects to correct this source system error in FY 2022. *Id.* question 6.b.

The Postal Service submitted point impact data representing the amount (number of percentage points) by which on-time results for this class decreased due to each specific root cause of failure.²⁶⁵ The Commission uses these data to promote transparency and accountability for USPS Marketing Mail service performance and to evaluate the relative significance of the Postal Service’s improvement initiatives. The point impact data provided by the Postal Service for USPS Marketing Mail are differentiated by shape (letter-shaped and flat-shaped mailpieces) and origin- versus destination-entry, rather than product. Library Reference USPS-FY21-29 Preface at 3.

The Commission focuses its analysis on those letter-shaped and flat-shaped USPS Marketing Mail products that were entered at the origin due to the increased likelihood of more processing and greater transit duration compared to destination entered mailpieces.

Figures V-20 and V-21 show the FY 2021 top root causes and corresponding point impacts for letter- and flat-shaped USPS Marketing Mail entered at origin.

²⁶⁵ Library Reference USPS-FY21-29, Excel file “FY21 Marketing Mail Root Cause.xlsx.”

Figure V-20
USPS Marketing Mail Origin-Entered Letter/Cards
FY 2021 National Top 5 Root Causes and Point Impact

	Root Cause	Point Impact		% Change
		FY 2021	FY 2020	
Service Standard 3-5-Day	1 Transit Late Secondary Scan	5.13	6.07	-15.57%
	2 Transit Missing Outgoing Scan	4.13	3.96	4.39%
	3 Unable to Assign	1.18	1.68	-29.82%
	4 Last Mile	1.00	0.95	4.34%
	5 First Mile	0.84	0.85	-0.32%
Service Standard 6-10-Day	1 Transit Missing Outgoing Scan	20.56	20.39	0.81%
	2 Transit Late Secondary Scan	8.45	9.29	-9.06%
	3 Unable to Assign	4.78	5.71	-16.30%
	4 Last Mile	0.85	0.89	-4.12%
	5 First Mile	0.80	0.81	-0.63%
Service Standard 11+ Day	1 Transit Late Secondary Scan	17.79	19.50	-8.80%
	2 Transit Missing Outgoing Scan	7.08	9.54	-25.86%
	3 Unable to Assign	1.94	1.27	52.35%
	4 Last Mile	0.93	0.74	25.19%
	5 First Mile	0.19	0.27	-31.09%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 Marketing Mail Root Cause.xlsx;" Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 Marketing Mail Root Cause.xlsx."

Figure V-21
USPS Marketing Mail Origin-Entered Flats
FY 2021 National Top 5 Root Causes and Point Impact

	Root Cause	Point Impact		% Change
		FY 2021	FY 2020	
Service Standard 3-5-Day	1 Transit Missing Outgoing Scan	8.52	8.41	1.33%
	2 Unable to Assign	5.24	5.49	-4.50%
	3 Last Mile	3.67	3.20	14.68%
	4 Transit Late Secondary Scan	3.54	4.30	-17.72%
	5 First Mile	2.47	2.14	15.57%
Service Standard 6-10-Day	1 Transit Missing Outgoing Scan	25.39	23.83	6.58%
	2 Unable to Assign	13.96	12.83	8.81%
	3 Transit Late Secondary Scan	8.37	8.59	-2.62%
	4 Last Mile	2.45	2.17	12.93%
	5 Destinating Missent	0.93	0.15	506.72%
Service Standard 11+ Day	1 Transit Missing Outgoing Scan	21.50	23.89	-9.99%
	2 Last Mile	5.54	4.05	36.73%
	3 Unable to Assign	3.60	3.17	13.44%
	4 Transit Late Secondary Scan	1.77	1.73	2.54%
	5 Destinating Missent	0.36	0.06	470.35%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 Marketing Mail Root Cause.xlsx;" Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 Marketing Mail Root Cause.xlsx."

The top root causes of failure in FY 2020 continued to persist in FY 2021. Similar to First-Class Mail, the majority of the top five root causes for origin-entered USPS Marketing Mail

are related to transportation and Last Mile. Many transportation-related indicators assigned to origin-entered USPS Marketing Mail appear to be indicative of the same types of difficulties experienced by First-Class Mail flows. Generally, for both letter- and flat-shaped USPS Marketing Mail mailpieces, Last Mile failures were reported to be less problematic than their First-Class analogs. In FY 2021, Destinating Missent entered the top five root causes of failure for origin-entered USPS Marketing Mail flats. This indicator is assigned when the last incoming primary scan at the expected destination facility is on time and the piece receives a scan at an unplanned facility.²⁶⁶ The point impact for the Destinating Missent indicator for 6-10-Day USPS Marketing Mail flats rose from 0.15 in FY 2020 to 0.93 in FY 2021, which amounts to an increase of 506.72 percent. The point impact for the same indicator for 11+ Day flats rose from 0.06 in FY 2020 to 0.36 in FY 2021, which represents an increase of 470.35 percent. While these percentage increases are large in magnitude, the overall point impacts represented by the Destinating Missent indicator are very small when compared to the other top five root causes of failure. The Commission encourages the Postal Service to refine and apply its data leveraging techniques to improve service performance for all USPS Marketing Mail products that did not achieve their targets.

As noted in the analysis pertaining to other classes, the Commission finds the Postal Service's inability to quantify the impact of any of its improvement initiatives for USPS Marketing Mail to be problematic because for an improvement initiative to be successful, it must be possible to determine whether or not the initiative had the desired effect on service performance results. Generally, the Postal Service indicates that it will use KPIs to monitor efficacy of its strategies to achieve its service performance targets for Market Dominant products. *See* Response to CHIR No. 6, question 15.f.i. The Commission therefore finds that additional reporting regarding the KPIs established for specific improvement initiatives is necessary, as described in Section V.A.4.b.6., *infra*.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets in FY 2021 for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, or Parcels. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission recognizes that the COVID-19 pandemic has continued to exacerbate the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.

The Commission is concerned that service performance problems with respect to many of these products have been long-standing and that generally results for many of these products have continued to decline over time. High Density and Saturation Flats/Parcels has been

²⁶⁶ Response to CHIR No. 2, question 23.b., Excel file "ChIR.2.Q.23.RootCause.DefintnHier.xlsx."

below-target since FY 2013.²⁶⁷ Except for FY 2017, Carrier Route has been below-target since FY 2012.²⁶⁸ Flats have been below-target since FY 2012.²⁶⁹ Every Door Direct Mail—Retail has been below target since FY 2015.²⁷⁰ For the first time, the Postal Service reports that Parcels results failed to meet the applicable target in FY 2021, and the Parcels results reported in FY 2021 decreased rapidly from the corresponding results reported in FY 2020. In FY 2021, the Postal Service revised service performance targets substantially downwards for all USPS Marketing Mail products, yet five out of seven products still failed to achieve the applicable service performance target, in some cases (as with Flats, Every Door Direct Mail—Retail, and Parcels) by a significant margin. In light of this, the Commission finds that High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels were each out of compliance in FY 2021.

To monitor the Postal Service’s initiatives to remediate service performance issues with respect to these noncompliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide information concerning the following four matters for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2022).

(a) Consistent Data

First, the Commission directs the Postal Service to provide the top five root cause point impacts for USPS Marketing Mail for each quarter and annually for FY 2022, disaggregated by shape/product and entry level/service standard.²⁷¹ Data shall be provided for FY 2022 Quarter 1, Quarter 2, and “mid-year” within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, “second-half” and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022).

(b) FY 2021 Improvement Initiatives

Second, the Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve service performance for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2022), and to provide specific detailed plans to improve these products’ service performance, as described in items 1 and 2.

²⁶⁷ See FY 2020 ACD at 186 Table V-25; FY 2019 ACD at 122 Table V-11; FY 2018 ACD at 178 Table V-21 (collecting prior service performance results).

²⁶⁸ See FY 2020 ACD at 186 Table V-25; FY 2019 ACD 122 Table V-11; FY 2018 ACD 178 Table V-21 (collecting prior service performance results); FY 2012 ACD at 54 Table VI-6.

²⁶⁹ See FY 2020 ACD at 186 Table V-25; FY 2019 ACD at 122 Table V-11; FY 2018 ACD 178 Table (collecting prior service performance results); FY 2012 ACD 54 Table VI-6.

²⁷⁰ See FY 2020 ACD at 186 Table V-25; FY 2019 ACD at 122 Table V-11; FY 2018 ACD 178 Table V-21 (collecting prior service performance results).

²⁷¹ See, e.g., Library Reference USPS-FY21-29, Excel file “FY21 Marketing Mail Root Cause.xlsx.”

1. *The Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time results for these products by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and ACR2021) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for these products in FY 2022. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2022.*
2. *The Postal Service shall provide a detailed plan to improve on-time results for these products that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to these products, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) National Monthly Service Performance Results

Third, to monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national on-time percent results, disaggregated by month (all service standards and combined), for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels.²⁷² These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).²⁷³

(d) Status Report on Parcels

Fourth, the Postal Service shall provide a report on the status of its initiative to correct the source system error with respect to Parcels identified in Response to CHIR No. 2, question 6. The report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

²⁷² This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements rather than replaces the requirements of 39 C.F.R. part 3055.

²⁷³ By the issuance of next ACD in March 2023, the Commission will evaluate whether or not monthly results will continue to be necessary beyond this schedule.

c. Periodicals

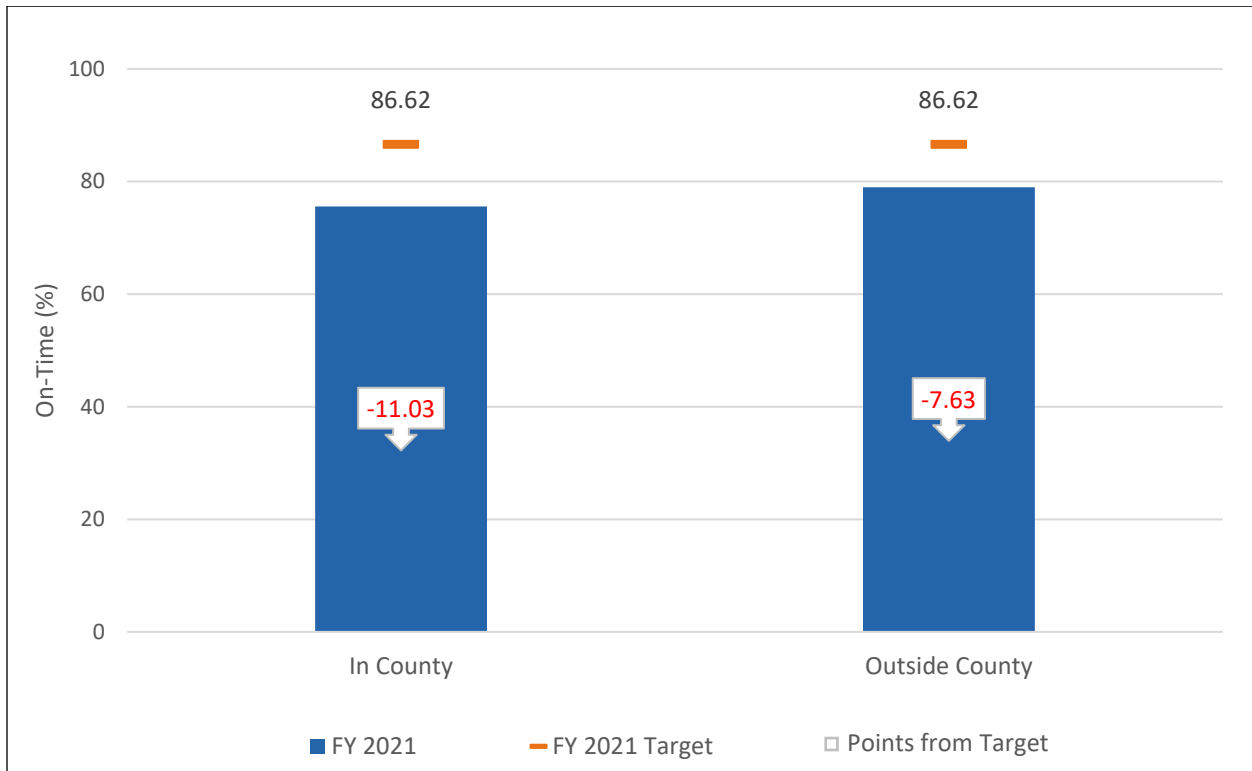
(1) FY 2020 Directives

Finding that the two Periodicals products had not met their service performance targets since FY 2009 and had declined substantially from FY 2019 to FY 2020, the Commission found both In-County Periodicals and Outside County Periodicals to be out of compliance in FY 2020. FY 2020 ACD at 197. The Commission directed the Postal Service to evaluate the efficacy of its FY 2021 initiatives to improve service performance and provide a detailed plan to improve performance. *See id.* The Commission also directed the Postal Service to file national service performance results, disaggregated by month, for Periodicals in FY 2021, and report on the feasibility and status of developing point impact data for Periodicals. *Id.* at 198.

(2) FY 2021 Results

Figure V-22 shows the service performance results compared to the annual targets for both Periodicals products for FY 2021.

Figure V-22
Periodicals
Service Performance Results, by Percent, FY 2021



Source: FY 2021 Service Performance Report at 14; FY 2020 Service Performance Report at 17.

Table V-9 summarizes service performance results compared to the annual targets for both Periodicals products for FY 2019, FY 2020, and FY 2021.

Table V-9
Periodicals
Service Performance Results, by Percent, FY 2019–FY 2021

Product	FY 2019	FY 2019 Target	FY 2020	FY 2020 Target	FY 2021	FY 2021 Target
In-County	85.72	91.80	80.93	91.80	75.59	86.62
Outside County	85.44	91.80	80.69	91.80	75.04	86.62

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

(3) Postal Service Report

The Postal Service describes significant adverse impacts that occurred during the first half of FY 2021, primarily due to the COVID-19 pandemic, but also natural disasters and weather events, which negatively affected service performance for Periodicals. FY 2021 ACR at 49-50; FY 2021 Service Performance Report at 12. The Postal Service emphasizes that on-time service performance for both Periodicals products improved over the course of FY 2021. FY 2021 ACR at 51; FY 2021 Service Performance Report at 16. The Postal Service reports that the COVID-19 pandemic-related reduction in employee availability particularly affected Periodicals because employees had to be diverted from manual operations (which include a significant proportion of Periodicals) to automated and mechanized operations. FY 2021 Service Performance Report at 17. In response to an information request, the Postal Service stated that it is unable to quantify the number of employees diverted from manual to automated operations. Response to CHIR No. 2, question 9.

As directed in the FY 2020 ACD, the Postal Service provided evaluations of the efficacy of its FY 2021 initiatives to improve service performance for both Periodicals products, as well as its plans to further remedy service performance for those products in FY 2022.²⁷⁴ The Postal Service also, as directed, provided monthly service performance results for Periodicals.²⁷⁵ Moreover, the Postal Service provided root cause point impact data for Periodicals in FY 2021.²⁷⁶

The Postal Service reports that, as with First-Class Mail and USPS Marketing Mail, mitigation and improvement initiatives for Periodicals in FY 2021 included increasing network capacity by procuring additional PSAs and package processing machines and hiring additional employees. FY 2021 Service Performance Report at 16. The Postal Service

²⁷⁴ See FY 2021 Service Performance Report at 15-18; Docket No. ACR2020 Third Response at 14-15; PDF file "Question 7a - Periodicals Plans.pdf."

²⁷⁵ See Docket No. ACR2020 First Response, Excel file "PER-SPFC-OSPI Oct19-Mar21;" Docket No. ACR2020 Fifth Response, Excel file "PER-SPFC-OSPI Apr21-Jun21;" Docket No. ACR2020 Eighth Response, Excel file "PER-SPFC-OSPI Jul21-Sep21.xlsx."

²⁷⁶ Library Reference USPS-FY21-29, Excel file "FY21 Periodicals Root Cause.xlsx."

contends that these initiatives freed up space to permit plants to better manage FIFO order for all mail products, including Periodicals. *Id.* Other improvement initiatives in FY 2021 included:

- Removing excess FSS machines to increase the efficiency of the remaining FSS machines. FY 2021 Service Performance Report at 17.
- Implementing the FSS Compression initiative. *Id.*; *see supra* at section V.A.4.a.5.b.
- Placing increased emphasis on “four wall” processing (*i.e.*, processing that begins and ends in one location). FY 2021 Service Performance Report at 18.
- Focusing on cycle time improvements. *Id.*
- Deploying personnel to opportunity sites to assist in evaluating and correcting processes. *Id.*
- Employing visualization and analytical tools to identify root causes and develop mitigation plans. *Id.* at 18-19; Response to CHIR No. 2, question 25.a.
- Increasing bundle capacity through bin expansion and by adding additional bundle processing machines. Response to CHIR No. 2, question 25.a.

In response to information requests, the Postal Service reported that it is unable to quantify the impact that any of these initiatives had on service performance for Periodicals, though the Postal Service states that the initiatives “appear to be working” based on improved on-time service performance scores for Periodicals during the second half of FY 2021. Response to CHIR No. 2, question 10.b.; Response to CHIR No. 2, question 31. The Postal Service reports that it plans to continue employing the foregoing strategies in FY 2022. FY 2021 Service Performance Report at 17-19; Response to CHIR No. 2, question 10.d.

(4) Comments and Related Commission Analysis

The Public Representative notes that in FY 2021, the Postal Service lowered on-time service performance targets for both Periodicals products, but despite this reduction, neither product achieved its target. PR Comments at 54. Furthermore, on-time service performance for both Periodicals products fell significantly compared to their respective FY 2020 levels. *Id.* At the same time, the Public Representative observes that on-time service performance for both Periodicals products improved approximately 20 percent over the course of FY 2021, with scores in the fourth quarter of FY 2021 rising to over 82 percent on-time. *Id.* at 55. While this still fell below either the former or revised targets, the Public Representative nevertheless describes the improvement as encouraging. *Id.*

MPA observes that on-time service performance for Outside County Periodicals fell to 75.0 percent on-time, “its lowest level in the last five years[.]” MPA Comments at 2. MPA states that “[w]hile Periodicals service performance has bounced back slightly...it remains unacceptably low by any standard and not remotely close to the promised 95 percent on-time performance standard found in the [Postal Service’s] [Ten-Year Strategic Plan].” *Id.*

The Postal Service replies that MPA overlooks the severity of the adverse impacts the Postal Service faced in FY 2021 and the improvements in service performance that occurred during the second half of FY 2021. Postal Service Reply Comments at 18.

The Commission acknowledges that the COVID-19 pandemic exacerbated pre-existing service performance challenges for the Postal Service and has taken that into account in formulating its directives. Accordingly, the Commission has developed directives aimed to elicit information and data regarding the efficacy of the Postal Service's service performance initiatives and the steps that the Postal Service will take to restore service performance for Periodicals, which are detailed below in Section V.A.4.c.6., *infra*.

(5) Commission Analysis

Periodicals includes newspapers or other publications that meet applicable criteria for regular issuance, editorial and advertising content, circulation levels, and sortation/preparation requirements. See MCS Section 1300.1. Neither Periodicals product met its applicable 86.62 percent on-time target in FY 2021. FY 2021 results are 11.03 percentage points and 11.58 percentage points below target for In-County Periodicals and Outside County Periodicals, respectively. Overall, on-time performance for Periodicals decreased from FY 2020 to FY 2021. Specifically, FY 2021 results decreased 6.6 percent and 7.0 percent from FY 2020 results for In-County Periodicals and Outside County Periodicals, respectively. Periodicals have remained below their applicable targets since FY 2009.²⁷⁷

Table V-10 presents the quarterly service performance results for both Periodicals products for FY 2020 and FY 2021.

²⁷⁷ Prior to FY 2009, the Postal Service provided service performance data that were limited to certain categories of First-Class Mail and Package Services. See FY 2008 ACD at 41. For FY 2009 through FY 2011, the Postal Service applied a 91.0 percent on-time target to an aggregate Periodicals result. See FY 2011 ACD at 74 (comparing an aggregate result for both Periodicals products to the 91.0 percent target); FY 2010 ACD at 67 (same); FY 2009 ACD at 55 (same). Since FY 2012, the Postal Service has set separate (but equal) targets for each Periodicals product across all service standards. See, e.g., FY 2012 ACD at 57 (comparing FY 2012 result to the 91.0 percent target for each product); FY 2018 ACD at 185 (comparing results for FY 2013 through FY 2017 to the 91.0 percent target for each product and FY 2018 results to the 91.8 percent target for each product); FY 2019 ACD at 128 (comparing FY 2019 result to the 91.8 percent target for each product); FY 2020 Service Performance Report at 17 (comparing FY 2020 result to the 91.8 percent target for each product).

Table V-10
Periodicals
Service Performance Results, by Quarter, by Percent, FY 2020–FY 2021

Product	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021
In-County	84.8	69.8	87.0	71.5	76.9	79.0	74.3	82.7
Outside County	84.5	69.5	86.7	70.9	76.6	78.2	74.1	82.2

Note: **Red** text indicates service performance in the quarter FY 2021 was below service performance of the corresponding quarter in FY 2020. **Green** text indicates service performance in the quarter in FY 2021 was above service performance of the corresponding quarter in FY 2020.

Source: Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx;" Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx."

Both Periodicals products experienced similar trends from FY 2020 to FY 2021. For both products, in the first half of FY 2021 (Quarters 1 and 2) results decreased compared to the results for the same period in FY 2020; however, that trend reversed in the second half of FY 2021 (Quarters 3 and 4), as results mostly increased compared to the results for the same period in FY 2020.²⁷⁸

The improvement in service performance observed in the second half of FY 2021 (Quarters 3 and 4) was not sufficient to offset the double-digit decreases observed in the first half of FY 2021 (Quarters 1 and 2) relative to the corresponding periods in FY 2020.²⁷⁹ Comparing FY 2021 Quarter 2 to the same quarter in FY 2020, In-County Periodicals results decreased by 17.8 percent, and Outside County Periodicals results decreased by 18.3 percent.²⁸⁰ In FY 2021, however, In-County Periodicals results improved by 11.3 percent compared to the same quarter in FY 2020, while Outside County Periodicals improved by 10.9 percent.²⁸¹

Figure V-23 presents top five root causes for the failure of In-County and Outside County periodicals to be delivered on time in FY 2021, along with the corresponding change from FY 2020.

²⁷⁸ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation."

²⁷⁹ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation."

²⁸⁰ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation."

²⁸¹ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Periodicals.xlsx," tab "Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Periodicals.xlsx," tab "Aggregation."

Figure V-23
In-County and Outside County Periodicals
FY 2021 National Top 5 Root Causes and Point Impact

Root Cause	Point Impact		% Change
	FY 2021	FY 2020	
Last Mile	5.80	4.87	19.18%
Transit Missing Outgoing Scan	5.67	4.03	40.59%
Unable to Assign	5.31	3.83	38.56%
First Mile	3.86	2.91	32.53%
Transit Late Secondary Scan	2.42	1.79	34.92%

Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

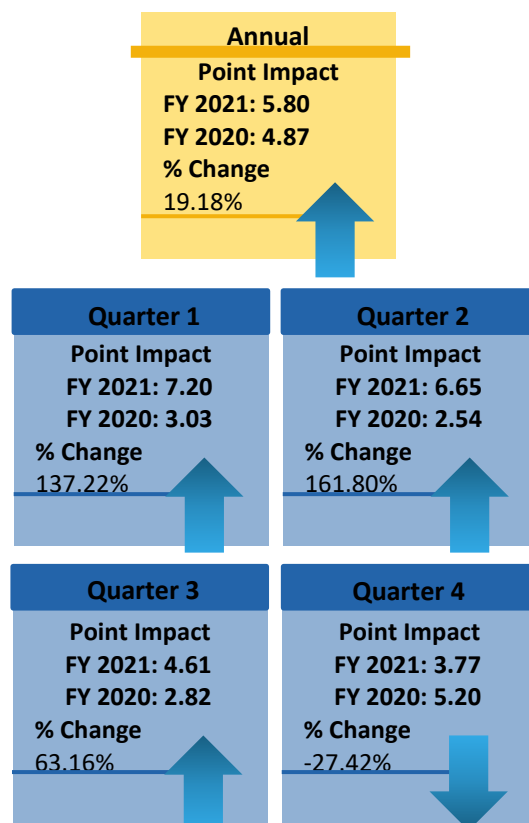
Source: Library Reference USPS-FY21-29, Excel file "FY21 Periodicals Root Cause.xlsx."

Point impacts in FY 2021 related to Last Mile failures increased from the levels observed in FY 2020. Relative to FY 2020, all top five root cause categories increased in point impact in FY 2021. Last Mile failures increased from 4.87 in FY 2020 to 5.80 in FY 2021, which represents an increase of 19.18 percent. The second highest root cause category, Transit Missing Outgoing Scan, increased in point impact from 4.03 in FY 2020 to 5.67 in FY 2021, which amounts to an increase of 40.59 percent.

With respect to transportation and processing-related challenges, the point impact for the top root cause reported for Periodicals in both fiscal years is Transit Missing Outgoing Scan. This root cause is assigned if there is no outgoing scan of any type at an origin facility and the first incoming primary scan at the expected destination facility is late.²⁸² Figure V-24 compares the point impacts reported for this indicator annually and disaggregated by fiscal quarter for FY 2020 and FY 2021.

²⁸² See Response to CHIR No. 2, question 23.b., Excel file "ChIR.2.Q.23.RootCause.DefintnHier.xlsx."

Figure V-24
Periodicals
FY 2021 Point Impact for Transit Missing Outgoing Scan



Note: Point impact refers to the amount (number of percentage points) by which on-time performance decreased due to each specific root cause of failure. Response to CHIR No. 2, question 23.a.

Source: Library Reference USPS-FY21-29, Excel file "FY21 Periodicals Root Cause.xlsx."

The point impact for the Transit Missing Outgoing Scan indicator increased year-over-year from FY 2020 to FY 2021. This year-over-year overall increase was largely driven by significant increases reported for Quarters 1 and 2 of FY 2021 compared to the corresponding periods in FY 2020. Transit Missing Outgoing Scan failures increased from 3.03 in Quarter 1 of FY 2020 to 7.20 in Quarter 1 of FY 2021, which represents an increase of 137.22 percent. The same failure indicator increased from 2.54 in Quarter 2 of FY 2020 to 6.65 in Quarter 2 of FY 2021, which amounts to an increase of 161.80 percent.

In addition to renewing its pre-pandemic strategies, the Postal Service must refine its initiatives to address any ongoing adverse impacts of the COVID-19 pandemic. Because both Periodicals products performed below their targets for many years prior to the pandemic, the Commission suggests that the Postal Service carefully evaluate which of its long-standing initiatives are the most impactful on service performance results.

As noted in the analysis pertaining to other classes, the Commission finds the Postal Service's inability to quantify the impact of any of its improvement initiatives for Periodicals to be problematic because for an improvement initiative to be successful, it must be possible to determine whether or not the initiative had the desired effect on service performance results. Generally, the Postal Service indicates that it will use KPIs to monitor efficacy of its strategies to achieve its service performance targets for Market Dominant products. *See* Response to CHIR No. 6, question 15.f.i. The Commission therefore finds that additional reporting regarding the KPIs established for specific improvement initiatives is necessary, as described in Section V.A.4.c.6., *infra*.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for either Periodicals product in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission is concerned that for these products, for which on-time service performance scores have remained below target since FY 2009, the Postal Service in FY 2021 revised service performance targets substantially downwards, yet both products nevertheless scored substantially below the applicable targets and declined from the levels observed in FY 2020. Therefore, the Commission determines that In-County and Outside County Periodicals remained out of compliance for FY 2021. The Commission recognizes that the COVID-19 pandemic has continued to exacerbate the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.

To monitor the Postal Service's initiatives to remediate service performance issues with respect to these noncompliant products, the Commission directs the Postal Service to provide information concerning the following three matters.

(a) Consistent Data

First, the Commission directs the Postal Service to provide the top five root cause point impacts for Periodicals for each quarter and annually for FY 2022.²⁸³ Data shall be provided for FY 2022 Quarter 1, Quarter 2, and "mid-year" within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, "second-half" and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022).

(b) FY 2021 Improvement Initiatives

Second, the Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve In-County and Outside County Periodicals service performance and to provide specific detailed plans to improve Periodicals service performance, as described in items 1 and 2.

- 1. The Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time results for Periodicals by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and*

²⁸³ See, e.g., Library Reference USPS-FY21-29, Excel file "FY21 Periodicals Root Cause.xlsx."

ACR2021) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2022. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2022.

2. *The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) National Monthly Service Performance Results

Third, to monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national on-time percent results, disaggregated by month, for In-County and Outside County Periodicals.²⁸⁴ These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for January 2022 through March 2022)²⁸⁵, August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).²⁸⁶

d. Package Services

(1) FY 2020 Directives

The Commission found that FY 2020 was the ninth consecutive year that the service performance result for BPM Flats was below its target. FY 2020 ACD at 200. The Commission also found that service performance results for Media Mail/Library Mail fell below target for the third year in a row. *Id.* For these two products, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance, evaluate the efficacy of its FY 2021 initiatives to improve service performance, and provide a detailed plan to improve performance in FY 2022. *Id.* at 203.

²⁸⁴ This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements rather than replaces the requirements of 39 C.F.R. part 3055.

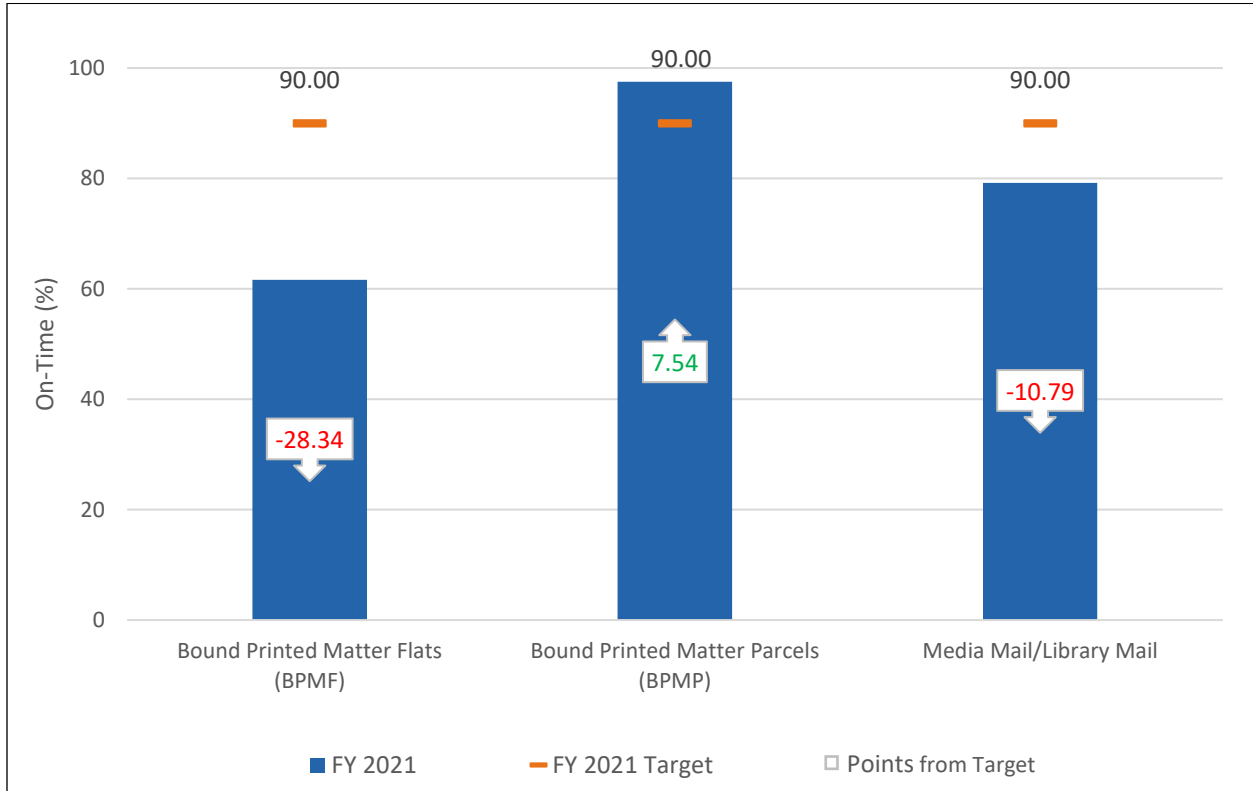
²⁸⁵ This is consistent with the existing directive. See FY 2020 ACD at 198.

²⁸⁶ By the issuance of next ACD in March 2023, the Commission will evaluate whether or not monthly results will continue to be necessary beyond this schedule.

(2) FY 2021 Results

Figure V-25 shows the FY 2021 service performance results compared to the annual target of 90.0 percent on-time for Package Services products.

**Figure V-25
Package Services
Service Performance Results, by Percent, FY 2021**



Note: 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 2021 Service Performance Report at 21; FY 2020 Service Performance Report at 20.

Table V-11 summarizes service performance results compared to the annual targets for Package Services products for FY 2019, FY 2020, and FY 2021.

Table V-11
Package Services
Service Performance Results, by Percent, FY 2019–FY 2021

Product	FY 2019	FY 2019 Target	FY 2020	FY 2020 Target	FY 2021	FY 2021 Target
Bound Printed Matter Flats (BPMF)	55.23	90.00	55.73	90.00	61.66	90.00
Bound Printed Matter Parcels (BPMF)	98.52	90.00	98.46	90.00	97.54	90.00
Media Mail/Library Mail	87.02	90.00	80.89	90.00	79.21	90.00

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

(3) Postal Service Report

The Postal Service reports that while neither BPM Flats nor Media Mail/Library Mail met their service performance targets for FY 2021, BPM Flats scored slightly better than in FY 2020. FY 2021 Service Performance Report at 22. Mitigation and improvement initiatives for these products in FY 2021 included installing additional package sorting machines to increase processing capacity. *See id.* at 23. For BPM Flats, the Postal Service employed the Cycle Time Diagnostics Tool to attempt to reduce cycle time. Response to CHIR No. 2, question 16. The Postal Service also relied on the work of an industry work team which focused on projects involving flats processing. Response to CHIR No. 2, question 15.a.

Improvement plans for BPM Flats in FY 2022 include continuing to use the Cycle Time Diagnostics Tool. FY 2021 Service Performance Report at 23; Response to CHIR No. 2, question 16.d. The Postal Service also plans to rely on its general strategies for improving service performance for flat-shaped products and parcels. *See Chapter VI, infra.* The Postal Service states that the industry work team will continue to meet. Response to CHIR No. 2, question 15.b.-c. For Media Mail/Library Mail, the Postal Service reports that it is considering shifting processing to P&DCs instead of NDCs, which the Postal Service asserts could increase service performance. FY 2021 Service Performance Report at 23; Response to CHIR No. 2, question 14. In response to information requests, the Postal Service reported that it is unable to quantify the impact that any of these initiatives had on service performance for Package Services, though the Postal Service states that decreases in cycle time may be correlated with increases in on-time service performance. Response to CHIR No. 2, questions 16.a.-b., 27.

(4) Comments and Related Commission Analysis

The Public Representative notes that, unlike the First-Class Mail, USPS Marketing Mail, and Periodicals mail classes, on-time service performance targets for Package Services remained unchanged from FY 2020. PR Comments at 56. Only one product—BPM Parcels—met its target. *Id.* The Public Representative observes that BPM Flats' on-time service performance score improved over FY 2020, but still fell short of its target by a wide margin.

Id. Media Mail/Library Mail, by contrast, declined only slightly from its FY 2020 level. *Id.* The Public Representative states that BPM Flats and Media Mail/Library Mail showed improvement over the course of FY 2021. *Id.* at 58.

The Commission acknowledges that the COVID-19 pandemic exacerbated pre-existing service performance challenges for the Postal Service and has taken that into account in formulating its directives. Accordingly, the Commission has developed directives aimed to elicit information and data regarding the efficacy of the Postal Service’s service performance initiatives and the steps that the Postal Service will take to restore service performance for BPM Flats and Media Mail/Library Mail, which are detailed below in Section V.A.4.d.6., *infra*.

(5) Commission Analysis

Package Services are advertised as a cost-effective option, which may receive deferred service, for items that are not required to be mailed as First-Class Mail or Periodicals. *See* MCS Section 1400.1. Service performance results for BPM Parcels exceeded the applicable service performance target in FY 2021. BPM Flats and Media Mail/Library Mail did not meet their service performance targets for FY 2021.

The two products that did not achieve their FY 2021 service performance targets, BPM Flats and Media Mail/Library Mail, experienced service performance challenges prior to the pandemic. FY 2021 is the tenth consecutive year that BPM Flats has been below target, and the fourth consecutive year that Media Mail/Library Mail has been below target.

Table V-12 presents the quarterly service performance results for Package Services products for FY 2020 and FY 2021.

Table V-12
Package Services
Service Performance Results, by Quarter, by Percent, FY 2020–FY 2021

Product	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021
Bound Printed Matter Flats (BPMF)	52.2	57.2	61.7	59.8	57.3	63.9	57.5	69.7
Bound Printed Matter Parcels (BPMP)	98.9	97.3	98.9	96.6	98	97.7	97.9	98.5
Media Mail/Library Mail	87.8	74.7	89.3	73.8	75	84.2	75.3	86.7

Note: Red text indicates service performance in the quarter FY 2021 was below service performance of the corresponding quarter in FY 2020. Green text indicates service performance in the quarter in FY 2021 was above service performance of the corresponding quarter in FY 2020.

Source: Library Reference USPS-FY21-29, Excel file “FY21 ACR Package Services.xlsx;” Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file “FY20 ACR Package Services.xlsx.”

Media Mail/Library Mail experienced a similar trend as the majority of other Market Dominant products. In the first half of FY 2021 (Quarters 1 and 2) results decreased

compared to the results for the same period in FY 2020; however, that trend reversed in the second half of FY 2021 (Quarters 3 and 4), as results mostly increased compared to the results for the same period in FY 2020. Overall, FY 2021 on-time results for Media Mail/Library Mail declined compared to FY 2020 and remain 10.79 percentage points below target.²⁸⁷

Unlike the majority of other Market Dominant products, BPM Flats showed improved results in Quarter 1 when compared to the same period of FY 2020, worse results in Quarter 2, and improved results in Quarter 3 and Quarter 4 when compared to the same period of FY 2020. Overall, FY 2021 on-time results for BPM Flats improved compared to FY 2020 but remain 28.34 percentage points below target.²⁸⁸ Given the history of this product and the extent of the gap between the results and the target, in addition to renewing its pre-pandemic strategies, the Postal Service must refine its initiatives to stabilize this product and address any ongoing adverse impacts of the pandemic.

In response to an information request, the Postal Service produced root cause point impact data for BPM Flats in FY 2020 and FY 2021. Response to CHIR No. 11, question 13. Figure V-26 presents top five root causes for the BPM Flats product to be delivered on time in FY 2021, with the corresponding change from FY 2020.

Figure V-26
Bound Printed Matter Flats
FY 2021 National Top 5 Root Causes and Point Impacts

Root Cause	Point Impact		% Change
	FY 2021	FY 2020	
Unable to Assign	17.53	8.22	113.26%
Transit Late Secondary Scan	7.32	18.43	-60.28%
Last Mile	4.80	3.81	25.98%
First Mile	4.00	6.63	-39.67%
Transit Missing Outgoing Scan	3.73	6.44	-42.08%

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

²⁸⁷ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Package Services.xlsx," tab "Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Package Services.xlsx," tab "Aggregation."

²⁸⁸ Compare Library Reference USPS-FY21-29, Excel file "FY21 ACR Package Services.xlsx," tab "Aggregation," with Docket No. ACR2020, Library Reference USPS-FY20-29, Excel file "FY20 ACR Package Services.xlsx," tab "Aggregation."

It is difficult to draw conclusions from the root cause data for BPM Flats between FY 2020 and FY 2021. The Transit Late Secondary Scan indicator experienced a decrease of 60.28 percent, but the Unable to Assign indicator more than doubled from 8.22 in FY 2020 to 17.53 in FY 2021. The “Unable to Assign” indicator is applied to mailpieces for which there is insufficient information to determine the root cause. FY 2021 Division Report at 5. As a result, it is impossible to determine at what point in processing such failures are occurring. Last Mile failures increased by 25.98 percent between FY 2020 and FY 2021, while the remaining root cause failures—First Mile and Transit Outgoing Scan—decreased by 39.67 percent and 42.08 percent, respectively.

The Commission acknowledges the unique characteristics of BPM Flats, which are offered as a cost-effective option for business mailers,²⁸⁹ and are advertised as potentially receiving deferred service. *See* DMM § 263.3.1. The Postal Service explains that “Bound Printed Matter Flats is a commercial product that is used by businesses to send large catalogs and similar flat-shaped flexible items that are too heavy to be sent using Marketing Mail[,]” but less rigid and thick than BPM Parcels. FY 2021 Service Performance Report at 20 (emphasis omitted).

The Commission has also recognized that the Postal Service faces difficulties in monitoring its service performance improvement initiatives for both BPM Flats that are machine-compatible and those that are not machine-compatible (referred to as “nonmachinable”), and thereby require manual processing. *See* FY 2020 ACD at 201.

With respect to machine-compatible mailpieces in FY 2021, the Postal Service reports that it used the Cycle Time Diagnostics Tool to monitor cycle time. Response to CHIR No. 2, question 16.a. The Postal Service states that “[c]ycle time is a leading indicator that can signal potential processing bottlenecks that may lead to service failures[,]” and thus “[a]n increase in cycle time may be correlated with a decrease [in] on-time percent...” *Id.* Cycle time generally decreased during the second half of FY 2021, which, as the Postal Service demonstrates, coincided with an increase in on-time service performance for BPM Flats. *Id.* question 16.b. The Commission encourages the Postal Service to continue to monitor cycle time for BPM Flats and to identify the best practices to decrease cycle time compared to the same period in the last fiscal year. In FY 2021, the Postal Service advanced processing to day zero²⁹⁰ for 32.64 percent of measured BPM Flats, a significant increase over the 13.48 percent reported as advanced in FY 2020.²⁹¹

²⁸⁹ *See* United States Postal Service, *What is Bound Printed Matter Service?*, September 6, 2019, available at <https://faq.usps.com/s/article/What-is-Bound-Printed-Matter-Service>; *see also* MCS Section 1415.1(c); DMM § 604.5.1.11. This product is not available at the retail counter; instead, business mailers must follow the preparation, deposit, and permit requirements to use this product. *See* United States Postal Service, *What is Bound Printed Matter Service?*; *see also* DMM § 604.5.1.11.

²⁹⁰ Day zero refers to the start-the-clock date. *See* Docket No. ACR2018 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.*

²⁹¹ *Compare* Response to CHIR No. 2, question 13, with Docket No. ACR2020 Response to CHIR No. 1, question 28.

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. 2, question 11; Docket No. ACR2020 Response to CHIR No. 1, question 27. As the Postal Service has previously explained, BPM Flats undergo manual handling due to incompatibility with flat or package sorting equipment and comingling of non-automated and automated BPM Flats.²⁹² The Postal Service explains that this results in a lack of visibility into manually-processed BPM Flats and that “[headquarters] continues to work with the Area coordinators to develop processes that will enable increased visibility for BPM [Flats] when it is manually sorted.”²⁹³ The Commission acknowledges the difficulty in tracking mailpieces that require manual processing. The Commission encourages the Postal Service to focus its tracking on data that would demonstrate which (if any) of the Postal Service’s multi-year initiatives to improve this product’s performance have been successful.

In the absence of adequate data to conduct a quantitative analysis, the Commission continues to encourage the Postal Service to focus its Headquarters In-Plant Support Letter and Flat, Planning and Implementation group on a meaningful qualitative analysis of its multi-year initiatives and identification of best practices. Given that this product serves a limited subset of commercial users, the operational challenges are recurring (albeit exacerbated by the COVID-19 pandemic), and the Postal Service’s proposed remediation strategy has remained substantially similar year-to-year, the Commission continues to encourage the Postal Service to engage in a dialogue with the product’s users regarding expectations and actual performance concerning this unique offering.

With respect to Media Mail/Library Mail, on-time performance results have remained below target and declined year-over-year since FY 2018. The Postal Service has stated that “[t]hough Media Mail/Library Mail is not a separate category in IV reports, it follows the same mail flow as USPS Marketing Mail Flats and can therefore be improved by utilizing similar IV reports....” FY 2020 Service Performance Report at 23. Similarly, the Postal Service has asserted that its initiatives to optimize flat-shaped mail would include Media Mail/Library Mail. *See id.* at 22.

The Postal Service reports that it is considering shifting processing of Media Mail/Library Mail from the NDC network to P&DCs as part of a broader modification of the Postal Service’s logistics and processing network. FY 2021 Service Performance Report at 23; Response to CHIR No. 2, question 14.a. The Postal Service speculates that this shift in processing could yield improvements to on-time service performance results. FY 2021 Service Performance Report at 23. The Postal Service does not provide specifics or a timeframe for implementation of any such changes but asserts that it will develop an implementation plan “once the design of the new network is finalized and approved.” Response to CHIR No. 2, question 14.b.

²⁹² See Docket No. ACR2018, Library Reference USPS-FY18-29, PDF file “FY18-29 Service Performance Report.pdf,” at 20.

²⁹³ United States Postal Service, Response to Independent Validation of USPS Service Performance Measurement Audit Design, FY2020 Quarter 4, November 30, 2020, at 6.

As noted in the analysis pertaining to other classes, the Commission finds the Postal Service's inability to quantify the impact of any of its improvement initiatives for Package Services to be problematic because for an improvement initiative to be successful, it must be possible to determine whether or not the initiative had the desired effect on service performance results. Generally, the Postal Service indicates that it will use KPIs to monitor efficacy of its strategies to achieve its service performance targets for Market Dominant products. See Response to CHIR No. 6, question 15.f.i. The Commission therefore finds that additional reporting regarding the KPIs established for specific improvement initiatives is necessary, as described in Section V.A.4.d.6., *infra*.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for BPM Flats and Media Mail/Library Mail in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.

While the on-time performance result for BPM Flats increased from FY 2020 to FY 2021 by 6.0 percentage points, the Commission remains concerned that this product is substantially below its target. Moreover, FY 2021 marks the tenth consecutive year that BPM Flats has remained below its target. The Commission is also concerned that the FY 2021 on-time performance result for Media Mail/Library Mail remains below target and declined again for the fourth consecutive year. The Commission acknowledges that the Postal Service has repeatedly asserted that both of these products have significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is slower and costlier. Nevertheless, given the history of service performance problems for these products, the Commission finds that both BPM Flats and Media Mail/Library Mail were out of compliance in FY 2021.

To monitor the Postal Service's initiatives to remediate these ongoing issues related to these noncompliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide the information in the FY 2022 ACR for BPM Flats and Media Mail/Library Mail concerning the following three matters.

(a) Consistent Data

First, for BPM Flats, the Commission directs the Postal Service to provide the top five root cause point impacts for each quarter and annually for FY 2022. See, e.g., Response to CHIR No. 11, question 13. Data shall be provided for FY 2022 Quarter 1, Quarter 2, and "mid-year" within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, "second-half" and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022).

(b) FY 2022 Improvement Initiatives

Second, the Postal Service shall evaluate the efficacy of the Postal Service's FY 2022 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and ACR2021) to improve on-time service performance for BPM Flats and Media Mail/Library Mail. The Postal Service shall also provide a detailed plan for how each product's results will be improved, describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion. The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to BPM Flats and Media Mail/Library Mail, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) National Monthly Service Performance Results

Third, to monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national on-time percent results, disaggregated by month, for BPM Flats and Media Mail/Library Mail.²⁹⁴ These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).²⁹⁵

e. Special Services

(1) FY 2020 Directives

Finding that three Special Services products (Post Office Box Service, Stamp Fulfillment Services, and Ancillary Services) failed to meet their service performance targets for FY 2020, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for these products in FY 2021. FY 2020 ACD at 208. The Commission further directed the Postal Service, should Post Office Box Service, Stamp Fulfillment Services, or Ancillary Services fail to meet their applicable service performance targets in FY 2021, to evaluate the efficacy of the Postal Service's FY 2021 improvement initiatives and provide a detailed plan to improve service performance in FY 2022. *Id.*

(2) FY 2021 Results

Table V-13 shows the service performance results compared to the annual target of 90.0 percent on-time for Special Services products for FY 2019, FY 2020, and FY 2021.

²⁹⁴ This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements rather than replaces the requirements of 39 C.F.R. part 3055.

²⁹⁵ By the issuance of next ACD in March 2023, the Commission will evaluate whether or not monthly results will continue to be necessary beyond this schedule.

Table V-13
Special Services
Service Performance Results, by Percent, FY 2019–FY 2021

Special Services	Annual			Target
	% On-Time			
	FY 2019	FY 2020	FY 2021	
Ancillary Services	90.93	89.6	82.9	90
International Ancillary Services	99.77	99.8	99.9	90
Money Orders	99.43	93.1	98.9	90
Post Office™ Box Service	88.28	88.2	87.0	90
Stamp Fulfillment Services	99.66	79.1	91.7	90

Note: **Red** text indicates service performance was below target. **Green** text indicates service performance was above target.

Note: 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 2021 Service Performance Report at 25; FY 2020 Service Performance Report at 25.

(3) Postal Service Report

With respect to Post Office Box Service, the Postal Service reports that in FY 2021 it continued to suffer significant impacts from the COVID-19 pandemic-related employee unavailability, which hindered the Postal Service's ability to complete distribution to Post Office Boxes in a timely manner. FY 2021 Service Performance Report at 27; Response to CHIR No. 2, question 18. With respect to Ancillary Services, the Postal Service reports that service performance in FY 2021 was impacted by increased mail volume and employee unavailability due to the COVID-19 pandemic. FY 2021 Service Performance Report at 28.

As directed in the FY 2020 ACD, the Postal Service provided evaluations of the efficacy of its FY 2021 initiatives to improve service performance for Post Office Box Service and Ancillary Services, as well as its plans to further remedy service performance for those products in FY 2022. FY 2021 Service Performance Report at 27-28.

(4) Comments and Related Commission Analysis

The Public Representative notes that on-time service performance targets for Special Services products in FY 2021 remained unchanged from their FY 2020 levels. PR

Comments at 60. He observes that three Special Services products met their FY 2021 targets—International Ancillary Services, Money Orders, and Stamp Fulfillment Services. *Id.*

The Commission acknowledges that the COVID-19 pandemic exacerbated pre-existing service performance challenges for the Postal Service and has taken that into account in formulating its directives. Accordingly, the Commission has developed directives aimed to elicit information and data regarding the efficacy of the Postal Service's service performance initiatives and the steps that the Postal Service will take to restore service performance for Post Office Box Service and Ancillary Services, which are detailed below in Section V.A.4.e.6., *infra*.

(5) Commission Analysis

Special Services are offerings related to the delivery of mailpieces, including acceptance, collection, sorting, transportation, or other functions. *See* MCS Section 1500.1. Many of these offerings are coupled with underlying mail matter (such as the services within the Ancillary Services and the International Ancillary Services products), whereas others are stand-alone services (such as Post Office Box Service, Money Orders, and Stamp Fulfillment Services). *See id.*

Service performance results for International Ancillary Services, Money Orders, and Stamp Fulfillment Services exceeded the applicable targets for FY 2021. Two products did not achieve their respective FY 2021 targets: Post Office Box Service, and Ancillary Services.

Service performance results for Post Office Box Service have remained slightly below the target since FY 2015. For FY 2021, service performance results for Post Office Box Service were 3.0 percentage points below target and decreased 1.2 percentage points from the level reported in FY 2020. The Postal Service reports that mitigation and improvement initiatives for this product in FY 2021 included relying on technological and visualization tools to monitor performance, performing reviews at opportunity sites, and adjusting the Postal Service's work complement. FY 2021 Service Performance Report at 27-28; Response to CHIR No. 2, question 17. In response to information requests, the Postal Service reported that it is unable to quantify the impact of any of these initiatives on service performance for Post Office Box Service in FY 2021. *See* Response to CHIR No. 2, questions 17, 19, 20. Improvement plans for Post Office Box Service in FY 2022 include further use of computer-based tools and programs, refreshing operating plans, performing reviews at opportunity sites, and training employees. FY 2021 Service Performance Report at 28.

Service performance results for Ancillary Services first fell below target in FY 2020, then dropped more significantly in FY 2021. For FY 2021, service performance results for Ancillary Services were 7.1 percentage points below target and decreased 6.7 percentage points from the level reported in FY 2020. The Postal Service reports that the biggest opportunity for improvement for Ancillary Services in FY 2021 was with respect to the Return Receipt Service Green Card option. FY 2021 Service Performance Report at 28. In

response to an information request, the Postal Service explained that service performance for the Green Card option is measured through internal SPM based on barcode scans by employees. Response to CHIR No. 2, question 22.c. The Postal Service plans to improve service performance for Ancillary Services, including the Green Card option, in FY 2022 by training employees with respect to scanning and monitoring service performance metrics to develop improvement plans and share best practices. FY 2021 Service Performance Report at 28; Response to CHIR No. 2, question 22.d. In response to an information request, the Postal Service reported that it is unable to quantify the expected impact of these measures on service performance for Ancillary Services in FY 2022. Response to CHIR No. 2, question 21.

The Postal Service must refine its initiatives to address any ongoing adverse impacts of the COVID-19 pandemic.

(6) Commission Directives

The Commission finds that the Postal Service did not meet its service performance targets for Post Office Box Service or Ancillary Services in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.

Post Office Box Service results have been below-target since FY 2015. Ancillary Services results have been below-target since FY 2020 but have decreased rapidly. Given the ongoing nature of service performance problems with respect to Special Services, the Commission finds that both Post Office Box Service and Ancillary Services were out of compliance in FY 2021. To monitor the Postal Service's initiatives to remediate these ongoing issues with respect to these noncompliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide the following information in the FY 2022 ACR for Post Office Box Service and Ancillary Services: (1) an evaluation of the efficacy of the Postal Service's FY 2022 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and ACR2021) to improve on-time service performance for each product; and (2) a detailed plan explaining how each product's results will be improved.

The Commission further directs the Postal Service to provide national on-time percent results, disaggregated by month, for Post Office Box Service and Ancillary Services.²⁹⁶ These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February

²⁹⁶ This directive is separate from the requirements that the Postal Service report service performance results on an annual and periodic basis pursuant to 39 C.F.R. part 3055. This directive complements rather than replaces the requirements of 39 C.F.R. part 3055.

9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).²⁹⁷

5. FY 2021 Offshore Special Study

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.²⁹⁸ 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.²⁹⁹ 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. 2021 Study at 1. The purpose of this special study is to “allow evaluation of the unique aspects of providing service to the less populous/more remote areas of these districts, and compare how this service differs from the districts as a whole.” Order No. 465 at 39.

The 2021 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. 2021 Study at 2, 6-7, 25-27. Specifically, the 2021 Study measures performance for 106 remote 3-Digit ZIP Codes and mail class groupings. 2021 Study at 25. Of these 106 groupings, the Gateway city had better service performance results than the remote 3-Digit ZIP Codes in 40 instances (38 percent). *Id.* There were 27 instances where the remote 3-Digit ZIP Codes had better service performance results than the Gateway city (25 percent), and 39 instances where there was no statistically significant difference between the Gateway city and the remote 3-Digit ZIP Code (37 percent). *See id.* Accordingly, the 2021 Study asserts that the remote 3-Digit ZIP Codes performed better or the same as the Gateway city 62 percent of the time, from a statistical perspective. *Id.*

The 2021 Study data, which are presented in Library Reference PRC-LR-ACR2021-11, are a subset of the data already subject to the external auditing performed on the internal SPM systems. Docket No. AR2019 Response to CHIR No. 4, question 26. Unlike past Offshore Special Studies, the 2021 Study relies on a margin of error approach using internal SPM data to identify statistically significant differences. 2021 Study at 7.

²⁹⁷ By the issuance of next ACD in March 2023, the Commission will evaluate whether or not monthly results will continue to be necessary beyond this schedule.

²⁹⁸ Library Reference USPS-FY21-29, PDF file “FY21-29 Offshore Special Study.pdf,” at 1 (2021 Study). In response to an information request, the Postal Service submitted revisions to the 2021 Study. *See* Response to CHIR No. 11, question 6. All citations to the 2021 Study in this Report are to the 2021 Study as revised, which can be found in Library Reference PRC-LR-ACR2021-11.

²⁹⁹ 2021 Study at 2. When referring to non-Gateway ZIP Codes, the 2021 Study uses the terms “remote” and “rural” interchangeably.

B. Customer Access

1. Introduction

The PAEA requires the Postal Service to report in the ACR “measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including...the degree of customer satisfaction with the service provided.”³⁰⁰ 39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to four aspects of customer access: post offices (including closings and emergency suspensions), residential and business delivery points, collection boxes, and wait time in line. The FY 2021 ACR and Library Reference USPS-FY21-33³⁰¹ contain customer access information responsive to the requirements of Title 39 and the Commission’s regulations. The Postal Service provided additional information in responses to CHIRs.³⁰²

The Postal Service also reported the number of retail facilities and delivery points in its *Annual Report to Congress (Annual Report)*.³⁰³ In the FY 2020 ACD, the Commission reiterated the importance of reporting consistent information among the *Annual Report to Congress*, ACR, and CHIR responses. FY 2020 ACD at 209. For the 2021 filings, it directed the Postal Service to obtain data from the same system to ensure that information provided for both retail facilities and delivery points is consistent among the *FY 2021 Annual Report*, FY 2021 ACR, and CHIR responses. *Id.* The Commission stated, “[i]f there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2021 ACR instead of in CHIR responses.” *Id.*

The number of delivery points is consistent between the *FY 2021 Annual Report* and the FY 2021 ACR.³⁰⁴ However, the number of retail facilities listed in the *FY 2021 Annual Report* differ from the FY 2021 ACR, Library Reference USPS-FY21-33, and CHIR responses.³⁰⁵ The Postal Service did not comply with the Commission’s directive to identify and reconcile discrepancies in the FY 2021 ACR. In a CHIR response, the Postal Service explains that it uses different databases to obtain the number of contractor-operated retail facilities, which consist of contract postal units (CPUs), community Post Offices (CPOs), and Village Post Offices (VPOs). Response to CHIR No. 1, question 6. The numbers in the *FY 2021 Annual Report* were obtained using the Postal Service’s Address Management System, which relies

³⁰⁰ 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90.

³⁰¹ FY 2021 ACR at 78-81; Library Reference USPS-FY21-33, December 29, 2021.

³⁰² See Response to CHIR No. 1, questions 1-8; Response to CHIR No. 2, questions 32-33; Response to CHIR No. 5, questions 1-3; Response to CHIR No. 9, questions 6-8; Response to CHIR No. 11, questions 1-4; Responses of the United States Postal Service to Questions 1-3 of Chairman’s Information Request No. 12, February 14, 2022 (Response to CHIR No. 12); Response to CHIR No. 13, questions 1-8; Response of the United States Postal Service to Question 1 of Chairman’s Information Request No. 23, March 3, 2022 (Response to CHIR No. 23).

³⁰³ *FY 2021 Annual Report* at 27. Retail facilities are physical locations where the Postal Service offers products and services such as stamps and PO Boxes. See Section V.B.2., *infra*.

³⁰⁴ Compare *FY 2021 Annual Report* at 27, with Library Reference USPS-FY21-33, Excel file “DeliveryPointsFY2021.xlsx,” tabs “Beginning FY,” and “End FY.”

³⁰⁵ Compare *FY 2021 Annual Report* at 27 with FY 2021 ACR at 78; Library Reference USPS-FY21-33, Excel file “PostOfficesFY2021.xlsx,” tab “Post Offices FY21”; and Response to CHIR No. 1, questions 3-6.

on field staff to identify, classify, and close contractor-operated retail facilities where appropriate. *Id.* By contrast, the numbers in the FY 2021 ACR were obtained using the Contract Post Unit Technology (CPUT) system, which records all contracts for these retail facilities and reflects their opening and closing. *Id.* The Postal Service also notes a small discrepancy between the number of post offices reported in the *FY 2021 Annual Report* (26,362) and the FY 2021 ACR (26,361) due to a spreadsheet line entry error. *Id.*

In Docket No. ACR2020, the Postal Service stated that numbers obtained from the CPUT system are more reliable, and it will use CPUT data in future ACRs. Docket No. ACR2020 Response to CHIR No. 1. In FY 2021, the Postal Service used CPUT data to report the number of contractor-operated retail facilities in the FY 2021 ACR, but not in the *FY 2021 Annual Report*, which was based on data from a different system. Using different systems caused large discrepancies in the number of reported contractor-operated retail facilities. For example, the *FY 2021 Annual Report* lists the number of CPUs at the end of FY 2021 as 2,009, which is 189 more than the number in reported the FY 2021 ACR (1,820). *FY 2021 Annual Report at 27*; FY 2021 ACR at 78.

Tracking contractor-operated retail facility data in one system would promote not only consistency among reports, but efficiency and accuracy as well. When contractor-operated retail facilities open or close, the Postal Service would only need to update one system instead of two, which could save time. It could also focus its efforts on ensuring the data in the system are accurate.

The Commission reiterates the importance of providing consistent information among the Annual Report, ACR, and CHIR responses. In the FY 2022 Annual Report and the FY 2022 ACR, the Postal Service must report the number of retail facilities using data from the same system to ensure that information is accurate and consistent. If there are any discrepancies in the number of retail facilities or delivery points, the Postal Service must identify and reconcile them in the FY 2022 ACR instead of in CHIR responses.

2. Retail Facilities

The Postal Service offers products and services such as stamps and Post Office Boxes (PO Box) at retail facilities, which are operated either by the Postal Service (Postal Service-operated retail facilities) or third party contractors (contractor-operated retail facilities). See 39 C.F.R. § 241.3(a)(2)(i), (ii). Postal Service-operated retail facilities consist of post offices, classified stations and branches, and carrier annexes. Classified stations and branches are managed by a post office located in a city that provides complete postal services to a geographic area and is generally where the Postmaster is located.³⁰⁶ A classified station is located within the corporate limits or city carrier delivery area of the

³⁰⁶ "Main Post Office," Postal Service *Glossary of Postal Terms*.

city or town where a post office is located.³⁰⁷ In general, the name of the classified station does not contain the city name used in delivery addresses. *Id.* By contrast, a classified branch is located outside the corporate limits or city carrier delivery area of the city or town where a post office is located.³⁰⁸ In general, the name of the classified branch contains the city name used in delivery addresses. *Id.* A carrier annex is a facility that in general provides only carrier operations.³⁰⁹

Contractor-operated retail facilities consist of CPUs, CPOs, and VPOs. CPUs are located at supplier-owned or supplier-leased facilities that provide postal services to the public at Postal Service prices. Docket No. ACR2020 Response to CHIR No. 1, question 4. CPOs are CPUs that provide postal services in small communities, generally in areas where post offices have been discontinued, and usually bear their community's name and ZIP Code. *Id.* VPOs are similar to CPUs and CPOs, but offer limited services such as Forever Stamps and Priority Mail Flat Rate packages. *Id.* Although VPOs may contain PO Boxes, the Postal Service is required to provide carrier service to PO Box holders. *Id.*

For each fiscal year, the Postal Service must provide information on the number of retail facilities at the beginning and end of the fiscal year, as well as the number of retail facility closings during the fiscal year. 39 C.F.R. § 3055.91(a)(1)-(3). This information must be disaggregated by type of retail facility and provided at the national and area levels. 39 C.F.R. § 3055.91(a). The Postal Service provided this information for FY 2021 in the *FY 2021 Annual Report*, FY 2021 ACR, Library Reference USPS-FY21-33, and CHIR responses.³¹⁰ This information is included in Table V-14.

³⁰⁷ *Id.* "Post Office station;" "Classified Station," United States Postal Service, *Postal Service-Operated Retail Facilities Discontinuance Guide*, Handbook PO-101, October 2012, Appendix A at 53 (Handbook PO-101).

³⁰⁸ "Post Office branch," Postal Service *Glossary of Postal Terms*; "Classified Branch," Handbook PO-101, Appendix A at 53.

³⁰⁹ "Carrier annex," Postal Service *Glossary of Postal Terms*.

³¹⁰ *FY 2021 Annual Report* at 27; FY 2021 ACR at 78; Library Reference USPS-FY21-33, Excel file "PostOfficesFY2021.xlsx," tab "Post Offices;" Response to CHIR No. 1, questions 3-6.

Table V-14
Number of Retail Facilities, FY 2019–FY 2021

Facility Type	FY 2019	FY 2020	FY 2021	FY 2021 Change from FY 2020	FY 2021 Change from FY 2019
Post Offices	26,362	26,361 ^a	26,361	0	-1
Classified Stations & Branches and Carrier Annexes	4,960	4,968	4,885	-83	-75
Total Postal-Managed	31,322	31,329	31,246	-83	-76
Contract Postal Units	2,022	1,914	1,820	-94	-202
Village Post Offices ^b	542	441	411	-30	-131
Community Post Offices	456	441	419	-22	-37
Total Non-Postal-Managed	3,020	2,796	2,650	-146	-370
Total Retail Facilities	34,342	34,125	33,896	-229	-446

^aThe Postal Service identified a “phantom office” in their FY 2020 count of post offices, resulting in an updated count of 26,361 post offices for FY 2020 instead of 26,362.

^bThese numbers were obtained from Response to CHIR No. 13, question 5.

Source: Response to CHIR No. 1, question 6. As previously discussed, the number of retail facilities differs among the Postal Service’s data systems. The numbers in this Table reflect the best available data.

The total number of retail facilities in FY 2021 was 33,896, which was 229 less than FY 2020. Between FY 2020 and FY 2021, the number of contractor-operated retail facilities declined for each facility type (CPU, VPO, and CPO). The largest decrease between FY 2020 and FY 2021 was in the number of CPUs, which decreased by 94.

The Public Representative expresses concern about the decline in the number of contractor-operated retail facilities. PR Comments at 63. He comments that the continued decline will likely have a disproportionate effect on rural or remote areas, which are more difficult to serve because residents in these areas have to spend more time traveling to access retail facilities during the COVID-19 pandemic. *Id.* at 65. He maintains that access to contractor-operated retail facilities provides an important service to customers, especially in rural areas. *Id.* He observes that the Postal Service has not provided a plan to increase the number of contractor-operated retail facilities and instead points to the availability of alternative access channels. *Id.* He recommends that the Commission ask the Postal Service to explain current policies and plans for maintaining contractor-operated retail facilities for underserved communities. *Id.*

In its reply comments, the Postal Service responds that closures of contractor-operated retail facilities do not “conform to tidy geographical patterns.” Postal Service Reply Comments at 22. It asserts that the Public Representative does not provide any evidence supporting the assumption that declines in contractor-operated retail facilities disproportionately affected rural customers. *Id.* In a CHIR response, the Postal Service explains that to maintain access to postal services in rural and/or remote areas during the pandemic, it tracks affected sites daily to monitor temporary closures and re-openings of retail facilities. Response to CHIR No. 13, question 1.a. It provided suppliers of contractor-

operated retail facilities with a letter clarifying their status as essential federal government suppliers to ensure they remained open during the COVID-19 pandemic. *Id.* The Postal Service states it evaluates service needs of each community by reviewing factors such as volume data, PO Box availability, workhours, retail transactions, delivery growth, customer satisfaction ratings, and verbatim comments to Point of Sale surveys. *Id.* It then compares this data to the same period last year to determine customer facing needs. *Id.* question 1.b.

In FY 2021, the Postal Service did not close any post offices. Although the number of retail facilities decreased by 229, the Postal Service continues to provide customer access to postal products and services through alternative access channels in addition to providing products and services over-the-counter at retail facilities. *See* Section V.B.7., *infra*. The decline in retail facilities is mitigated by the availability of products and services through alternative access channels, which have become increasingly important during the COVID-19 pandemic with fewer people conducting transactions in person. The Commission will continue to monitor the number of retail facilities in the FY 2022 ACD to ensure customers have continued access to postal services.

3. Post Office Suspensions

For each fiscal year, the Postal Service must provide information on the number of suspended post offices³¹¹ at the beginning and end of the fiscal year, as well as the number of post offices suspended during the fiscal year. 39 C.F.R. § 3055.91(a)(4)-(6). Section V.B.3.a. discusses post office suspension activity during FY 2021. Section V.B.3.b. discusses the status of the post offices suspended at the end of FY 2016, an issue the Commission has been concerned about and required quarterly reporting on for the last several fiscal years.³¹²

a. Post Office Suspension Activity during FY 2021

The Postal Service filed data on the number of suspended post offices in Library Reference USPS-FY21-33,³¹³ which the Postal Service updated in a CHIR response.³¹⁴ This library reference also includes data on post offices reopened and closed during FY 2021. Table V-15 shows post office suspension activity during FY 2021 by facility type. It lists the number of suspended post offices at the beginning and end of FY 2021, as well as the number of post offices suspended, reopened, and closed during FY 2021. The number of suspended post offices at the end of FY 2021 is calculated by adding the number of post offices suspended during the fiscal year to the number of suspended post offices at the beginning

³¹¹ A post office is suspended when the Postal Service stops operations at a post office because an emergency or other condition requires such action. "Emergency Suspension," Handbook PO-101, Appendix A at 54. Circumstances that may justify suspending a post office include natural disasters, termination of a lease or rental agreement when suitable alternate quarters are not available, lack of qualified personnel to operate the retail facility, irreparable or severe damage to the retail facility, challenge to the sanctity of the mail, and lack of adequate measures to safeguard the retail facility or its revenues. Handbook PO-101 at 39.

³¹² *See* Docket No. PI2022-1, Notice and Order Providing an Opportunity to Comment on the Postal Service's Process for Resolving Suspended Post Offices, February 3, 2022, at 2, 21 (Order No. 6101).

³¹³ Library Reference USPS-FY21-33, Excel file "PostOfficesFY2021.xlsx," tab "Suspension Summary."

³¹⁴ Response to CHIR No. 11, question 2.f., folder "Docket No. ACR2021," folder "CHIR 11 Response Attachments," Excel file "ChIR No. 11 Q 2.f.xlsx."

of the fiscal year, and then subtracting the number of post offices reopened and closed during the fiscal year. Table V-15 shows that the total number of suspended post offices increased by 6 in FY 2021. At the end of FY 2021, there were a total of 425 suspended post offices.

Table V-15
Post Office Suspension Activity during FY 2021

	Under Suspension at the Start of FY 2021	Suspended During FY 2021	Offices Suspended Prior FYs and Reopened During FY 2021	Offices Suspended During FY 2021 and Reopened During FY 2021	Closed During FY 2021	Under Suspension at the End of FY 2021
Post Offices	330	93	40	50	0	333
Stations/Branches	88	17	10	4	0	91
Carrier Annexes	1	0	0	0	0	1
Total	419	110	50	54	0	425

Source: Response to CHIR No. 11, question 2.f., folder "Docket No. ACR2021," folder "CHIR 11 Response Attachments," Excel file "ChIR No. 11 Q 2.f.xlsx" tab "Suspension Summary."

Note: The post office suspension numbers in this Table and section do not match Library Reference 33 and past CHIR responses because the Postal Service continually updates these numbers in subsequent filings. See Docket No. ACR2020, Ninth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2020 Annual Compliance Determination, February 9, 2022 (Docket No. ACR2020 Ninth Response). The numbers in this Table reflect the most up-to-date numbers reported by the Postal Service.

b. Status of Post Offices Suspended at the end of FY 2016

(1) Background

For the past few years, the Commission has monitored the Postal Service's progress in resolving suspended post offices, primarily via its ACR review. *See, e.g.*, FY 2020 ACD at 212-22. In the FY 2015 ACD, the Commission expressed concerns about the large number of unresolved suspended post offices, which had nearly tripled since FY 2012. FY 2015 ACD at 150. In the FY 2016 ACD, the Commission directed the Postal Service to begin filing quarterly reports on the status of the post offices suspended at the end of FY 2016. FY 2016 ACD at 151. Beginning in FY 2017, the Postal Service has filed quarterly reports on the status of these suspended post offices and included year-end information in the ACR. These reports did not include the status of post offices suspended after FY 2016.

Quarterly reports from FY 2017 through FY 2020 are described in detail in the FY 2020 ACD and Order No. 6101.³¹⁵ FY 2020 presented unique challenges, including the COVID-19 pandemic and Postal Service organizational restructuring, which further impeded the Postal Service's progress in resolving suspended post offices.³¹⁶ On August 24, 2020, the Postal Service made a business decision to pause all customer-facing activities for the remaining suspended post offices. FY 2021 ACR at 80. Consequently, the Postal Service

³¹⁵ See FY 2020 ACD at 213-22; Order No. 6101 at 21-26. The post office suspension numbers in this section do not match the FY 2020 ACD and Order No. 6101 because the Postal Service continually updates these numbers in subsequent filings. See Docket No. ACR2020 Ninth Response. The numbers in this section reflect the most up-to-date numbers reported by the Postal Service.

³¹⁶ FY 2020 ACD at 221. The FY 2020 ACD describes these challenges in detail, as well as their impact on the Postal Service.

stated it was unable to take further action to resolve suspended post offices until management approves resuming customer-facing activities. Docket No. ACR2020 Response to CHIR No. 3, question 9.a.

In the FY 2020 ACD, the Commission acknowledged the unique challenges that affected the Postal Service's progress in resolving the remaining suspended post offices. FY 2020 ACD at 221. However, the Commission reiterated its concern about the backlog of suspended post offices and the Postal Service's lack of progress in resolving them despite enhanced reporting requirements. *Id.* It directed the Postal Service to continue filing detailed quarterly reports on the status of the suspended post offices remaining from FY 2016. *Id.* at 222.

Based on the Postal Service's apparent lack of commitment to addressing and resolving suspended post offices in recent years, the Commission announced its intent to initiate a public inquiry docket "to identify and address issues impeding the Postal Service's progress in resolving suspended post offices." *Id.* at 221. In Docket No. PI2022-1, the Commission established a proceeding to identify and address issues impeding the Postal Service's progress in resolving suspended post offices in a timely manner. Order No. 6101 at 3. The Commission sought public input regarding suggested procedures or courses of action for how the Postal Service may expeditiously resolve suspended post offices. *Id.*

(2) FY 2021 Post Office Suspension Activity

In FY 2021, the Postal Service maintained its pause on customer-facing activities given its ongoing deliberations concerning retail operations following the issuance of its 10-Year Strategic Plan. FY 2021 ACR at 80. It continued to file quarterly reports on the status of the remaining post offices suspended at the end of FY 2016.³¹⁷ Five CHIRs were issued to clarify these reports, and the Postal Service filed responses to each one.³¹⁸ The Postal Service filed the FY 2022, Quarter 1 report on February 9, 2022. *See* Docket No. ACR2020 Ninth Response.

The Postal Service reports that it reopened two suspended post offices during FY 2021, resulting in 207 suspended post offices remaining from FY 2016. *See id.* In the FY 2021 ACR, it explains that "[t]he COVID-19 pandemic, along with self-adopted policies placing a pause on facility changes, disrupted the processes that had been implemented to achieve final resolution of the remaining suspended Post Offices." FY 2021 ACR at 80. It notes that the organizational restructuring and pause on customer-facing activities contributed to the disruption in the process for resolving the remaining suspended post offices. *Id.* It states that after issuing its 10-Year Strategic Plan, it began to address all aspects of its retail

³¹⁷ Docket No. ACR2020 First Response, question 3; Docket No. ACR2020 Fifth Response, question 3; Docket No. ACR2020 Eighth Response, question 3.

³¹⁸ *See* Docket No. ACR2020, Response of the United States Postal Service to Questions 1 of Chairman's Information Request No. 28, June 11, 2021; Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 30, August 31, 2021; Docket No. ACR2020, Responses of the United States Postal Service to Question 1-4 of Chairman's Information Request No. 31, September 22, 2021; Docket No. ACR2020, Response of the United States Postal Service to Question 5 of Chairman's Information Request No. 31, October 21, 2021; Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 32, November 9, 2021 (Docket No. ACR2020 Response to CHIR No. 32).

operations, including the process for resolving suspended post offices. *Id.* It explains that this assessment is ongoing, along with the continuing pause on customer-facing activities, which precluded further steps toward resolving the remaining suspended post offices, aside from the two reopened in FY 2021. *Id.*

As an intermediary measure, the Postal Service states it closely examined the remaining suspended post offices to “[identify] those suspensions that can be resolved outside the PO-101 discontinuance process and independently of the customer-facing activities on which that process relies.” *Id.* at 81. Three CHIRs were issued to clarify post office suspension numbers reported in the FY 2021 ACR and Library Reference 33.³¹⁹

(3) Comments

The Public Representative observes that the Postal Service’s efforts to resolve suspended post offices have been limited to suspensions remaining from FY 2016. PR Comments at 67-68. He states that he is pleased the Postal Service paused the suspension resolution process until 2021 and held post office closings in abeyance in areas affected by the COVID-19 pandemic. *Id.* at 68. However, he expresses concern that pausing the suspension resolution process was not accompanied by reopening post offices during the COVID-19 pandemic. *Id.* He maintains that the COVID-19 pandemic has likely increased the need for more extensive and rapid access to customer-facing post offices and recommends that the Postal Service quickly develop new criteria to evaluate the COVID-19 pandemic’s impact on customer access. *Id.* He suggests that once these criteria are developed, the Postal Service should then restart the suspension resolution process using these new criteria as soon as possible. *Id.*

The Public Representative notes that restarting the process of resolving suspended post offices is within the Postal Service’s control because the Postal Service may decide when to resume customer-facing activities. *Id.* at 69. He recommends that the Commission require the Postal Service to report how the COVID-19 pandemic impacted the need for retail access to post offices in areas served by suspended post offices. *Id.* at 70. He states that this report should examine several issues, including the criteria the Postal Service previously used to determine whether to open, close, or retain suspension status for currently suspended post offices, as well as the new criteria the Postal Service will apply to suspended post offices while the COVID-19 pandemic continues to affect areas served by these post offices. *Id.* He also suggests that the Postal Service explain how it determined the new criteria and that the Commission ask the Postal Service to discuss other issues associated with the universal service obligation. *Id.*

In its reply comments, the Postal Service reiterates the explanation provided in the FY 2021 ACR for the disruption in the process for resolving the remaining suspended post offices. Postal Service Reply Comments at 22-23. It notes that main factors contributing to the delay were the organizational restructuring, pause on customer-facing activities, and

³¹⁹ CHIR No. 2, question 33; CHIR No. 5, question 3; CHIR No. 11, questions 1-4.

the Postal Service's assessment of its retail operations in light of the 10-Year Strategic Plan. *Id.*

(4) Commission Analysis

Of the post offices suspended at the end of FY 2016, the Postal Service reports that 207 remained suspended at the end of FY 2021. *See* Docket No. ACR2020 Ninth Response. The number of suspended post offices at the end of FY 2021, as reported by the Postal Service, is shown in Figure V-27:

Figure V-27
Remaining Suspended Post Offices
At the End of FY 2021



^a Docket No. ACR2020 Ninth Response.

^b *See* Response to CHIR No. 11, question 1. This number was calculated as the number of suspensions the Postal Service reported at the end of FY 2021 (425) minus the 207 suspensions remaining from FY 2016. The net number of post offices suspended between FY 2017 and FY 2021 is 218. It does not include post offices that were suspended and subsequently reopened or closed during this time period.

^c Response to CHIR No. 11, question 1.

Note: The numbers in Figure V-27 reflect the most up-to-date numbers provided by the Postal Service.

In FY 2021, aside from reopening two post offices, the Postal Service did not take further action to resolve the remaining suspended post offices. The Public Representative raises valid concerns about how the COVID-19 pandemic is impacting areas served by suspended post offices, as well as the criteria the Postal Service should apply to current suspensions when determining whether to reopen, close, or retain suspension status. Docket No. PI2022-1 provides interested persons the opportunity to explore these concerns and similar issues, as well as suggest procedures or courses of action for how the Postal Service may expeditiously resolve suspended post offices. Interested persons are encouraged to participate in that docket.

The Commission is concerned about the accuracy of post office suspension information reported by the Postal Service. There are discrepancies in the number of suspensions reported in the FY 2021 ACR, Library Reference 33, and CHIR responses. For example, the FY 2021 ACR states that there were 662 suspensions at the end of FY 2016 and 206

suspensions at the end of FY 2021. FY 2021 ACR at 79-80. However, the Postal Service revised these numbers in the Docket No. ACR2020 Ninth Response to 663 and 207, respectively. Docket No. ACR2020 Ninth Response at 2-3, 4.

Also, there were numerous errors in the Docket No. ACR2020 Fifth Response regarding the steps completed and next steps reported for each suspended post office. *See* Docket No. ACR2020 Response to CHIR No. 32; Docket No. ACR2020 Fifth Response. The Postal Service explained that after the FY 2021 Quarter 3 report was filed, a new team was assigned to monitor the status of the remaining suspended post offices. Docket No. ACR2020 Response to CHIR No. 32, question 2. It stated that the team reinvestigated the background of each suspended post office to review information already submitted and correct errors when necessary. *Id.* It noted “[i]n order to ensure accuracy of reporting, the Postal Service consistently updates the database encompassing the originally identified set of Post Offices.” Docket No. ACR2020 Ninth Response at 2. The Postal Service stated the Docket No. ACR2020 Ninth Response corrected discrepancies identified in past quarterly reports and “represent[s] the most accurate data currently available.” *Id.*

Reporting accurate information is essential for the Commission’s review of suspensions in the ACD and other proceedings. Docket No. PI2022-1 in particular is closely examining the remaining suspensions from FY 2016, as well as suspensions between FY 2017 and FY 2021. The Commission and the public require accurate information to properly evaluate the suspensions and provide related data analyses. Future quarterly reports must contain the most accurate available information. If there are discrepancies or changes from a previous quarterly report or related CHIR response, the Postal Service must identify and reconcile them in the quarterly report.

The Commission directs the Postal Service to continue filing quarterly reports on the status of the suspensions remaining from FY 2016. The Postal Service must file this information within 40 days after the end of each quarter in FY 2022 and in FY 2023 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing, at a minimum, the same columns and information provided in the spreadsheet filed in Docket No. ACR2020 on November 9, 2021.³²⁰

Each quarterly report must provide the most accurate data currently available and correct any discrepancies from the prior quarterly report. The Postal Service must identify and reconcile any discrepancies or differences in the body of the report and the accompanying Excel spreadsheet.³²¹ Also, the FY 2022 ACR must include a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended from FY 2017 through FY 2022.

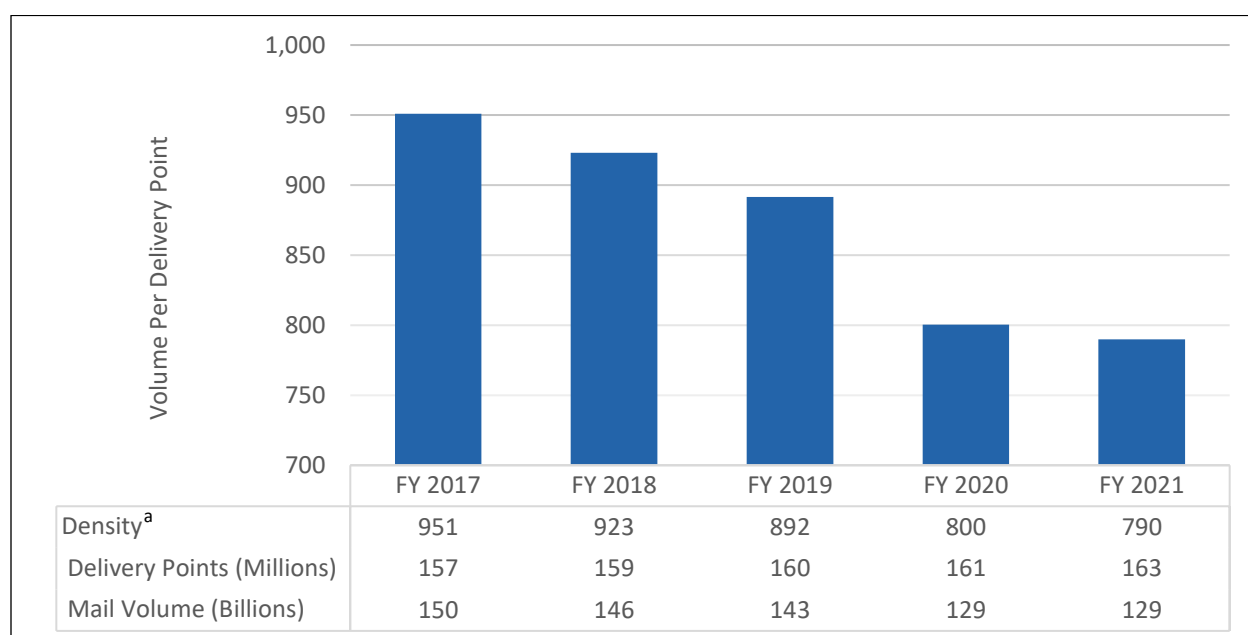
³²⁰ See Docket No. ACR2020 Response CHIR No. 32, Excel file “list of offices for chir no. 32.xlsx.”

³²¹ For example, the spreadsheet could highlight cells that differ from the prior report or describe any corrections in the Excel spreadsheet.

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 2021 in Library Reference USPS-FY21-33 and in the *FY 2021 Annual Report*.³²² The total number of delivery points in FY 2021 was 163,139,167, an increase of 1,765,015 from FY 2020. *FY 2021 Annual Report* at 27. Figure V-28 shows the volume per delivery point between FY 2017 and FY 2021.

Figure V-28
Volume per Delivery Point, FY 2017–FY 2021



^a Density is the Market Dominant and Competitive volumes divided by the number of delivery points.

Source: FY 2020 ACD at 223; Commission Calculation Based on *FY 2021 Annual Report* at 25, 27.

The Commission has been tracking delivery point data since the enactment of the PAEA, when volume per delivery point was at its highest level of 1,458 mailpieces per delivery point in FY 2006. Volume per delivery point was 790 in FY 2021, a 46 percent decrease since FY 2006.

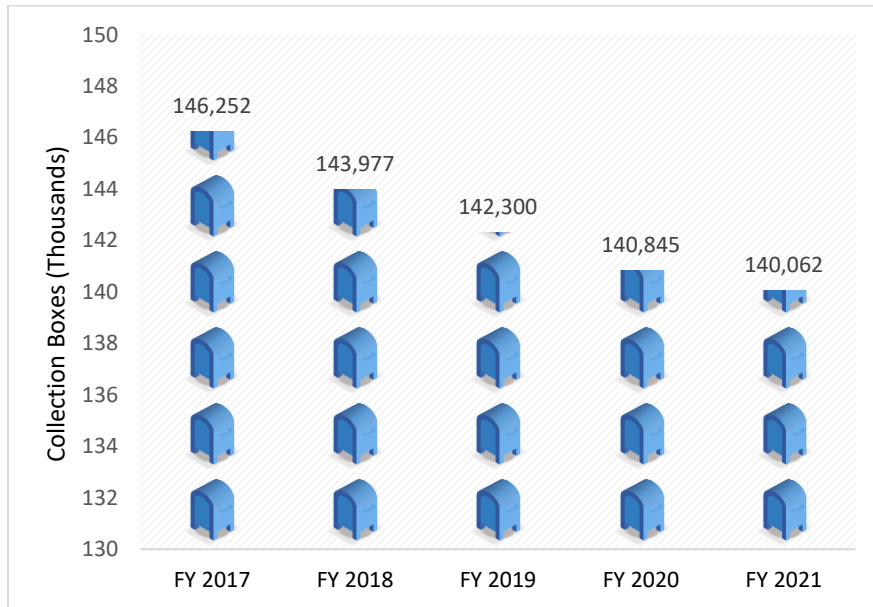
5. Collection Boxes

A collection box is a metal container dedicated to collecting mail deposited by customers. 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

³²² Library Reference USPS-FY21-33, Excel file "Delivery Points FY2021.xlsx;" *FY 2021 Annual Report* at 27.

collection boxes added and removed during the fiscal year. 39 C.F.R. § 3055.91(c). The Postal Service filed this data for FY 2021 in Library Reference USPS-FY21-33.³²³ Nationally, there were 140,062 collection boxes at the end of FY 2021, 783 fewer than in FY 2020. *Id.* cells C9 and G12. Figure V-29 shows historical data on the number of collection boxes between FY 2017 and FY 2021.

Figure V-29
Number of Collection Boxes
FY 2017–FY 2021



Source: Library Reference USPS-FY21-33, Excel file "CollectionBoxesFY2021.xlsx."

In a CHIR response, the Postal Service confirms that in FY 2021 it continued to follow procedures specified in the Postal Operations Manual (POM) for conducting an annual density test of collection boxes to determine which ones to remove. Response to CHIR No. 5, question 1. The POM states that mail from collection boxes located in primarily residential areas is generally collected when mail is delivered.³²⁴ To justify its location, a collection box must have a 25 piece daily average, which is calculated using a density testing process prescribed by the POM. POM § 311.a.; Response to CHIR No. 5, question 1.a. The process for conducting a density test involves using an actual count for letters or recording a linear measurement of letters contained in the collection box; converting the linear measurement to pieces at 227 pieces per foot (or current conversion figure); and

³²³ Library Reference USPS-FY21-33, Excel file "CollectionBoxesFY2021.xlsx."

³²⁴ United States Postal Service, Postal Operations Manual § 311.a., July 2002 (updated with revisions through July 31, 2020) (POM). The Postal Service filed an PDF of the most recent version of the POM with a CHIR response. Response to CHIR No. 5, question 2, folder "onedrive_2022-02-11," folder "Docket No. ACR2021," folder "Zip Attachment ChIR 5 Responses," folder "ChIR 5 Attachments.zip," folder "ChIR 5 Attachments," folder "Question 2," folder "pomtc.pdf."

adding actual piece counts for flats and small parcels. POM § 314.3. Density tests should be conducted during a continuous 2-week period and must be performed at least annually. *Id.*

The POM states that “[c]ollection boxes averaging less than 25 pieces a day should be relocated within the neighborhood or community to a potentially higher volume location.” *Id.* § 315.3. If the Postal Service exhausts potential relocation options, the collection box may be removed if approved by the Area manager, Delivery Programs Support. *Id.* §§ 313.33, 315.3. Before removing or relocating a collection box, the Postal Service must place a notice on the box 30 days before the removal or relocation showing the locations and collection schedules for other collection points in the area.³²⁵

The Public Representative observes that the number of collection boxes reduced by only 0.56 percent in FY 2021. PR Comments at 73. He supports the Commission’s continued monitoring of collection boxes in ACR dockets to mitigate potential concerns about the declining number of collection boxes. In its reply comments, the Postal Service reiterates that when managing collection boxes, it has continued to observe the procedures specified by Chapter 3 of the POM. Postal Service Reply Comments at 23-24.

The Commission will continue to monitor the number of collection boxes in Docket No. ACR2022. In FY 2022, the Commission recommends that the Postal Service continue conducting annual density testing of collection boxes consistent with the procedures specified in the POM to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission also recommends that the Postal Service describe in the FY 2022 ACR any plans or initiatives to remove collection boxes beyond the procedures specified in the POM.

6. Wait Time in Line

The Postal Service must report the average customer wait time in line for retail service at the beginning of the fiscal year and at the end of each successive fiscal quarter at the national and area levels. 39 C.F.R. § 3055.91(d). The Postal Service provided this information for FY 2021 in Library Reference USPS-FY21-33.³²⁶ The national average wait time in line increased from 2 minutes 26 seconds in FY 2020 to 2 minutes 48 seconds in FY 2021. FY 2021 ACR at 78. Table V-16 shows the national average customer wait time in line by quarter for FY 2017 through FY 2021.

³²⁵ *Id.* § 315.3. A collection box that has been vandalized or tampered with may be removed immediately without notice if the Area manager, Delivery Programs Support, determines that the location is unsecure. *Id.* § 315.4.

³²⁶ Library Reference USPS-FY21-33, Excel file “WaitTimeInLine FY2021.xlsx.” The Postal Service explains how it calculated wait time in line in a CHIR response. Response to CHIR No. 2, question 32.

Table V-16
National Average Wait Time in Line (in Minutes)
by Quarter, FY 2017–FY 2021

Quarter	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Quarter 1	2:30	2:18	2:25	1:57	3:14
Quarter 2	2:39	2:28	2:34	2:06	3:15
Quarter 3	2:34	2:04	1:54	2:59	2:38
Quarter 4	2:28	1:53	1:39	3:05	2:05

Source: Library Reference USPS-FY21-33, Excel file "WaitTimeInLine FY2021.xlsx," tab "Nat'l Avg Wait Time by Qtr FY21;" FY 2020 ACD at 225.

Table V-16 shows that in FY 2021, the national average wait time in line was more than 3 minutes during Quarters 1 and 2, but improved during Quarters 3 and 4 to approximately 2 minutes at the end of Quarter 4. This table also shows that in FY 2021, wait time in line for Quarters 1 and 2 were longer compared to past years. Wait time in line increased despite the Postal Service's efforts to mitigate wait time in line during the pandemic, which include:

- Daily reporting to ensure that all post offices are using the IV Employee Scheduler and Volume Arrival Profile systems to ensure that no gaps arise in scheduling
- Distribution of Mobile Point of Sale devices at select post offices, together with the realignment of Self-Service Kiosks (SSKs) to support peak operations
- Employment of lobby assistants who greet retail customers and help guide them to appropriate products and services
- Scheduled visits by Postmasters and/or managers of post office operations to retail facilities identified as "vital" based on KPIs
- A weekly cadence of district and area meetings to discuss wait time in line data, determine the root causes of extended wait times, and develop action items to reduce wait time in line within 7-14 days
- Direct engagement with post offices that have exceeded wait time targets³²⁷

In a CHIR response, the Postal Service describes several factors contributing to increased wait time in line in FY 2021, including a 1.95 percent increase in post office walk-in revenue, a 3 percent increase in non-revenue packages and drop offs, a significant increase in passport services, and continued limited employee availability caused by the COVID-19 pandemic. Response to CHIR No. 1, question 7. The Postal Service states that accepted passport applications increased by approximately 42 percent in FY 2021, which increased wait time in line because passport applications have an average transaction time of almost 13 minutes. *Id.*

³²⁷ FY 2021 ACR at 78-89.

The Postal Services notes that as of February 2022, wait time in line improved 2.74 percent compared to the same period last year. Response to CHIR No. 13, question 6. To improve wait time in line in FY 2022, the Postal Service describes strategies designed to address factors contributing to wait time in line that include improving clerk scheduling, supporting additional technology deployment, engaging lobby assistance, and disseminating Learn and Grow webinars focusing on wait time in line. *Id.* It states it conducted a deep dive analysis of wait time in line failures, as well as on-site reviews of retail facilities identified as “vital” based on KPIs. *Id.* Other strategies include maintaining standard work instructions in a central location accessible to Postal Service employees and fostering peer networking and development for retail support specialists to help them improve their knowledge base. *Id.*

The Public Representative comments that national average wait time in line increased by 15 percent between FY 2020 and FY 2021. PR Comments at 74. He states that although this increase is small in absolute terms, wait time in line “is clearly moving in the wrong direction.” *Id.* He observes that the average wait time in line was more than 3 minutes in the Southern and Western Pacific areas. *Id.* at 75. He asserts that wait times longer than 3 minutes “represent a significant increase above wait times estimated in previous years” considering that national wait time in line had not exceeded 3 minutes since the first two quarters of FY 2016. *Id.*

The Public Representative states that wait time in line is a key driver of retail customer satisfaction. *Id.* at 76. He asserts that longer wait times in line could cause retail customers to seek alternatives such as “approaching Postal Service competitors or avoiding hard copy altogether and using the internet.” *Id.* He recommends that the Commission require the Postal Service to develop and file with the Commission a plan describing how the Postal Service intends to mitigate increased wait time in line during the expected time of the COVID-19 pandemic and beyond. *Id.* He states this plan should describe the steps and resources necessary to steadily reduce wait time in line. He concludes that “[i]f the Postal Service continues to avoid the Commission’s recommendation, specific rules and regulations requiring this information may be necessary.” *Id.*

In its reply comments, the Postal Service reiterates several factors contributing to wait time in line, including increases in walk-in revenue, non-revenue packages, and drop offs, as well as a higher number of accepted passport applications. Postal Service Reply Comments at 24. It states the COVID-19 pandemic continued to impact employee availability, which was a crucial factor contributing to increased wait time in line. *Id.*

Wait time in line was more than 3 minutes in FY 2021, Quarters 1 and 2 were likely due to peak season combined with staffing shortages resulting from the COVID-19 pandemic. However, wait time in line improved to 2 minutes 38 seconds in FY 2021, Quarter 3 and 2 minutes 5 seconds in Quarter 4. Also, as of February 2022, the Postal Service reports an improvement of 2.74 percent in wait time in line compared to the same period last year. These trends indicate that wait time in line is moving in the right direction toward pre-

COVID-19 pandemic levels. The Commission will monitor wait time in line in Docket No. ACR2022 to ensure continued improvement.

The Commission encourages the Postal Service to continue implementing strategies designed to improve wait time in line in FY 2022. In the FY 2022 ACR, the Postal Service must describe actions taken during FY 2022 to improve wait time in line. If wait time in line worsens during FY 2022, the FY 2022 ACR should:

- *Explain why wait time in line increased and identify factors contributing to the increase*
- *Describe plans for improving wait time in line during FY 2023 that include specific actions, strategies, and initiatives designed to address factors contributing to increased wait time in line, including reduced employee availability*

7. Alternative Access

In addition to providing products and services at retail facilities, the Postal Service continues to provide customer access through alternative access channels, which allow customers to obtain postal products and services outside of traditional brick and mortar post offices. Alternative access channels include:

- Stamp Sales by Partners – stamps sold by key suppliers such as Costco, Walmart, and other retailers
- SSKs – transactions performed via SSKs in lobbies of retail facilities
- Stamps by Mail/Phone – online stamp ordering via usps.com
- CPUs – contractor-operated retail facilities consisting of CPUs, CPOs, and VPOs
- Click-N-Ship – an online mail service allowing customers to create an account, buy postage for packages, and schedule pick up service
- Other alternative access points – online services, commemorative stamp sales and philatelic products, stamped envelope sales, Approved Shipper sales, Forever Stamps, and Stamps to Go³²⁸

The Commission previously recommended that the Postal Service expand alternative access channels to ensure customers have ready access to essential postal services.³²⁹ The Postal Service provided a table containing information on retail revenue from post offices and alternative access channels for FY 2020 and FY 2021 in a CHIR response.³³⁰ It also included information on the number of transactions, as well as a more detailed breakdown

³²⁸ Response to CHIR No. 13, question 2.b.i., b.iv.

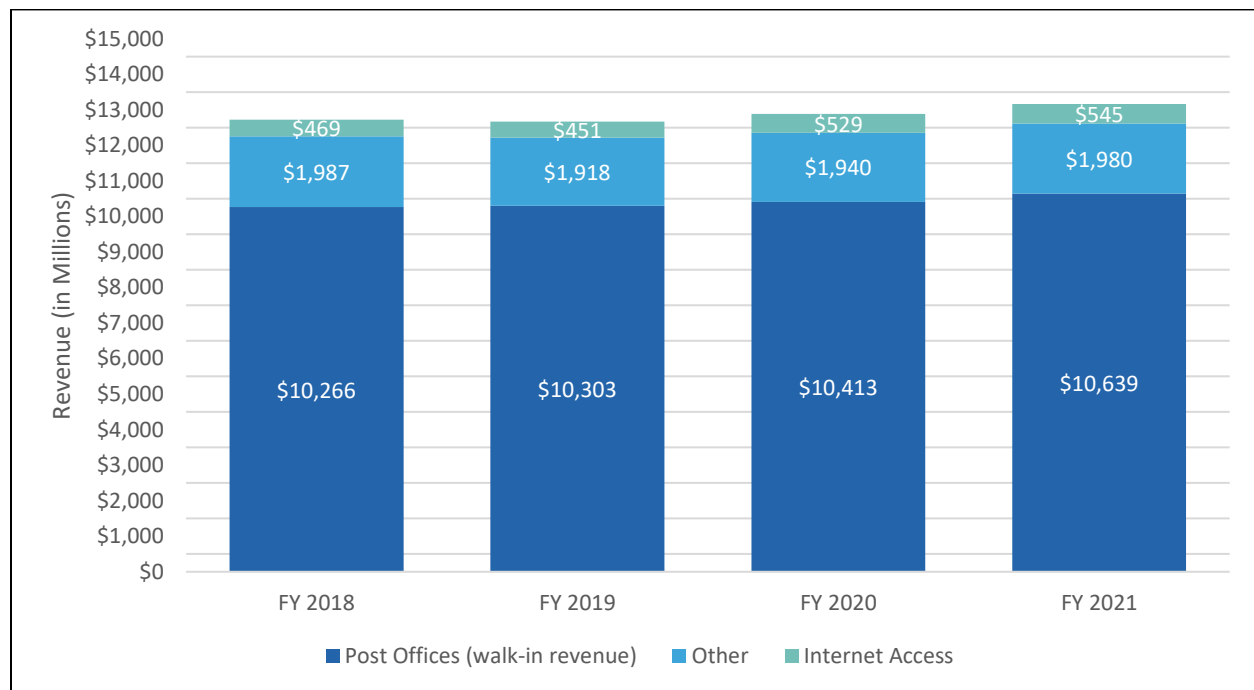
³²⁹ Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 37.

³³⁰ Response to CHIR No. 13, question 4.a. Post office revenue consists of retail postage; retail services (insurance, certified mail, registered mail, signature confirmation, etc.); and retail product sales (stamps, greeting cards, packaging products, money orders, etc.). *Id.* question 4.b.

of revenue, for some alternative access channels. Response to CHIR No. 23. Figure V-30 compares retail revenue by channel from FY 2018 through FY 2021 in three groups:

- Post Offices (walk-in revenue from post offices and CPUs)
- Internet Access (Click-N-Ship)
- Other (including Stamp Sales by Partners, SSKs, Stamps by Mail/Phone, and other alternative access points)

Figure V-30
Retail Revenue, by Channel, FY 2018–FY 2021



Source: Response to CHIR No. 13, question 4.a.; Docket No. ACR2020 Response to CHIR No. 1, question 2; Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-7 of Chairman’s Information Request No. 1, January 16, 2020, question 2; Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman’s Information Request No. No. 1, January 11, 2019, question 7.

Figure V-30 shows that in FY 2021, approximately 19 percent of retail revenue came from channels other than walk-in revenue from post offices and CPUs. Total revenue from the SSK, Stamps by Mail/Phone, and Click-N-Ship channels increased by approximately \$19.4 million, or 2.03 percent, in FY 2021. This represents a much slower revenue growth rate than was experienced between FY 2019 and FY 2020, when revenue from these low-customer-contact channels grew by approximately 19 percent. By comparison, total retail revenue from other channels increased by 2.20 percent.

Alternative access channels allow customers to obtain postal products and services with limited interpersonal contact. These channels have been particularly important during the COVID-19 pandemic, as people have strived to minimize their exposure to the COVID-19 pandemic by remaining at home, and thus minimize visiting brick and mortar post offices and conducting transactions in person. Continuing to disaggregate alternative access data and track the number of transactions and revenue by class or product will provide further transparency into alternative access channels.

The Commission recommends that the Postal Service continue to expand alternative access channels to ensure customers have ready access to essential postal services during the COVID-19 pandemic and beyond. To promote transparency, the Commission suggests that the Postal Service continue to disaggregate alternative access data and track the number of transactions and revenue by class or product.

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 (CX) 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 multiple choice question, disaggregated by each possible response. *Id.* The Postal Service provided the surveys and other customer satisfaction information in the FY 2021 ACR and Library Reference USPS-FY21-38.³³¹

In FY 2021, the Postal Service measured CX using eight surveys: Business Service Network, Point of Sale, Delivery, Customer Care Center, Customer 360, Large Business Panel, Business Mail Entry Unit, and USPS.com.³³² Each survey measures a customer touchpoint or interaction between the customer and the Postal Service. For example, the Point of Sale survey measures CX at retail facilities with Point of Sale systems. Library Reference USPS-FY21-38, Preface at 3. In this section, the Commission evaluates “the degree of customer satisfaction with the service provided” for Market Dominant products as required by 39 U.S.C. § 3652(a)(2)(B)(ii). “Customer satisfaction” in this section refers specifically to customer satisfaction with Market Dominant products. Other topics related to CX—including the surveys, FY 2021 targets and results, and CX metrics—will be analyzed in

³³¹ FY 2021 ACR 56-78; Library Reference USPS-FY21-38, December 29, 2021, folders “USPS-FY21-38,” file “CX_Surveys_FY21.docx” (CX Surveys).

³³² Library Reference USPS-FY21-38, folder “USPS-FY21-38,” PDF file “USPS-FY21-38 Preface.pdf,” at 1 (Preface).

detail in the Commission's forthcoming *Analysis of the FY 2021 Annual Performance Report and FY 2022 Annual Performance Plan*.

To measure customer satisfaction with Market Dominant products, the Postal Service uses data from the Delivery and Large Business Panel surveys for three types of customers: residential, small/medium business, and large business. FY 2021 ACR at 72. The Delivery survey measures residential and small/medium business customer satisfaction with receiving mail and packages. Library Reference USPS-FY21-38, Preface at 3. In FY 2021, residential and small/medium business customers were randomly selected, contacted by mail, and given the option to complete the Delivery survey by phone or online.³³³

The Large Business Panel survey measures customer satisfaction of large businesses with 500 or more employees. Library Reference USPS-FY21-38, Preface at 5. A third-party vendor manages customers who sign up to participate in the survey. *Id.* The Large Business Panel survey is conducted monthly to account for seasonal variation for Market Dominant products. FY 2021 ACR at 73. In this section, the Delivery and Large Business surveys are together referred to as the Customer Satisfaction surveys.

The Customer Satisfaction surveys ask residential, small/medium business, and large business customers about their experience using several domestic and international mailing services, such as First-Class Mail International and Media Mail.³³⁴ Customers were asked to rate their level of satisfaction with each mailing service using a six-point scale ranging from Very Satisfied to Very Dissatisfied. CX Surveys at 35-36, 63-65. The customer satisfaction result for each mailing service is expressed as the percentage of customers who selected Very Satisfied or Mostly Satisfied. *See* FY 2021 ACR at 74; FY 2020 ACR at 55-57.

In the FY 2020 ACD, the Commission directed the Postal Service to "describe actions taken in FY 2021 to improve customer satisfaction with Market Dominant mailing services for each customer type and explain how these actions impacted FY 2021 results." FY 2020 ACD at 235. The Postal Service states that in FY 2021, it continued to support both residential and business customers by educating them about postal products, product requirements, mailing standards, and operational processes. FY 2021 ACR at 75. It comments that it focused on the 10-Year Strategic Plan that contains key tenets directly relating to Market Dominant product offerings.³³⁵ The Postal Service describes enhancements to its Market Dominant products and services that benefit all customers. *Id.* For example, Informed

³³³ *Id.* The Postal Service states that "[r]esidential and small/medium business customers were sufficiently sampled to ensure, at the District-level, a minimum precision level of +/- 5 percentage points, at the 90 percent level of confidence per postal quarter." FY 2021 ACR at 72.

³³⁴ CX Surveys at 35-36, 63-65. The Customer Satisfaction surveys group classes and products into mailing services. Although the surveys also ask about customer satisfaction with Competitive products such as Priority Mail and USPS Retail Ground, the ACR is required to include "measures of the quality of service afforded by the Postal Service" for each Market Dominant product, including "the degree of customer satisfaction with the service provided." 39 U.S.C. § 3652(a)(2)(B)(ii). For this reason, the ACD analyzes customer satisfaction with Market Dominant products.

³³⁵ *Id.* These tenets include 95 percent on-time reliability; a modern, transformed network of post offices; a fully optimized surface and air transportation network; and a rational pricing approach that involves implementing new and existing pricing authority that provides transparency in postage prices. *Id.*

Delivery allows customers to preview their mail and manage their packages scheduled to arrive soon to help them plan and stay abreast of bills, correspondence, and other important transactions.³³⁶

Other enhancements to Market Dominant products and services reported by the Postal Service include the continuation of the Plus One market test³³⁷ and increasing the size of First-Class Mail commercial postcards.³³⁸ The Postal Service states the Plus One market test provides businesses another tool to engage with their customers by allowing mailers to include a Plus One card with a host USPS Marketing Mail letter to reduce the cost of mailing. FY 2021 ACR at 76. It notes that residential customers also benefitted “by receiving offers and information that helped them save money or obtain access to services....” *Id.* The Postal Service comments that it also increased the size of First-Class Mail commercial postcards, which are effective in informing and engaging with customers by “cut[ting] through the digital clutter.” *Id.* It states that these enhancements help customers who continue to “rely on mail to communicate, engage, and stay informed,” especially during the COVID-19 pandemic. *Id.*

In the FY 2020 ACD, the Commission also directed the Postal Service to explain in the FY 2021 ACR the reasons for any decline in customer satisfaction with Market Dominant mailing services between FY 2020 and FY 2021. FY 2020 ACD at 235. The Postal Service states that customer satisfaction declined in FY 2021 for residential and small/medium business customers, but increased for large business customers. FY 2021 ACR at 76. It explains that “[r]esidential customers relied on package delivery during the COVID-19 pandemic, and volume of traditional letter and flat services declined.” *Id.* at 77. It states the COVID-19 pandemic continues to impact both the Postal Service and customers, making it difficult to compare scores for customer satisfaction with Market Dominant products between years. *Id.*

2. Comments

Comments on customer satisfaction with Market Dominant products discuss declines in residential and small/medium business customer satisfaction, as well as the Commission’s recommendations that the Customer Satisfaction surveys ask follow-up questions and questions about service performance for each Market Dominant product.³³⁹

³³⁶ *Id.* at 75-76; See United States Postal Service, Informed Delivery by USPS, available at <https://informedelivery.usps.com/box/pages/intro/start.action>.

³³⁷ In FY 2022, the Postal Service requested, and the Commission approved, the conversion of Plus One from an experimental to a permanent offering. See Docket No. MC2022-20, Order Approving Addition of Plus One to the Mail Classification Schedule, January 4, 2022 (Order No. 6081).

³³⁸ FY 2021 ACR at 76. The Commission reviewed and approved the Postal Service’s proposed update to the size limitation in FY 2021. See Docket No. MC2021-104, Order Approving Update to the Maximum Size Limit for Presorted First-Class Mail Postcards, July 28, 2021 (Order No. 5946).

³³⁹ Other issues related to CX—including comparability issues and targets and results for the CX Composite Index and customer surveys—will be discussed in the Commission’s forthcoming *Analysis of the FY 2021 Annual Performance Report and FY 2022 Annual Performance Plan*.

a. Customer Satisfaction Declines

The Public Representative observes significant declines in customer satisfaction across Market Dominant products for residential and small/medium business customers, especially for domestic and international First-Class Mail. PR Comments at 99. He comments that large business customer satisfaction increased across all Market Dominant products and for Periodicals and Media Mail in particular. *Id.* He states that the decline in residential and small/medium business customer satisfaction is aligned with the general pattern of decreased Delivery survey scores in FY 2021. *Id.* at 99-100. He commends the Postal Service “for making its large business customers feel valued in the midst of the COVID-19 pandemic.” *Id.* at 100.

The Public Representative asserts that the Postal Service did not adequately respond to the Commission’s directive to explain why customer satisfaction with Market Dominant mailing services declined for residential and small/medium business customers. *Id.* He acknowledges that the challenges resulting from the COVID-19 pandemic impacted the Postal Service’s ability to meet customer needs, but asserts they are “not an [excuse] for the large deterioration in customer sentiment[.]” *Id.* at 77. He points out that customer satisfaction with Market Dominant products did not deteriorate during the beginning of the COVID-19 pandemic in FY 2020. *Id.* Also, he states the Postal Service does not explain why customer satisfaction with Market Dominant products “was dramatically worse for small businesses and residential customers.” *Id.* at 100. He recommends the Commission ask the Postal Service to clarify how the COVID-19 pandemic, increased demand for packages, and decreased demand for flats and letters would lead to customer satisfaction declines for these customer types. *Id.*

The Public Representative acknowledges that the FY 2021 ACR describes general actions the Postal Service took to improve customer satisfaction with Market Dominant products, which appear to suggest that these actions improved customer satisfaction for all customer types. *Id.* at 101. However, he asserts these general actions would not produce vastly different customer satisfaction results for residential and small/medium business customers considering the disparity in their customer satisfaction compared to large business customers. *Id.* He recommends the Postal Service provide detailed information about “the different strategies [it] employed to improve customer satisfaction [with Market Dominant mailing services] by each customer type and the results of those actions.” *Id.* at 102.

In its reply comments, the Postal Service maintains that it provided ample information in the FY 2021 ACR to satisfy the Commission’s directive to describe actions taken to improve customer satisfaction with Market Dominant products for each customer type. Postal Service Reply Comments at 27. The Postal Service adds that it worked closely with small/medium business customers at Postal Customer Council events and through workshops and meetings educating these customers “about how to mail and ship effectively and provide information about new and enhanced product offerings.” *Id.* at 28. It states that it helped simplify the process for local businesses to mail items to local

customers by making the Every Door Direct Mail—Retail (EDDM-R) website more user friendly. *Id.* The Postal Service notes that it also introduced a new offering, USPS Connect Local³⁴⁰ to help small/medium business customers ship local packages easier and faster, which would allow them to compete in an increasingly demanding marketplace. Postal Service Reply Comments at 28-29.

For residential customers, the Postal Service asserts that it improved their customer satisfaction with Market Dominant products by enhancing Informed Delivery to increase the utility of this free service for individuals receiving mail. *Id.* at 29. It contends that some efforts to increase small/medium business customer satisfaction with Market Dominant products “had a positive spill-over effect for residential customers by making mail more targeted and valuable for individuals.” *Id.*

b. Service Performance and Follow-up Questions

In the FY 2020 ACD, the Commission recommended that the Postal Service consider asking in the Customer Satisfaction surveys about service performance for each mailing service, as well as follow-up questions for residential and small/medium business customers. FY 2020 ACD at 234. The Public Representative comments that the Postal Service did not explain whether it considered adding questions to the Customer Satisfaction surveys regarding service performance for Market Dominant products. PR Comments at 96. He recommends that the Postal Service explain whether it considered this suggestion and why it chose not to ask these questions. *Id.* at 96-97.

The Public Representative also observes the Postal Service did not explain whether it considered asking follow-up questions for residential and small/medium business customers. *Id.* at 97. He urges the Commission to direct the Postal Service to consider acquiring more detailed information for these customer types, especially considering the substantial decline in their customer satisfaction in FY 2021. *Id.*

In its reply comments, the Postal Service responds that it considered the Commission’s recommendation to add specific questions for each Market Dominant product relating to service performance. Postal Service Reply Comments at 27. It explains it did not adopt this recommendation because of possible negative consequences.³⁴¹ For example, a longer survey “could increase the abandonment rate, which would lead to fewer responses and decrease the statistical significance of the results.” Postal Service Reply Comments at 27.

³⁴⁰ This comment appears to refer to the Postal Service’s FY 2022 proposal, which the Commission approved, to add “USPS Connect Local,” which provides same-day or next-day local package delivery, as a new price category under the existing Parcel Select product. See Docket No. CP2022-22, Order Approving Changes in Rates of General Applicability for Domestic Competitive Products, December 21, 2021, at 9-10 (Order No. 6071). Additionally, the Postal Service requested, and the Commission authorized the Postal Service to proceed with a market test for USPS Connect Local Mail, which pertains to local document delivery. See Order No. 6081.

³⁴¹ *Id.*; see Response to CHIR No. 13, question 8.

3. Commission Analysis

For each customer type, Table V-17 compares customer satisfaction results for select Market Dominant mailing services between FY 2020 and FY 2021. Results are expressed as the percentage of customers who were Very Satisfied or Mostly Satisfied with a Market Dominant mail class or category.

Table V-17
Customer Satisfaction with
Market Dominant Mailing Services, by Percentage
FY 2020–FY 2021

Market Dominant Products (Mailing Services)	Residential Customers		Small/Medium Business Customers		Large Business Customers	
	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021
First-Class Mail	91.44%	79.14%	90.07%	78.26%	83.09%	85.57%
First-Class Mail International	85.30%	76.27%	82.05%	71.39%	88.75%	89.75%
USPS Marketing Mail	N/A		80.22%	71.85%	80.71%	83.50%
Periodicals	N/A		87.24%	80.46%	79.43%	84.58%
Media Mail	86.60%	79.47%	85.59%	77.51%	78.97%	83.43%
Library Mail	81.62%	76.25%	82.53%	75.52%	80.29%	83.88%

N/A - Residential customers were not asked about their satisfaction with this mailing service.

Source: FY 2021 ACR at 74. In FY 2020, the Postal Service updated the Customer Satisfaction surveys to more accurately measure customer satisfaction with Market Dominant products. See FY 2020 ACD at 230-32. In a CHIR response, the Postal Service confirmed that FY 2020 and FY 2021 customer satisfaction results are comparable. Response to CHIR No. 9, question 7.

Table V-17 shows that for large businesses, customer satisfaction increased across each Market Dominant mailing service between FY 2020 and FY 2021. The biggest improvement in large business customer satisfaction was with Periodicals and Media Mail, which increased by 5.15 and 4.46 percentage points, respectively, in FY 2021. Large business customer satisfaction was highest for First-Class Mail International at 89.75 percent.

However, for residential and small/medium business customers, Market Dominant product satisfaction declined across all mailing services. The biggest decrease in Market Dominant product satisfaction for both residential and small/medium business customers was with First-Class Mail, which declined by 12.30 and 11.81 percentage points, respectively. In FY 2021, residential customer satisfaction with Market Dominant mailing services ranged between 76.25 and 79.47 percentage points and was highest for Media Mail. Small/medium business customer satisfaction ranged between 71.39 and 80.46 percentage points and was highest for Periodicals, which was the only mailing service with more than 80 percent customer satisfaction.

The Public Representative comments that the FY 2021 ACR does not explain why customer satisfaction with Market Dominant products “was dramatically worse for small businesses

and residential customers” compared to large business customers. PR Comments at 100. In a CHIR response, the Postal Service states it identified “unusually high” large business overall satisfaction scores in FY 2021, Quarters 3 and 4, which raised the large business customer satisfaction scores across all Market Dominant mailing services. Response to CHIR No. 9, question 8. It notes it is currently investigating the drivers of this increase, but currently does not have an explanation. *Id.*

CHIR No. 12 asked the Postal Service to explain why and how the COVID-19 pandemic, increased reliance on package delivery, and decreased demand for letters and flats impacted satisfaction with Market Dominant products for residential and small/medium business customers, but not large businesses.³⁴² The Postal Service maintains that the lingering effects of the COVID-19 pandemic make it difficult to compare Market Dominant product customer satisfaction results between years. Response to CHIR No. 12, question 2. It states that an increased reliance on package delivery and decreased demand for letters and flats only partially explain the declines in residential and small/medium business customer satisfaction because drivers of satisfaction may differ among customer types. *Id.* It asserts that the survey responses do not contain the type of specific details necessary for a clear explanation of why residential and small/medium business customers have lower Market Dominant product satisfaction scores. *Id.*

The Postal Service explains that large businesses have historically expressed higher levels of customer satisfaction with Market Dominant products and services compared to small businesses because “[l]arger businesses have more resources available [allowing] them to adjust their mail entry and preparation in ways that could minimize the impact of service performance issues.” *Id.* For example, it states that large businesses with several PO Boxes may use the Post Office Redirect service to mitigate service performance issues at a certain location by redirecting their PO Box mail from one location to another. *Id.* A smaller business with only one PO Box could not adjust as easily. *Id.* The Postal Service contends that its “continued efforts to improve predictability and reliability of its services will increase customer satisfaction at all levels” and that improving precision in the Postal Service’s operating network will drive increased efficiencies and lead to stabilized costs, more predictable rates, and increased service reliability. *Id.*

CHIR No. 12 also asked the Postal Service to “describe specific actions, plans, initiatives, or strategies for improving residential and small/medium business customer satisfaction with Market Dominant products in FY 2022.” CHIR No. 12, question 3. The Postal Service responds that it hired more than 40,000 additional seasonal workers to help address some of the service performance issues that caused decreased customer satisfaction in FY 2022. Response to CHIR No. 12, question 3. It states it will offer an affordable option in the expedited delivery market by expanding its USPS Connect Local offering to include a Market Dominant version (USPS Connect Local Mail) that includes same-day or next-day local document delivery. *Id.* The Postal Service describes other plans to improve small/medium business customer satisfaction with Market Dominant products that include

³⁴² Chairman’s Information Request No. 12, February 7, 2022, question 2 (CHIR No. 12).

working with these customers at Postal Customer Council events and making the EDDM retail tool more user friendly. *Id.*

For residential customers, the Postal Service asserts that improvements and enhancements to Informed Delivery are expected to improve residential customer satisfaction with Market Dominant products. *Id.* It maintains that some efforts to increase Market Dominant product satisfaction for business mailers will also improve residential customer satisfaction by making mail more targeted and valuable for individuals. *Id.* It states that improving service performance should result in higher customer satisfaction levels specifically for residential and small/medium business customers “who were unable to adjust to circumvent geographic areas with poorer service performance scores.” *Id.*

The Commission commends the Postal Service for increasing large business customer satisfaction in FY 2021, especially during the COVID-19 pandemic. The Postal Service is effectively using its authority under 39 U.S.C. § 3641 to offer market tests of experimental products that may help improve business customer satisfaction with Market Dominant products. However, the Commission is concerned about the decline in residential and small/medium business customer satisfaction with Market Dominant products and the disparity in their satisfaction levels compared to large business customers. The Commission will continue to monitor customer satisfaction with Market Dominant products in FY 2022.

As previously discussed, the Delivery survey measures residential and small/medium business customer satisfaction with Market Dominant products. The Public Representative observes that the FY 2021 ACR did not explain whether the Postal Service considered the Commission's recommendations to revise the Delivery survey by asking follow-up questions and questions about service performance for Market Dominant mailing services. PR Comments at 96-97. The Postal Service responds that it considered this recommendation, but did not adopt it because of possible negative consequences, such as increased survey abandonment rate. Postal Service Reply Comments at 27.

The Commission acknowledges the Postal Service's authority to decide which questions to include in the Customer Satisfaction surveys. Adding follow-up questions and questions about service performance to the Delivery survey would increase the survey length and could discourage customers from completing the surveys. However, these questions could identify drivers of residential and small/medium business customer satisfaction with Market Dominant products. This information would help the Postal Service improve product satisfaction levels for these customers and thus outweigh any disadvantages to increasing the length of the survey. For example, for each Market Dominant mailing service, the Delivery survey could ask customers about both their satisfaction with the mailing service and their satisfaction with the speed of delivery for that mailing service. Adding follow-up questions could provide further insight into whether customers are satisfied with the speed of delivery and whether mail arrived on time or by the expected date.

In FY 2022, the Postal Service should continue to take appropriate actions to maintain large business customer satisfaction with Market Dominant products and improve residential and small/medium business customer satisfaction across all mailing services. In the FY 2022 ACR, the Postal Service must:

- *Describe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2022 to improve residential and small/medium business customer satisfaction with Market Dominant products*
- *Explain how these actions, plans, initiatives, and strategies were targeted to improve Market Dominant product satisfaction for each customer type*
- *Explain how these actions, plans, initiatives, and strategies impacted FY 2022 results*

If customer satisfaction with Market Dominant products declines for any customer type between FY 2021 and FY 2022, the FY 2022 ACR must explain why. When responding to these directives, the FY 2022 ACR must group explanations and descriptions by customer type (residential, small/medium business, and large business) or otherwise identify which explanations and descriptions apply to each customer type.

The Commission reiterates its recommendation that the Postal Service consider revising the Delivery survey to ask follow-up questions and questions about service performance for each Market Dominant mailing service to allow the Postal Service to assess how service performance results affect customer satisfaction with those mailing services.

CHAPTER VI. FLATS COST AND SERVICE ISSUES

A. Introduction

The Postal Service continues to face significant challenges processing and delivering flat-shaped mailpieces (flats or flat-shaped mail products) in a cost effective manner. These challenges have led to continuous and persistent increases in costs, with five out of eight flats products not covering costs in FY 2021.³⁴³ 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 2021.

The Commission's review of flats cost and service issues in this docket focuses on five areas: (1) flats financial performance, (2) flats service performance, (3) impact of operational initiatives and methodological changes on flats, (4) pinch points³⁴⁴ that affect flats operational performance, and (5) flats unit costs for mail processing, delivery, and purchased transportation. The Commission makes several recommendations to the Postal Service regarding specific plans to resolve both cost and service issues for flat-shaped products in FY 2022.

B. FY 2021 Flats Volume and Financial Performance

In FY 2021, the attributable costs for flats products continued to increase faster than revenue. At the same time, volume has declined and the mail mix for some flats products has trended towards more workshared mail.³⁴⁵ In this section, the Commission reviews the financial performance and volume of flats products, including changes in unit attributable cost and unit revenue.

1. Cost Coverage, Contribution, and Volume

In FY 2021, the Postal Service had eight flats products. Table VI-1 compares cost coverage for these products in FY 2020 and FY 2021. It also includes the total cost coverage for flat-

³⁴³ In FY 2021, for the first time, the First-Class Mail Flats product did not cover its attributable cost. See Chapter III., *supra*.

³⁴⁴ 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.

³⁴⁵ Examples include, but are not limited to, Outside County Periodicals and USPS Marketing Mail Flats. See Chapter III., *supra*.

shaped mail.³⁴⁶ Only three of eight flats products covered their costs in FY 2021, and cost coverage for all flats decreased compared to FY 2020. As discussed in detail in Chapter III, in FY 2021, the First-Class Mail Flats product did not cover its cost for the first time since its inception in FY 2007. *See* Chapter III.C.1., *supra*. The USPS Marketing Mail Carrier Route product failed to cover its cost for the third consecutive year. *See* Chapter III.C.2.b., *supra*.

Table VI-1
Flats Cost Coverage, FY 2020–FY 2021

Class/Product	FY 2020 Cost Coverage	FY 2021 Cost Coverage	Difference
First-Class Mail Flats	100%	99%	-1%
USPS Marketing Mail High Density and Saturation Flats and Parcels	130%	125%	-4%
USPS Marketing Mail Carrier Route	96%	95%	-2%
USPS Marketing Mail Flats	63%	60%	-3%
USPS Marketing Mail Every Door Direct Mail Retail	258%	248%	-9%
Periodicals In-County	51%	45%	-6%
Periodicals Outside County	57%	54%	-3%
Package Services Bound Printed Matter Flats	126%	117%	-9%
Total	87%	85%	-3%

Source: Library Reference PRC-LR-ACR2021-9.

Table VI-2 provides a comparison between the contribution each of these eight products made to institutional cost in FY 2020 and FY 2021, as well as the total contribution of all flats products. In FY 2021, flats products had a negative contribution of \$1.291 billion.

³⁴⁶ The total cost coverage is presented as an additional data point to consider the financial performance of flat-shaped mailpieces. Because these products span multiple classes of mail, total cost coverage, while illustrative, is not relevant to product and class compliance.

Table VI-2
Flats Contribution³⁴⁷ (Millions), FY 2020–FY 2021

Class/Product	FY 2020 Contribution	FY 2021 Contribution	Difference
First-Class Mail Flats	\$4	-\$17	-\$20
USPS Marketing Mail High Density and Saturation Flats and Parcels	\$430	\$363	-\$67
USPS Marketing Mail Carrier Route	-\$54	-\$77	-\$24
USPS Marketing Mail Flats	-\$780	-\$817	-\$37
USPS Marketing Mail Every Door Direct Mail Retail	\$61	\$62	\$2
In-County Periodicals	-\$49	-\$59	-\$11
Outside County Periodicals	-\$725	-\$767	-\$41
Package Services Bound Printed Matter Flats	\$33	\$21	-\$12
Total	-\$1,081	-\$1,291	-\$210

Source: Library Reference PRC-LR-ACR2021-9.

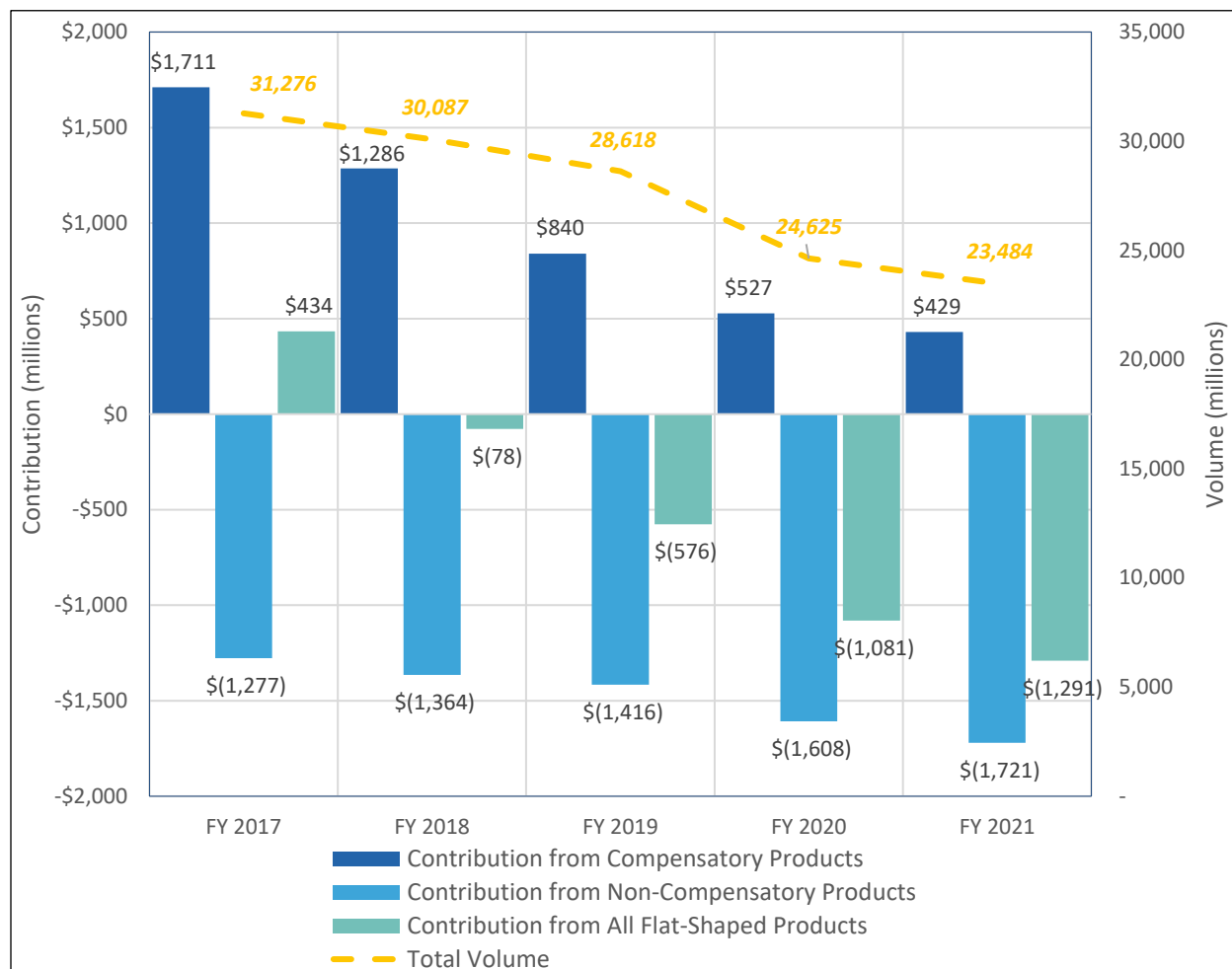
In FY 2021, the contribution for all but one flats product was lower than in FY 2020. *See* Table VI-2. Only USPS Marketing Mail Every Door Direct Mail—Retail (EDDM-R) saw a small increase in contribution.

Figure VI-1 shows the total contribution from all eight flats products, and two groups of flats products (compensatory and non-compensatory) from FY 2017 through FY 2021.³⁴⁸ The majority of the losses from non-compensatory flats products come from USPS Marketing Mail Flats and Outside County Periodicals.

³⁴⁷ This table reports product-level data, therefore non-product inframarginal costs are not included in contribution calculations. *See* Library Reference PRC-LR-ACR2021-1 for non-product inframarginal costs.

³⁴⁸ This figure reports product-level data, therefore non-product inframarginal costs are not included in contribution calculations. *See* Library Reference PRC-LR-ACR2021-1 for non-product inframarginal costs.

**Figure VI-1
Flats Contribution and Volume, FY 2017–FY 2021**



Source: Library Reference PRC-LR-ACR2021-9.

FY 2021 was the fourth consecutive year that the combined contribution from all flats products was negative. The amount of combined negative contribution has been increasing rapidly from negative \$78 million in FY 2018 to negative \$1.291 billion in FY 2021. As shown in Figure VI-1, combined flats volume continues to decline annually. *See also* Table VI-3.

Volumes of all but one flats products continued to decrease in FY 2021; only USPS Marketing Mail EDDM-R saw a small increase in volume. *See* Table VI-3. The Commission is very concerned that despite this declining volume, combined negative contribution continues to increase.

**Table VI-3
Flats Volume (Millions), FY 2020–FY 2021**

Class/Product	FY 2020 Volume	FY 2021 Volume	Percent Change
First-Class Mail Flats	1,205	1,176	-2%
USPS Marketing Mail High Density and Saturation Flats and Parcels	10,427	9,994	-4%
USPS Marketing Mail Carrier Route	5,048	5,042	0%
USPS Marketing Mail Flats	3,199	2,869	-10%
USPS Marketing Mail Every Door Direct Mail Retail	530	542	2%
In-County Periodicals	469	447	-5%
Outside County Periodicals	3,537	3,232	-9%
Bound Printed Matter Flats	211	181	-14%
Total	24,625	23,484	-5%

Source: Library Reference PRC-LR-ACR2021-9.

Five non-compensatory products represented 54 percent of all flats product volumes in FY 2021.³⁴⁹ Within the group of flats products, USPS Marketing Mail High Density and Saturation Flats and Parcels have the largest share of volume.

2. Unit Attributable Costs

As required by the Commission's rules, the Postal Service provided a financial analysis for FY 2021 that identified flats products for which unit attributable costs increased faster than the average unit attributable cost for Market Dominant products.³⁵⁰ In FY 2021, the average unit cost increase for total Market Dominant mail was 1.6 percent, and the Postal Service reported that each flats product had a percentage change in unit attributable cost that was greater than that average.³⁵¹

Table VI-4 shows the change (increase) in unit attributable cost for each flats product from FY 2020 to FY 2021. Five of eight flats products had a percent increase in unit attributable costs that was not only higher than the Market Dominant average but also higher than the FY 2021 CPI-U, 5.390 percent.³⁵²

³⁴⁹ The five products are: (1) Outside County Periodicals, (2) In-County Periodicals, (3) USPS Marketing Mail Flats, (4) USPS Marketing Mail Carrier Route, and (5) First-Class Mail Flats.

³⁵⁰ 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).

³⁵¹ See Library Reference USPS-FY21-45, December 29, 2021, folder "Rule 3050.50 Flats," folder "Paragraph (b) – Financial Report," Excel file "FY21.Rule.3050.50.Para.B," tab "item b4."

³⁵² The CPI-U was calculated for FY 2021 (October 1, 2020-September 30, 2021) using the following formula: $(\text{CPI-U September 2021}/\text{CPI-U September 2020}) - 1$, and expressed as a percentage; $(274.310/260.280) - 1 = 5.390\%$. See U.S. Bureau of Labor Statistics, Consumer Price Index, available at <https://www.bls.gov/cpi/>; Historical Consumer Price Index for All Urban Consumers (CPI-U), Series: All Items, <https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-202109.pdf>.

**Table VI-4
Flats Unit Attributable Cost, FY 2020–FY 2021**

Class/Product	FY 2020	FY 2021	Percent Change
First-Class Mail Flats	\$1.282	\$1.326	3.5%
USPS Marketing Mail High Density and Saturation Flats and Parcels	\$0.138	\$0.143	3.6%
USPS Marketing Mail Carrier Route	\$0.276	\$0.286	3.5%
USPS Marketing Mail Flats	\$0.664	\$0.717	8.0%
USPS Marketing Mail EDDM-Retail	\$0.072	\$0.078	7.1%
In-County Periodicals	\$0.213	\$0.242	13.7%
Outside County Periodicals	\$0.480	\$0.514	7.1%
Package Services Bound Printed Matter Flats	\$0.607	\$0.658	8.4%
Total Market Dominant Mail	\$0.211	\$0.214	1.6%

Note: Unit attributable cost increases that are higher than the FY 2021 CPI-U are highlighted in orange.

Source: Library Reference PRC-LR-ACR2021-9.

For each product where unit attributable costs increased faster than the average unit cost for total Market Dominant mail, the Postal Service provided a short narrative describing the drivers of the change.³⁵³ The Postal Service attributes the cost increases in each product to increases in mail processing, transportation, and delivery costs. *See* Part B Narratives. The Postal Service did not develop specific plans to reduce unit costs for flats products in FY 2021, and cites generally to its efforts to reduce overall flats costs through operational initiatives and changes. *See id.*

3. Above-Average Price Increases and Unit Revenue

To improve cost coverage for non-compensatory classes and products, the Commission adopted 39 C.F.R. § 3030.221 in Docket No. RM2017-3, which requires the Postal Service to increase rates for non-compensatory products within compensatory classes of mail “by a minimum of 2 percentage points above the percentage increase for that class.” *See* Order No. 5763 at 181-97; *see also* Chapter III.A., *supra*. In addition, the Commission adopted new rules that provide density and retirement rate authorities. *See* Chapter II.B., *supra*. Table VI-5 shows the price increases for flats products in Docket No. R2021-2. The magnitude of these price increases was significant compared to previous rate cases limited by the CPI-U price cap.

a. FY 2021 Flats Price Increases

As illustrated in Table VI-5, all non-compensatory flats products received price increases above the class average, except for In-County Periodicals. Because the Periodicals class consists of two non-compensatory products, both products cannot mathematically receive

³⁵³ *See* Library Reference USPS-FY21-45, folder “Paragraph (b) --Financial Report,” PDF file “Part B Narratives.pdf-FY 21 Rule 3050.50.pdf” (Part B Narratives).

above average price increases. However, for the Periodicals class, the Postal Service used the additional 2 percentage points in rate authority for non-compensatory classes.

**Table VI-5
Flats Price Increases, FY 2021**

Class/Product	Product Price Increase	Class Price Increase	Difference (in percentage points)
First-Class Mail Flats	10.318%	6.814%	3.504%
USPS Marketing Mail High Density and Saturation Flats and Parcels	5.454%	6.814%	-1.360%
USPS Marketing Mail Carrier Route	8.866%	6.814%	2.052%
USPS Marketing Mail Flats	8.819%	6.814%	2.005%
USPS Marketing Mail EDDM-Retail	4.167%	6.814%	-2.647%
In-County Periodicals	7.326%	8.771%	-1.445%
Outside County Periodicals	8.845%	8.771%	0.074%
Package Services Bound Printed Matter Flats	7.453%	8.804%	-1.351%

Source: Library Reference PRC-LR-ACR2021-9.

b. Historical Comparison of Flats Price Increases

Table VI-6 illustrates the product-level price increases and class-average price increases for all flat-shaped products from FY 2017 through FY 2021. A positive number indicates that a product had an above class-average price increase, while a negative number indicates that a product had a below class-average price increase.

**Table VI-6
Differences between Product and Class Price Increases (in percentage points)
FY 2017–FY 2021**

Class/Product	R2017-1	R2018-1	R2019-1	R2020-1	R2021-1	R2021-2
First-Class Mail Flats	1.108%	-1.484%	-13.415%	7.841%	-0.571%	3.504%
USPS Marketing Mail High Density and Saturation Flats and Parcels	-3.126%	-0.787%	1.094%	-0.998%	-0.520%	-1.360%
USPS Marketing Mail Carrier Route	-3.932%	0.164%	-1.748%	-0.731%	2.020%	2.052%
USPS Marketing Mail Flats	1.622%	0.231%	0.139%	2.033%	2.044%	2.005%
USPS Marketing Mail EDDM-Retail	-0.332%	-1.371%	2.574%	0.279%	-0.985%	-2.647%
In-County Periodicals	-0.006%	0.003%	0.023%	0.021%	0.013%	-1.445%
Outside County Periodicals	0.133%	-0.089%	-0.505%	-0.440%	-0.254%	0.074%
Package Services Bound Printed Matter Flats	-0.270%	0.125%	-0.057%	0.091%	-1.461%	-1.351%

Source: Library Reference PRC-LR-ACR2021-9.

Table VI-7 provides a comparison between the FY 2020 and FY 2021 unit revenues for flat-shaped products. However, since the new prices were implemented on August 29, 2021 (and therefore were in effect for only one month in FY 2021), the impact of the provided price increases on flats cost coverage will not be evident until the end of FY 2022.

Table VI-7
Flats Unit Revenue, FY 2020–FY 2021

Class/Product	FY 2020	FY 2021	Percent Change
First-Class Mail Flats	\$1.285	\$1.312	2.1%
USPS Marketing Mail High Density and Saturation Flats and Parcels	\$0.179	\$0.179	0.1%
USPS Marketing Mail Carrier Route	\$0.266	\$0.271	1.9%
USPS Marketing Mail Flats	\$0.420	\$0.432	2.9%
USPS Marketing Mail EDDM-Retail	\$0.187	\$0.193	3.1%
In-County Periodicals	\$0.109	\$0.109	0.2%
Outside County Periodicals	\$0.275	\$0.277	0.7%
Package Services Bound Printed Matter Flats	\$0.764	\$0.772	1.0%

Source: Library Reference PRC-LR-ACR2021-9.

c. Commission Analysis

The Commission is very concerned that the Postal Service is making little, if any, progress in addressing the cost coverage issues for flats. Unit revenue has increased for some flats products, while it has remained relatively stagnant for other flats products. In FY 2021, unit attributable costs for flats products continued to increase faster than the average unit attributable costs for all Market Dominant products, and for some products the increases were above the average change in CPI-U. Cost coverage continued to decline for all flats products. Losses from non-compensatory flats products continued to increase and the Postal Service did not adequately explain why this was occurring.

The Postal Service shall continue the combination of above-average price adjustments as required by 39 C.F.R. § 3030.221 and cost reductions until unit revenue exceeds unit attributable cost for each non-compensatory flats product. The Postal Service is strongly encouraged to refocus its efforts to evaluate the success or failure of its cost-control initiatives for flat-shaped mail products.

The Commission expects that the Postal Service's continued attention to controlling unit attributable costs for flats, combined with its ongoing compliance with 39 C.F.R. § 3030.221, will together improve recent cost coverage trends for flat-shaped mail products.

C. Service Performance

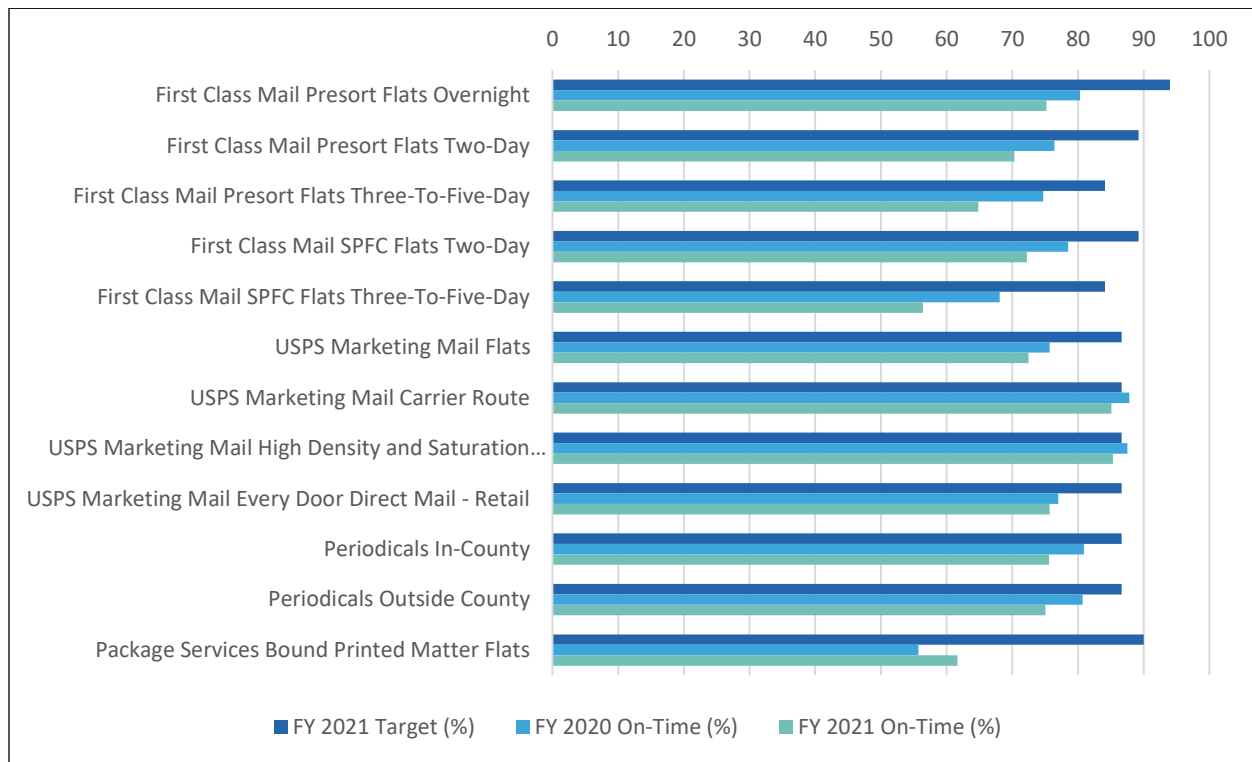
No flats product achieved its on-time service performance target in FY 2021, despite all performance targets decreasing from FY 2020 to FY 2021, except for Bound Printed Matter (BPM) Flats. As shown in Table VI-8 and Figure VI-2, only one flats product improved on-time service performance from FY 2020 to FY 2021. However, this product, BPM Flats, had the lowest on-time performance in FY 2020 (at 55.7 percent).

Table VI-8
Flats Service Performance Results, FY 2020–FY 2021

Mail Class / Product	FY 2020 On-Time (%)	FY 2021 On-Time (%)	FY 2020– FY 2021 Difference	FY 2021 Target (%)
First-Class Mail Presort Flats Overnight	80.3	75.2	-5.1	93.99
First-Class Mail Presort Flats 2-Day	76.4	70.3	-6.1	89.20
First-Class Mail Presort Flats 3-5-Day	74.7	64.8	-9.9	84.11
First-Class Mail SPFC Flats 2-Day	78.5	72.2	-6.3	89.20
First-Class Mail SPFC Flats 3-5-Day	68.1	56.4	-11.7	84.11
USPS Marketing Mail Flats	75.7	72.5	-3.2	86.62
USPS Marketing Mail Carrier Route	87.8	85.1	-2.7	86.62
USPS Marketing Mail High Density and Saturation Flats/Parcels	87.5	85.3	-2.2	86.62
USPS Marketing Mail Every Door Direct Mail Retail	77	75.7	-1.3	86.62
Periodicals In-County	80.9	75.6	-5.3	86.62
Periodicals Outside County	80.7	75.0	-5.7	86.62
Package Services Bound Printed Matter Flats	55.7	61.7	6.0	90.00

Source: Library Reference PRC-LR-ACR2021-9.

**Figure VI-2
Flats Service Performance Results, FY 2020–FY 2021**



Source: Library Reference PRC-LR-ACR2021-9.

While the Postal Service claims that some operational initiatives will result in improved service, as discussed in Section D, *infra*, it is unable to determine precisely how or if its operational changes and/or initiatives will actually impact service.³⁵⁴ The Commission has specifically developed directives that elicit information and data regarding the steps that the Postal Service will take to restore service performance for flats products, as detailed in Chapter V.

D. Impact of Operational Initiatives and Methodological Changes

1. Operational Initiatives

As required by 39 C.F.R. § 3050.50(f), the Postal Service presented several operational initiatives and national operational changes related to flats that it has either implemented or plans to implement. *See* FY 2021 Operational Initiatives Report. The Postal Service states

³⁵⁴ See generally, Library Reference USPS-FY21-45, folder “Paragraph (f) -- Operational Changes Report,” PDF file “FY21 Paragraph (f) Report.pdf” (FY 2021 Operational Initiatives Report); see also Library Reference USPS-FY21-45, folder “Paragraph (c) -- Service Performance Report,” folder “C2-C6 Timelines,” PDF file “C2-C6 Timelines FY21.pdf” (FY 2021 C2-C6 Timelines).

that “COVID-19 continued to have a significant impact on Postal Service operations and service performance in FY 2021, especially in the first half of the fiscal year.” *Id.* at 1. The Postal Service described each initiative that applies to all flats unless otherwise specified. To respond to § 3050.50(f)(1), the Postal Service identified the areas for which data were submitted in response to § 3050.50(b)-(e) that it would reasonably expect to be affected by each initiative. *Id.* The Postal Service continues to maintain that it is “neither possible to identify with certainty which initiatives contributed to a particular result nor to isolate the effects of each initiative.”³⁵⁵ The Postal Service did not provide any specific goals related to the initiatives, and the Commission discusses them generally in this section, and throughout this Chapter where applicable.

The Postal Service continues to maintain the Headquarters cross-functional team, which it established in FY 2019. FY 2021 Operational Initiatives Report at 2. The Postal Service states that “[t]he purpose of the team is to identify and implement cost saving measures around flats processing and improvements aimed at boosting service performance.” *Id.* The Postal Service also continues to maintain the joint task force collaboration with the flats mailing industry to identify potential initiatives to reduce cost and improve service. *See* ACMA Comments at 2; *see also* Response to CHIR No. 5, question 8.

a. Flats Processing in General

Economies of density continued to have an impact on flats during FY 2021. Flats volumes continued to decline, and package volumes surged due to increased e-commerce driven by the COVID-19 pandemic. The inability of the Postal Service’s network to support the increase in package volume due to insufficient space, processing capacity, and transportation capacity led to a gridlock that affected all mail products, including flats. The Postal Service attributes the “disappointing service performance” results for flat-shaped products to “the cumulative effects of the many unfavorable circumstances experienced in FY 2021.” FY 2021 Operational Initiatives Report at 3. The Postal Service notes that it “is committed to planning and implementing initiatives that are simple and achievable and that will drive down costs and improve service.” *Id.* at 4.

b. Updates, Clarity and Specificity on Initiatives and Related Impacts

Notwithstanding the challenges outlined above, the Postal Service defined the following FY 2022 initiatives focusing on flats optimization:

- *Equipment right-sizing: stabilization and/or optimization.* In FY 2021, the Postal Service removed 12 excess FSS machines that were not needed to process the

³⁵⁵ *Id.* at 2. *Compare* FY 2021 Operational Initiatives Report at 1-2, with Docket No. ACR2020, Library Reference USPS-FY20-45, folder “Paragraph (f) -- Operational Changes Report,” PDF file “Paragraph (f) Report.pdf,” at 2 (Docket No. ACR2020 Operational Initiatives Report). The Postal Service also noted that the data provided in response to § 3050.50(b)-(e) would necessarily change from one year to another in response to a multitude of factors, some of which are outside of the Postal Service’s control (e.g., the occurrence of natural disasters and weather-related incidents, broader economic conditions, and changes in customer preferences and behavior). FY 2021 Operational Initiatives Report at 1.

current volumes at selected sites. This effort will realign operations with volume and density thereby removing machine operational cost and maintenance. This initiative will continue in FY 2022 as needed. *Id.* at 5.

- *Site-specific flats operating plans.* In FY 2021, the Postal Service worked with each flat-processing site to establish a site-specific flats operating plan in order to streamline operations and set predictable, service-responsive, achievable goals for operational clearance times. This initiative will continue in FY 2022. *Id.* at 6.
- *Labeling list updates and/or changes.* In FY 2021, labeling lists played an important role in the makeup and distribution of mail products, and careful labeling list review was a focus in FY 2021. Labeling list reviews will continue in FY 2022. *Id.* at 5.
- *FSS delivery point compression.* The FSS sorts flats into delivery point sequence (DPS). FSS processing is a multifaceted process that requires coordination by several functional groups, including the mailing industry. *See* Response to CHIR No. 2, question 15 a-b. In FY 2021, FSS delivery point compression was implemented in targeted sites for optimization of sort programs to reflect FY 2021 volumes. FY 2021 Operational Initiatives Report at 4-5. Compression removes delivery points with little to no volume from the FSS sequencing but still sorts them to the carrier. Reducing the number of delivery points on FSS sort programs allows sites to process more FSS volume within the same operating window. Delivery Point Compression will continue to be rolled out nationally to all FSS sites in FY 2022. *Id.*
- *Combined efforts with engineering on experimental/pilot opportunities.* In FY 2021, the Postal Service added 896 sortation bins to 18 Automated Parcel and Bundle Sorter (APBS) machines, particularly aimed at helping sort Periodicals and Marketing Mail Flats. The Postal Service installed over 30 new Automated Delivery Unit Sorter (ADUS) and Small Package Sorting System (SPSS) machines (which are capable of processing both package and bundles) at mail processing facilities. The Postal Service also installed over 30 Single Induction Package Sorter (SIPS) machines, which may be retrofitted to process bundles. Increasing the number of sortation bins on bundle sorters helps to finalize more mail on a primary automated operation, thereby reducing the amount of mail that must be reworked on a secondary automated operation or reworked manually. The addition of package/bundle sorting equipment also increases overall bundle processing capacity. Finer sortation and increased capacity are expected to lead to increased service performance. In FY 2022, the Postal Service plans to add additional package/bundle sorting machines in locations with capacity shortfalls. Engineering will explore retrofitting SIPS machines to process bundles. Further bin expansions will be evaluated based on the network transition and facility modernization schedule. *Id.* at 6-7.

In addition, the Postal Service will continue the following FY 2021 initiatives: development and dissemination of Standard Work Instructions, Automated Flats Sorting Machine

(AFSM) Certification, AFSM Software enhancement, the Grid Initiative and Full Service bundle visibility.³⁵⁶

c. Commission Analysis

The Commission continues to empathize with the Postal Service on the broader impact the COVID-19 pandemic had on several aspects of flats operations in general. However, overcoming the COVID-19 pandemic impediments as challenging as it may appear, is not insurmountable. The Postal Service should have developed an executable plan to use available resources and implement the FY 2021 and FY 2022 flats operational initiatives strategically, to help reduce flats costs and improve the financial performance of flats products. The Commission continues to be specifically concerned that the Postal Service allocates resources on initiatives without any ability to measure the impact of the initiatives on flats costs. The initiatives identified by the Postal Service for FY 2021 and FY 2022 should result in some cost savings at the aggregate level, despite the Postal Service's continued assertion that it is impossible to determine their impact. The Postal Service should work to quantify the impact of these initiatives on costs in FY 2022 to ensure its efforts are effective.

As discussed in Sections B.2. and C., *supra*, and throughout Chapter III and Chapter V, despite the existence of the operational initiatives in FY 2021, and similar initiatives in previous years, unit costs for flats products continue to rise and no flat-shaped mail product is meeting its service performance target. Operational initiatives should have meaningful impacts in lowering cost and/or improving service performance, which are not visible in FY 2021.

2. Cost Impact of Methodological Changes

The Postal Service identified two methodological changes that affected flat-shaped mail products in FY 2021.³⁵⁷

a. Transportation Variabilities

The first methodological change is related to new transportation variabilities in Docket No. RM2021-1 (Proposal Seven). Order No. 5999 at 2. In Order No. 5999, the Commission approved the updated variabilities for certain types of purchased highway transportation contracts to reflect operational changes. These operational changes included an increased reliance on additional highway transportation during the seasonal volume peak and a new type of highway contract called a Dynamic Route Optimization contract. *Id.* at 16-32. The update was accomplished through an analysis of the operational changes and through the

³⁵⁶ *Id.* at 7. "The Grid is a template/tool that was designed to provide managers and employees at all levels of the organization the ability to clearly see the gaps in work in process (cycle time) performance through the scan events and stall points of processing and transportation." Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-30 of Chairman's Information Request No. 5, February 2, 2021, question 23 (Docket No. ACR2020 Response to CHIR No. 5).

³⁵⁷ See Library Reference USPS-FY21-45, folder "Paragraph (g) – Data Enhancement Report," PDF file "FY21.Paragraph G_Data Enhancements .pdf" (Paragraph G Data Enhancements).

estimation or re-estimation of the affected highway transportation variability equations. See Paragraph G Data Enhancements at 1. The update produced new variabilities that resulted in higher unit costs for all flat-shaped mail products with the exception of EDDM-R.³⁵⁸

b. City Carrier Special Purpose Route Costs

The second methodological change involved the use of Product Tracking and Reporting (PTR) scan data for distributing city carrier special purpose route costs for regular Monday through Saturday delivery. In Docket No. RM2021-7 (Proposal Four), the Postal Service replaced the old system of distributing delivery costs for Special Purpose Routes (SPRs) with a revised system that replaced manual sampling with the scan data from PTR using clock rings from the Time and Attendance Collection System (TACS). Order No. 5991 at 1-2. This revised system is designated the Special Purpose Carrier Cost System (SPCCS). *Id.* at 2. In addition, Proposal Four separated the weekday SPRs cost pools and distribution factors into peak and non-peak pools. Paragraph G Data Enhancements at 2-3. Proposal Four continues the momentum of using operational data in product costing and allows the Postal Service to calculate the distribution factors more precisely and cost efficiently. *Id.* at 3. Proposal Four, however, did not provide any visible impact on unit costs for the vast majority of flat-shaped products, with the exception of BPM Flats, which had a slight decrease in unit cost (by 0.2 cents). Paragraph G Data Enhancements at 3, Table 2.

c. Commission Analysis

Methodological changes are made to improve the quality, accuracy, or completeness of Postal Service data. These changes can apply to a specific product or to all Market Dominant products, which includes flat-shaped mail. Even if a methodological change is not targeted at flats products, holding everything else equal, it will inevitably impact the costs of flats products. The Postal Service should conduct a preliminary assessment of methodological changes involving cost studies and determine the cost of the study. As observed by the Public Representative “methodological redistribution of costs does not have the same overall beneficial financial impact as cost reduction initiatives that eliminate costs without redistribution.” See PR Comments at 133.

E. 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

³⁵⁸ See Docket No. RM2021-1, Library Reference PRC-LR-RM2021-1/1, October 6, 2021, folder “Analysis and Impact,” Excel file “Impacts of New Variabilities.Public_PRC.xlsx.”

- 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

As the Postal Service seeks additional revenues to improve cost coverage, mail preparation, especially “bundles,” has been a focus. In a recent Postal Service Office of the Inspector General (OIG) report³⁵⁹ titled Cost Reduction Initiative for Mail Products, the OIG “identified several mail preparation issues related to bundle strapping, the use of sacks, shrink-wrap, and paper quality that increased mail production costs. These issues caused increased bundle breakage which resulted in manual mail processing and increased cost for mail products.” OIG Report No. at 1. The Postal Service states that “[o]ngoing attention has yielded an increase[d] internal awareness of bundle breakage occurrences and recordation in order to trigger efforts to abate/reduce bundle breakage. Such efforts include reviewing both internal operational processes and customer communication practices.”³⁶⁰

a. Bundle Breakage Rates

In the FY 2021 ACR, the Postal Service provided data on Bundle Breakage Performance³⁶¹ from FY 2016 through FY 2021. *See* Table VI-9.

³⁵⁹ United States Postal Service, Office of Inspector General, Report No. 20-088-R20, Cost Reduction Initiatives for Mail Products, August 3, 2020, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/20-088-R20.pdf> (OIG Report No. 20-088-R20).

³⁶⁰ *See* Library Reference USPS-FY21-45, folder “Rule 3050.50 Flats,” folder “Paragraph (e) -- Pinch Point Reports,” folder “e.9 Trend Narrative.PRC.LR.9 Update,” PDF file “FY21 Rule 3050.50(e.9) Narrative.pdf,” at 1 (Section e.9 Narrative).

³⁶¹ *See* Library Reference USPS-FY21-45, folder “Rule 3050.50 Flats,” folder “Paragraph (e) -- Pinch Point Reports,” folder “e.9 Trend Narrative.PRC.LR.9 Update,” Excel file CH 6 Data and Tables FY21. PRC.LR9.9 Update.xlsx, tab “VI-3 Bundle Breakage.” *See also* Library Reference PRC-LR-ACR2021-9, Excel file “CH 6 Data and Tables 2021.xlsx,” tab “Table VI-9 Bundle Breakage.”

**Table VI-9
Bundle Breakage, FY 2016–FY 2021**

Fiscal Year	Total Bundles	Broken Bundles	% Broken
FY 2016	497,658,730	12,960,619	2.60%
FY 2017	492,575,354	13,882,003	2.82%
FY 2018	460,468,758	22,081,833	4.80%
FY 2019	423,461,111	23,211,989	5.48%
FY 2020	357,469,115	20,432,791	5.72%
FY 2021	326,280,168	20,528,870	6.29%

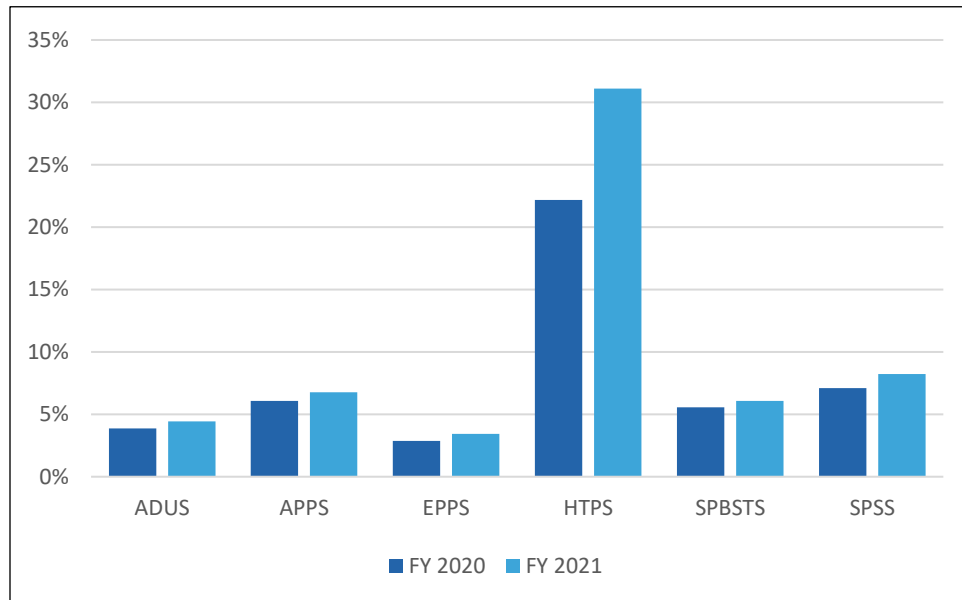
Source: Library Reference PRC-LR-ACR2021-9.

In response to a FY 2019 ACD Directive, under the rubric “Efforts to Reduce Bundle Breakage,” the Postal Service stated “[it] has focused its efforts on lowering the incidence of bundle breakage at the individual level.”³⁶² The data in Table VI-9 show that in FY 2021, the percent of broken bundles increased by 0.57 percentage points to 6.29 percent, representing an accelerated growth rate relative to last year’s 0.23 percentage point increase.

Figure VI-3 depicts the bundle breakage by machine type in FY 2020 and FY 2021.

³⁶² See Docket No. ACR2019, Response of the United States Postal Service to Commission Requests for Status Reports in the FY 2019 Annual Compliance Determination, July 15, 2020, at 4 (Docket No. ACR2019 Status Reports).

**Figure VI-3
Bundle Breakage by Machine Type³⁶³**



Source: Library Reference PRC-LR-ACR2021-9.

The majority of bundles (roughly 95 percent) are processed on either the Automated Package Processing System (APPS) or the Sorter/Small Parcel and Bundle Sorter Tracking (SPBST) with an average broken rate of 6.36 percent.³⁶⁴ Given that there was a 9 percent drop in the number of bundles processed on the APPS and SPBST machines combined from FY 2020 to FY 2021, and the aggregate breakage rate on these two machines is 0.6 percentage points higher in FY 2021 than in FY 2020, the Commission concludes that the Postal Service has not succeeded in its efforts to reduce the occurrence of bundle breakage.

However, the Postal Service continues to utilize the Mailer Irregularity Application to provide specific and actionable information on bundle breakage and other preparation and/or quality issues to mailers.³⁶⁵ The Mailer Irregularity Application identifies mail irregularities such as mail with preparation and/or quality issues. *See* Section e.9 Narrative at 1. The Mailer Irregularity Application resides on the Surface Visibility Mobile scanner platform and in FY 2020, was made available on the Mailer Scorecard, allowing it to be easily shared with mailers for corrective action. *Id.*

³⁶³ Machines displayed on this graph are the Automated Delivery Unit Sorter (ADUS), the Automated Package Processing System (APPS), the Enhanced Package Processing System (EPPS), the High Throughput Package Sorter (HTPS), the Small Parcel and Bundle Sorter Tracking System (SPBSTS), and the Small Package Sorting System (SPSS).

³⁶⁴ *See* Library Reference PRC-LR-ACR2021-9, Excel file "CH 6 Data and Tables.xlsx," tab "Table VI-9 – Bundle Breakage."

³⁶⁵ Docket No. ACR2019 Status Reports at 4. The Mailer Irregularity Application resides on the Surface Visibility Mobile scanner platform and utilizes available barcode information, a selectable issue list, and images to provide specific insight into bundle breakage. *Id.* n.1.

There is unequivocal evidence supporting the Postal Service's effort to collaborate with the flats mailing industry to reduce the incidence of bundle breakage. *See* Response to CHIR No. 5, question 8. Unfortunately, recent events such as the COVID-19 pandemic and changes in the Postal Service's organizational structure have slowed efforts to increase or improve communications with mailers related to Mailer Scorecard irregularities, such as bundle breakage. Section e.9 Narrative at 1-2. The Postal Service continues to study the causes of bundle breakage, impacts and ways to reduce bundle breakage, while also envisioning improved methods to engage mail preparers to improve the product and service by reducing breakage risk. *Id.* at 2.

Table VI-10 shows the FY 2019 through FY 2021 bundle breakage by groups of non-compensatory products and its cost impact, as estimated by the Postal Service.

b. Bundle Breakage Cost Impacts

In response to a FY 2019 ACD Directive, the Postal Service estimated the FY 2019 cost impact of bundle breakage for both Periodicals products and two USPS Marketing Mail products (Flats and Carrier Route). Docket No. ACR2020 Response to CHIR No. 5, question 16; Excel File "Q16 CHIR No. 5.xlsx." The total cost impact of broken bundles in FY 2021 is \$68.4 million and the cumulative cost impact for the period from FY 2019 to FY 2021 is \$183.2 million. *See* Table VI.10.

Table VI-10
Bundle Breakage by Groups of Products³⁶⁶ and Cost Impact, FY 2019–FY 2021

Fiscal Year	Bundles Processed (millions)	Broken Bundles (millions)	Percent Broken	Total Cost impact (\$ millions)	Total Bundle Processing Cost Excluding Cost of Broken Bundles (\$ millions)	Total Processing Cost (\$ millions)	Broken Bundle Percent of Total Processing Cost
FY 2019	423.5	23.2	5.48%	\$ 59.81	\$ 160.56	\$ 220.37	27.1%
FY 2020	357.5	20.4	5.72%	\$ 54.96	\$ 123.25	\$ 178.21	30.8%
FY 2021	326.3	20.5	6.29%	\$ 68.43	\$ 116.51	\$ 184.94	37.0%
Cumulative Cost Impact FY 2019-FY 2021				\$ 183.21			

Source: Library Reference PRC-LR-ACR2021-9.

Bundle processing and bundle breakage rates are different between flats products in two mail classes: Periodicals and USPS Marketing Mail, and their relative cost impacts also vary. In FY 2021, the bundle breakage percent rate for USPS Marketing Mail was 7.12 percent, while the bundle breakage percent rate for Periodicals was 4.52 percent.³⁶⁷ The bundle breakage percent rate difference between Periodicals products and the USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route products continues to exhibit the same

³⁶⁶ The group of products includes both Periodicals products, USPS Marketing Mail Flats, and USPS Marketing Carrier Route.

³⁶⁷ See Library Reference PRC-LR-ACR2021-9, Excel file "CH 6 Data and Tables.xlsx," tab "Table VI-10 – Bundle Cost Impact."

pattern with more incidences of bundle breakage reported for USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route. This pattern is expected to continue unless bundle preparation requirements are modified. As the Postal Service explained, bundles for Periodicals are typically more uniform in size than the USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route bundles, which are often poly wrapped and strapped by the mailer. Docket No. ACR2020 Response to CHIR No. 5, question 18. The USPS Marketing Mail bundles, on the other hand, vary widely in size, and are roughly twice as likely to be prepared in sacks rather than placed on pallets. *Id.* Sacked bundles have higher breakage rates because they do not have the protection that pallets provide. *Id.*

Table VI-11
Increase in the Estimated Cost Impact, FY 2021³⁶⁸

Mail Class/Product	FY 2021 Increase in Estimated Cost Impact Per Broken Bundle	FY 2021 Increase in Estimated Cost Impact Per Piece in Broken Bundle
Periodicals	30%	27%
USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route	22%	17%

Source: Library Reference PRC-LR-ACR2021-9.

Table VI-11 shows a substantial increase in both the per piece and per bundle estimated cost impact for Periodicals and USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route. The Postal Service explained that several factors could have contributed to the increase in cost between FY 2020 and FY 2021. Higher percentages of broken bundles would result in higher cost estimates. Furthermore, cost models used to develop the underlying data contain mail processing unit cost estimates by shape for Periodicals, USPS Marketing Mail Flats and USPS Marketing Mail Carrier Route, and all such costs have increased.³⁶⁹ Additionally, as described in the Docket No. ACR2019 Status Reports, increases in the CRA proportional adjustment factor also affect these cost estimates.

c. Commission Analysis

The Commission commends the Postal Service for its persistent effort in working with the flats mailing industry amidst the challenges posed by the COVID-19 pandemic to resolve flats issues, especially bundle hygiene and integrity. Both the Postal Service and the flats mailing industry are to be commended for the breadth of information shared and the degree of participation demonstrated.

³⁶⁸ See Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 10, February 9, 2022, question 1. See also Library Reference USPS-FY21-45, folder "Rule 3050.50 Flats," folder "Paragraph (e) -- Pinch Point Reports," folder "e.9 Trend Narrative.PRC.LR9 Update," Excel file "CH 6 Data and Tables FY21. PRC.LR.9 Update.xlsx," tab "LR9 -Table 5-Bundle Cost Impact," cells F4:G5.

³⁶⁹ See Library Reference USPS-FY21-45, folder "Rule 3050.50 Flats," folder "Paragraph (b)--Financial Report," Excel file "FY21.Rule.3050.50.Para.B.xlsx," tab "Item b2."

In FY 2021, the Postal Service spent \$116.5 million on bundle processing, which accounts for approximately 6.0 percent of flats processing costs.³⁷⁰ In FY 2021, the Commission estimated the cost impact of broken bundles to be \$68.4 million, a 25 percent increase from FY 2020.³⁷¹ The cumulative impact of \$183.2 million from FY 2019 to FY 2021 is alarming. Given that the cost impact of broken bundles was excluded from the calculation of the cost impact of bundle processing, adding the calculated cost impact of broken bundles to the total cost of bundle processing results in roughly \$184.9 million. This estimate is 58.7 percent higher than the cost of bundle processing had there been no bundle breakage. *Id.* The Commission therefore concludes:

- The percentage of broken bundles during processing reported by the Postal Service continued to increase.
- The total cost impact of broken bundles in FY 2021 was \$68.4 million, while the cost of processing bundles was \$116.5 million, resulting in a 57.8 percent increase in total bundle processing cost.
- The cumulative cost impact of broken bundles from FY 2019 to FY 2021 was \$183.2 million.

The Commission recommends that the Postal Service continue to estimate and report the additional cost that bundle breakage adds to flats processing. In FY 2022, the Postal Service must work to reduce the number of broken bundles while continuing to increase the number of tracked bundles. In addition, the Postal Service shall continue to study the causes, impacts, and ways to reduce bundle breakage; enhance reporting and tracking of bundle irregularities; and work with mailers to ensure corrective actions are implemented when irregularities are shared through the Mailer Irregularity Application on the Mailer Scorecard.

2. Low Productivity on Automation Equipment

In FY 2019, the Postal Service began providing additional data related to this pinch point, including specific data for machines and facilities. Below, the Commission analyzes the ability of specific machines to achieve productivity targets, trends in productivities of different mail processing machines, and trends in productivities at the facility level.

a. Productivity Targets and Results

The Postal Service has specific productivity targets for its automation equipment and in FY 2021, none of those targets were achieved. *See* Section e.9 Narrative at 2-3. As discussed in more detail below, most productivities decreased in FY 2021. The Postal Service notes that reactions to the COVID-19 pandemic have been contributing factors to the decline in flats automation processing productivities in FY 2020 and FY 2021. *Id.* at 2. The Postal Service's goal in FY 2022 "...is to stabilize operations now that employee availability has improved and complement has risen to levels needed to sufficiently staff operations to

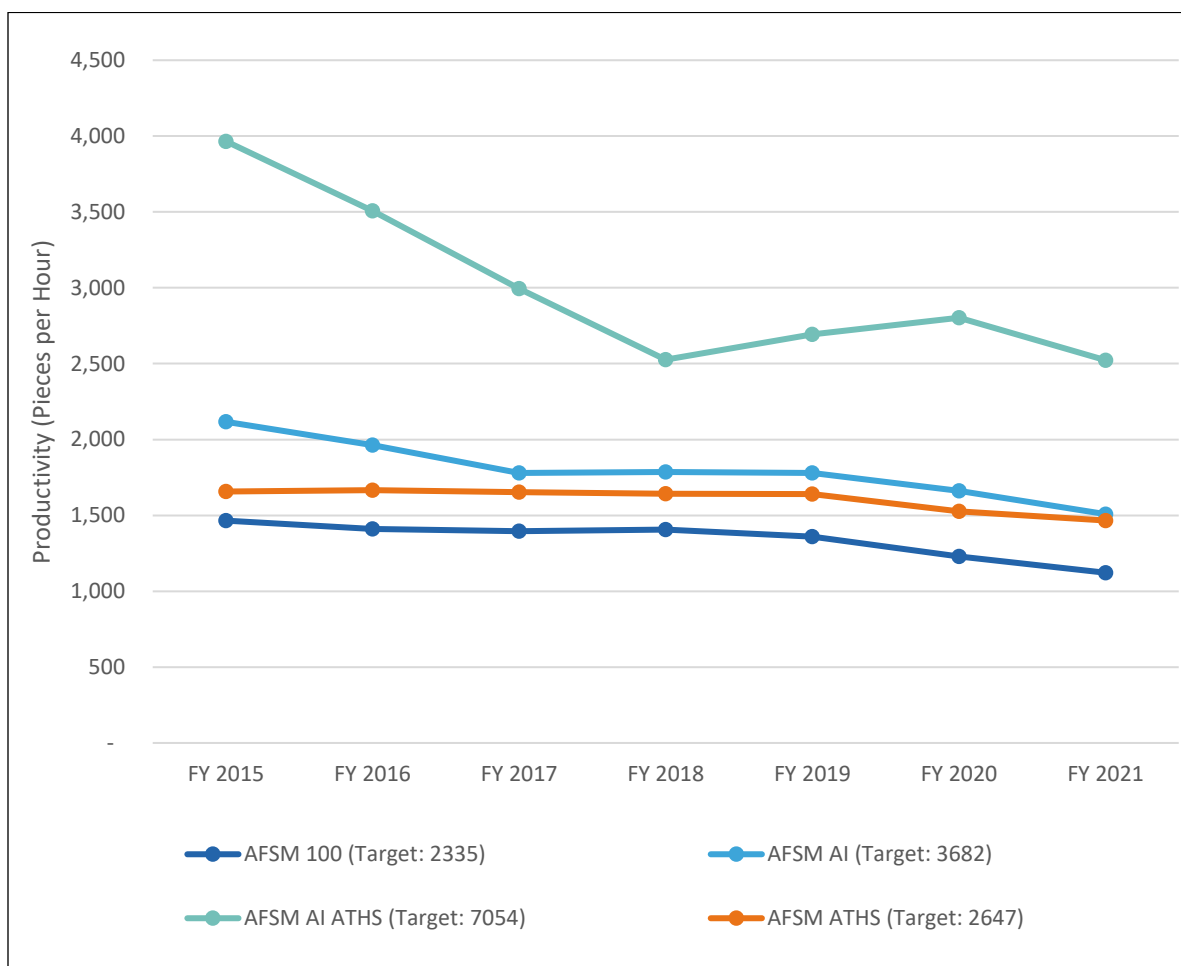
³⁷⁰ See Library Reference USPS-FY21-45, folder "Paragraph (b) -- Financial Report," Excel file "FY21.Rule.3050.50.Para.B.xlsx," tab "Item b8."

³⁷¹ See Library Reference PRC-LR-ACR2021-9, Excel file "CH 6 Data and Tables.xlsx," tab "Table VI-10 – Bundle Cost Impact."

meet service targets. The Postal Service is committed to holding sites accountable to improve year-over-year productivities.” *Id.* at 2-3.

The only machines with increased productivities in FY 2021 were the Flats Postal Automated Redirection Systems (FPARS) and flats sorting machine (FSM) 1000, however they handle a very small portion, 2.6 percent, of automation processed flats volumes.³⁷² The primary machines used to process flats are the APBS, the APPS, the AFSM 100, and the FSS. Figure VI-4 shows productivity results and targets for the different types of AFSM 100 machines in FY 2015 through FY 2021. While productivity targets have remained constant, annual productivities have been steadily decreasing. The FY 2021 productivity value is less than half of its target.

**Figure VI-4
Machine Productivities for AFSM 100 Machines, FY 2015–FY 2021**

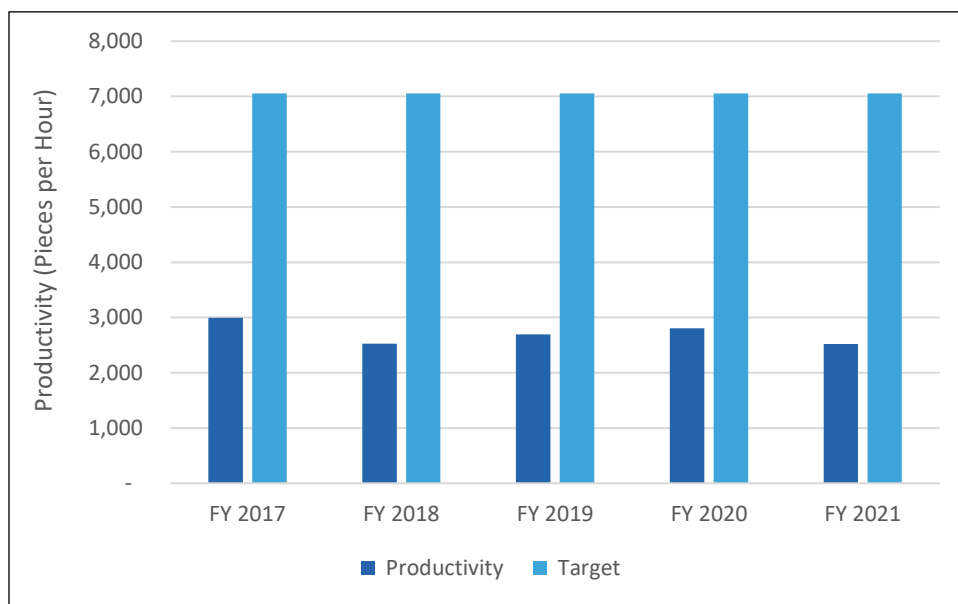


Source: Library Reference PRC-LR-ACR2021-9.

³⁷² See Library Reference USPS-FY21-45, folder “Rule 3050.50 Flats,” folder “Paragraph (e) -- Pinch Point Reports,” folder “e.2 Mail Processing Variance,” Excel file “National MPVar FY17.FY21.xlsx.”

Figure VI-5 shows productivity results and targets for the AFSM Automatic Induction (AI) Automatic Tray Handling System (ATHS) machine from FY 2017 through FY 2021. This machine processes more flats volume than any other mail processing equipment, 42 percent of all flats processed in FY 2021. While productivity targets have remained constant, annual productivities on the AFSM AI ATHS machine have varied, experiencing a net decrease since FY 2015. The FY 2021 productivity value was only 36 percent of its target.

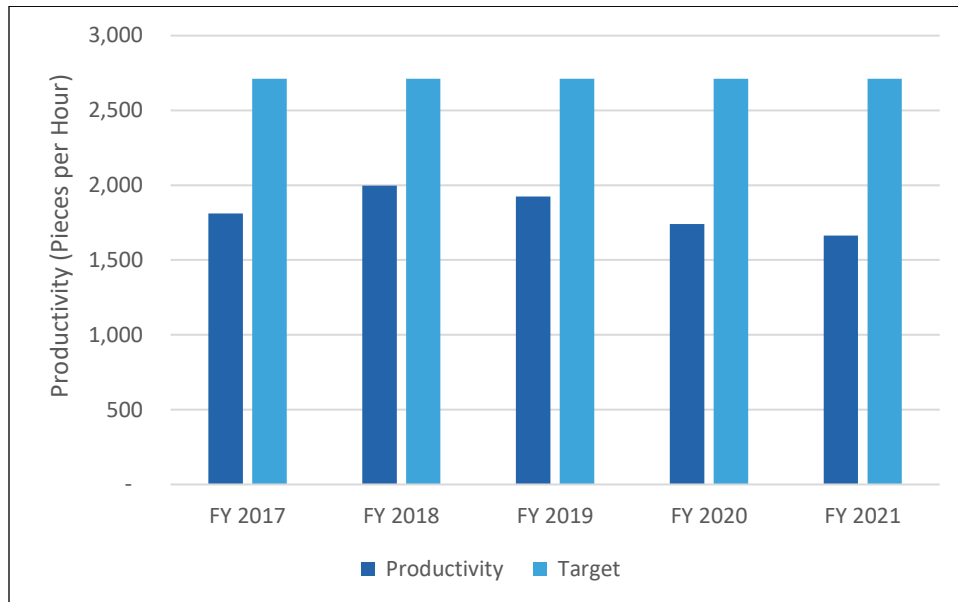
**Figure VI-5
Machine Productivities for AFSM AI ATHS, FY 2017–FY 2021**



Source: Library Reference PRC-LR-ACR2021-9.

The FSS is another machine used by the Postal Service to process flats and sort pieces into DPS. Figure VI-6 shows productivity results and targets for the FSS machine from FY 2017 through FY 2021. While productivity targets have remained constant, annual productivities on the FSS machine have been steadily decreasing since FY 2018. While FSS productivity is closer to its target than other mail processing machines, the FY 2021 productivity value was only 61 percent of its target.

Figure VI-6
Machine Productivities for FSS, FY 2017–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

To address the low productivity of the AFSM 100 machines, the Postal Service created an AFSM certification process in FY 2019.³⁷³ The certification process was initiated in FY 2020, but was not completed in FY 2020 and did not continue in FY 2021. *See* FY 2021 Operational Initiatives Report at 5-6. The AFSM certification process “...is intended to impact cost and service performance by reducing unnecessary work hours, maximizing equipment utilization, improving flow of flats volume to reduce opportunity for error, and ensuring proper and continued maintenance of equipment.” *Id.* at 5. The Postal Service plans to revisit the AFSM certification initiative in FY 2022. *Id.* at 6. In FY 2021, the Postal Service implemented software patches to all AFSM sites and established site-specific operating plans. *Id.* These software patches “...implemented a number of improvements to Mail Image Collection System functionality and maintenance activities, such as camera diagnostic and calibration efficiency improvements.” *Id.*

b. FSS Performance Metrics

Table VI-12 highlights the general declines in performance for the FSS in FY 2021. Specifically, the percentage of mail that was put into DPS on the FSS machines declined to 65.6 percent and the productivity of the FSS machines continued to decline. The Postal Service notes that “[w]hile the FSS machines resumed normal processing in FY 2021, residual effects of the FSS-candidate mail shift to AFSM100 machines at some sites caused a smaller

³⁷³ See Docket No. ACR2019, Library Reference USPS-FY19-45, folder “Paragraph (f) -- Operational Changes Report,” PDF file “Paragraph (f) Report.pdf,” at 9-10 (Docket No. ACR2019 Operational Initiatives Report).

proportion of mail to be finalized to DPS on the FSS machines compared to [same period last year] SPLY.” See Part B Narratives at 13. The FSS Leakage percentage, which measures mail destined for the FSS, but processed elsewhere, increased to 38.5 percent in FY 2021. In addition, the Postal Service provided the capacity percentage of the FSS, which measures the total capacity of the machines utilized. *Id.* The data show that this percentage decreased from 44.4 percent in FY 2020 to 39.9 percent in FY 2021, down by 23.8 percentage points from FY 2018.

Table VI-12
FSS Performance Metrics, FY 2015–FY 2021

	2015	2016	2017	2018	2019	2020	2021
DPS %	60	56.7	54.7	77.1	78.6	71.7	65.6
Productivity (TPF/Hour)	797	768	744	758	730	663	638
Mail pieces at risk (%)	5.4	5.7	5.8	4.6	4.7	4.7	5.5
Leakage (%)	n/a		20.1	21.9	25.4	32.7	38.5
Capacity (%)	n/a		n/a	63.7	58.4	44.4	39.9
Volume (TPF, in millions)	4,121	3,993	3,883	3,705	3,393	2,617	2,255
Mail Processing Cost \$(000)	202,259	205,802	208,243	197,704	192,883	166,825	145,627

Source: Library Reference PRC-LR-ACR2021-9.

The Postal Service described three initiatives designed to improve FSS processing. FY 2021 Operational Initiatives Report at 4-5.

1. Delivery Point Compression “removes delivery points with little to no volume from the FSS...[r]educing the number of delivery points on FSS sort programs allows sites to process more FSS volume within the same operating window.” *Id.* at 4.
2. The Postal Service removed 12 excess FSS machines that were not needed to process volumes at selected sites. *Id.* at 5.
3. Labeling List Comparison played an important role in the makeup and distribution of mail products. *Id.*

The Postal Service plans to continue implementing all FSS initiatives in FY 2022.

c. Analysis of Productivity and Volume

The Postal Service also provided Mail Processing Variance Report data that includes the productivities for various mail processing machines at the facility level.³⁷⁴ In the FY 2019 ACD, the Commission analyzed productivities by facility size for a single year and found there was a weak correlation between volume and productivity for every machine. FY 2019 ACD at 167-68. In response, the Postal Service stated that:

³⁷⁴ See Library Reference USPS-FY21-NP31, December 29, 2021, Excel file “NONPUBLIC MP Variance FY16_21.xlsx.”

Differences in productivities from plant to plant may arise due to a number of other factors—many of which are difficult or impossible to quantify—such as differences in facility layouts, facilities’ network roles, internal mailflows, operating windows, staffing practices, and management effectiveness. These factors can amplify or counteract direct effects of size on productivity.

Docket No. ACR2019 Status Reports at 6-7.

In FY 2020, the Commission attempted to account for facility-specific differences by filtering by each mail processing facility, then calculating the correlation between volume and productivity over time for the AFSM AI ATHS machine. FY 2020 ACD at 253. The Commission’s analysis showed that many individual mail processing facilities showed no correlation between volume and productivity over time. *Id.* While all these facilities experienced volume losses, these volume declines did not necessarily result in lower productivities. *Id.*

In Docket No. RM2020-13 (Proposal Six), the Postal Service proposed, but the Commission denied, a new methodology for estimating volume variabilities for certain mail processing cost pools using its Management Operating Data System (MODS) data on volume and productivities.³⁷⁵ Among other issues, the Commission found that the estimated variabilities fluctuate substantially when the sample period changes. *Id.* at 49. These findings suggest that measuring the correlation between volume and productivity in a single facility over time may not be a sound approach.

In an attempt to identify relationships between volume and productivity in FY 2021, the Commission chose to take a different look at mail processing data. The Commission examined the correlation between the overall FY 2021 volume and productivity for small, medium, and large volume facilities for the AFSM AI ATHS type of machine that processes the highest percentage of flats volumes. *See* Table VI-13. Three facility groups were created by sorting the data by volume, then classifying each third of facilities into a volume group (*i.e.*, small, medium, and large facilities). All three volume groups exhibited correlations close to zero.³⁷⁶

³⁷⁵ See Docket No. RM2020-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Six). January 26, 2022, at 1-2 (Order No. 6096).

³⁷⁶ Data points with zero volumes were removed from Mail Processing Variance data prior to estimating the correlations.

Table VI-13
Correlations by FY 2021 Volume Group for AFSM AI ATHS Machine

	Correlation
Large Volume Facilities	-0.063
Medium Volume Facilities	-0.069
Small Volume Facilities	-0.117

Source: Library Reference PRC-LR-ACR2021-NP3.

Another approach to establish a potential relationship between volume and productivity is to analyze data by type of machine for different facility types. The Postal Service's data include volume and productivities for different types of facilities, including but not limited to P&DC, processing and distribution facility (P&DF), and NDC. Each facility type exhibits significant variation in terms of both volume and productivity.³⁷⁷ Table VI-14 singles out the most common facility type, P&DC, and examines the correlation between volume and productivity for every machine by year. Annual data, instead of quarterly data, were used to account for any seasonal variation. The data show that none of the machines exhibited any strong correlation between productivity and volume for this facility type. For some machines and years, the volume-productivity correlation is negative. Such negative correlation, although still weak, may indicate that for P&DC facilities, certain machines are more productive when they process less volume.

Table VI-14
Volume-Productivity Correlation, P&DC Facilities, FY 2017–FY 2021

Facility	Machine	2017	2018	2019	2020	2021
P&DC	MANUAL FLATS	-0.062	-0.072	-0.052	-0.059	0.082
P&DC	AFSM AI ATHS	-0.199	-0.212	-0.173	-0.084	-0.130
P&DC	AFSM 100	-0.200	0.168	-0.173	-0.076	-0.299
P&DC	FSS	-0.139	-0.164	-0.085	0.181	0.096
P&DC	AFSM AI	-0.304	-0.126	-0.180	-0.135	-0.380
P&DC	AFSM ATHS	-0.384	-0.325	-0.488	-0.202	-0.359

Source: Library Reference PRC-ACR2021-LR-NP3.

d. Data Used in the Analysis of Productivity and Volume

The Postal Service states that it is “committed to holding sites accountable to improve year-over-year productivities.” Section e.9 Narrative at 3. However, the use of the same mail processing machine category productivity target across all sites (given the differences that

³⁷⁷ For more information on different facility types, see Docket No. RM2020-1, Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 3, June 10, 2020, question 1.

likely exist)³⁷⁸ and the Postal Service's overall aggregation methodology, raises the question whether and how the data provided in the mail processing variance workbooks can be used to hold specific sites accountable.³⁷⁹

The Postal Service does not provide any specific information in either its Library Reference USPS-FY21-45 or Library Reference USPS-FY21-NP31 regarding any screening procedures it employs prior to aggregating the mail processing variance data to the facility, mail processing category, quarterly, and annual levels. The Commission aggregated the FY 2021 MODS data by facility, operation, and tour,³⁸⁰ to the same level as the data in the Postal Service's mail processing variance workbooks.³⁸¹ The Commission obtained very similar productivity results, but it appears that the Postal Service aggregates the MODS workhours and volume³⁸² without screening facility specific data that has either zero workhours or zero volume for a specific operation, tour, day, or month within the mail processing variance category group in the fiscal year and quarter.³⁸³

e. Commission Findings

Throughout the past 3 years, the Commission has analyzed the potential for a relationship between productivity and volume, but has not been able to identify any strong correlation. In FY 2019, the Commission took a cross-sectional snapshot of all facilities in a given year. FY 2019 ACD at 167-68. In FY 2020, the Commission examined correlation between volume and productivity for a single year and single facility over time. FY 2020 ACD at 253, n.460. This year, the Commission examined the relationship between productivity and volume by

³⁷⁸ Docket No. ACR2019 Status Reports at 7-8.

³⁷⁹ See productivity targets in Library Reference USPS-FY21-NP31, folder "Rule 3050.50 Flats," folder "Paragraph (e) -- Pinch Point Nonpublic Reports," folder "e.2 Mail Processing Variance," Excel file "NONPUBLIC MP Variance FY17_21.xlsx," tab "2021," column J; Library Reference USPS-FY21-45, folder "Rule 3050.50 Flats," folder "Paragraph (e) -- Pinch Point Reports," folder "e.2 Mail Processing Variance," Excel file "National MPVar FY17.FY21.xlsx," tab "FY17-21 By Qtr," column K.

For the Postal Service's explanation on the methodology used to develop its mail processing machine category target productivities, see Library Reference USPS-FY21-45, folder "Rule 3050.50 Flats," folder "Paragraph (e) -- Pinch Point Reports," folder "e.2 Mail Processing Variance," Excel file "National MPVar FY17.FY21.xlsx," tab "Target Narrative;" Library Reference USPS-FY21-NP31, folder "Rule 3050.50 Flats," folder "Paragraph (e) -- Pinch Point Nonpublic Reports," folder "e.2 Mail Processing Variance," Excel file "Nonpublic MP Variance FY17_21.xlsx," tab "Target Narrative."

³⁸⁰ See Library Reference USPS-FY21-NP18, December 29, 2021, folder "USPS-FY21-NP18 MODS Data," Zip file "modstour2021-np.zip," CSV file "modstour2021-np.csv." The Postal Service filed a revised, corrected FY 2021 MODS tour dataset in Library Reference USPS-FY21-NP42, February 22, 2022, Zip file "USPS-FY21-NP42.Files," CSV file "modstour2021r-np.csv."

³⁸¹ Library Reference USPS-FY21-45, folder "Rule 3050.50 Flats," folder "Paragraph (e) -- Pinch Point Reports," folder "e.2 Mail Processing Variance," Excel file "National MPVar FY17.FY21.xlsx," tab "FY17_21 By Qtr;" Library Reference USPS-FY21-NP31, folder "Rule 3050.50 Flats," folder "Paragraph (e) -- Pinch Point Nonpublic Reports," folder "e.2 Mail Processing Variance," Excel file "Nonpublic MP Variance FY17_21.xlsx," tab "2021."

³⁸² As noted above, the Postal Service aggregates MODS data by facility, mail processing category, fiscal year, and quarter. The MODS tour dataset contains the daily MODS data by facility, operation, and tour. A MODS day is made up of three tours (or work shifts) of 8 hours each. See Library Reference USPS-FY21-7, December 29, 2021, folder "USPS-FY21-7," PDF file "M-32 MODS Handbook.pdf," Section 2-6.2, at 9.

³⁸³ There were small differences in the Commission's results (using this same aggregation methodology) which possibly may be attributed to changes in the MODS data, different retrieval dates or other errors. See Library Reference USPS-FY21-NP42, PDF file "FY21,NP42.Preface.Responses.pdf," question 6, at 6; United States Postal Service, Office of Inspector General, Report No. CP-AR-19-001, Management Operating Data System Errors and Adjustments, April 3, 2019, available at <https://www.uspsaig.gov/document/management-operating-data-system-errors-and-adjustments>.

facility volume group and facility type, and still found weak or even unexplained negative productivity-volume correlations for each machine it analyzed. Despite these findings, the Postal Service continues to attribute declining productivities and increasing mail processing costs to falling flats volumes. FY 2021 ACR at 20. The Postal Service also claims that volume declines necessarily lead to higher unit mail processing costs, because setup and breakdown activities are largely invariant to volume. However, these costs account for only 5.7 percent of all mail processing costs for the AFSM 100.³⁸⁴ The Commission concludes that there is no evidence to support the Postal Service's theory that productivity declines are linked to volume declines.

The Commission directs the Postal Service to implement initiatives to reduce mail processing costs, as costs must be controlled even in a declining volume environment. Further, if mail processing facilities have extreme (unusually high or low) productivity values or have quarterly productivity values based on a large number of missing workhours or volume at the operation and daily tour-level,³⁸⁵ the Commission directs the Postal Service to target those sites to improve their reporting or explain why the provided productivity is accurate for a given facility, mail processing category, fiscal year, and quarter.

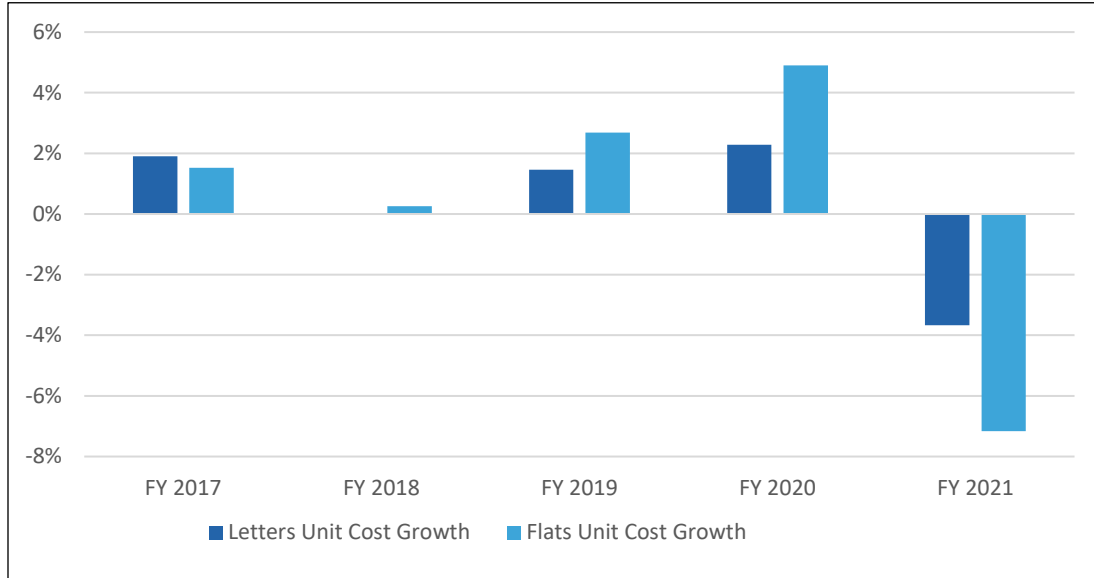
3. Manual Sorting

The Postal Service made progress in lowering the manual sortation portion of unit mail processing costs of flats in FY 2021. Figure VI-7 shows the unit mail processing costs of manually handling a piece of flat-shaped mail versus letter-shaped mail. In the period from FY 2018 through FY 2020, the average unit cost of manually handled pieces of flat-shaped mail has grown much faster than for letters. This difference was particularly stark in FY 2020, when the cost of manually processing flats grew at double the rate for letters. However, this trend ended in FY 2021 when the unit mail processing costs of manually handling a flat-shaped mail piece decreased by 7.2 percent. The Postal Service attributes this decline in manual unit cost to a "recovery this year from the more substantial effects of COVID-19 on volume in FY 2020, rather than a harbinger of any longer-term positive trend." Section e.9 Narrative at 3. This decrease was nearly double the decrease in unit manual mail processing of letter-shaped mailpieces.

³⁸⁴ See Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 3. January 26, 2022, question 5.

³⁸⁵ As reported in the mail processing variance workbook of Library Reference USPS-FY21-45 and Library Reference USPS-FY21-NP31.

Figure VI-7
Change in Unit Mail Processing Cost for Letters and Flats, FY 2017–FY 2021³⁸⁶

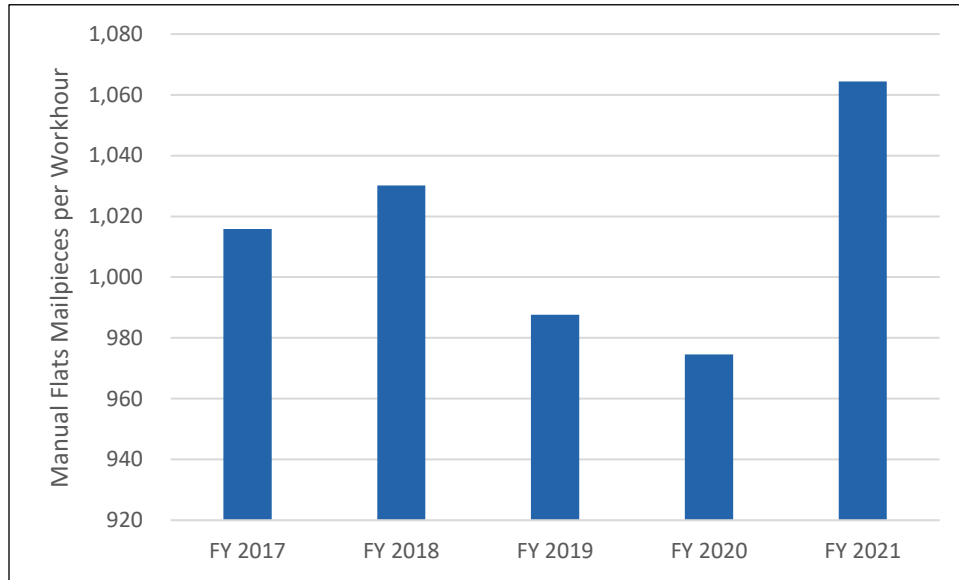


Source: Library Reference PRC-LR-ACR2021-9.

The decline in manual productivities in recent years has been troubling. Figure VI-8 shows manually processed flats mailpieces per workhour from FY 2017 through FY 2021. While the Postal Service has been processing fewer flats mailpieces per workhour from FY 2018 through FY 2020, this trend reversed in FY 2021. The Postal Service processed 9 percent more flats mailpieces per workhour in FY 2021.

³⁸⁶ This figure shows annual changes in mail processing costs of manually handling letters and flats. Between FY 2017 and FY 2018, the average cost of manually handling letters was roughly unchanged, while the average cost of manually handling flat-shaped mail changed by 0.3% only.

Figure VI-8
Manual Flats Mailpieces per Workhour, FY 2017–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

The eFlash data show an increase (by 6.2 percent) in the number of flat-shaped pieces that receive manual handling in FY 2021. Section e.9 Narrative at 3. The Postal Service partially attributes this increase to the FSS compression initiative. Part B Narratives at 14. This initiative removed FSS delivery points with a zero average daily volume, thereby allowing more mail to be processed in a shorter window. *Id.* Mailpieces that are removed from the FSS processing ultimately will be handled manually at the delivery unit. *Id.* The Postal Service also attributes a 6.2 percent increase in manual flats volumes to a recovery from the more substantial effects of the COVID-19 pandemic. Section e.9 Narrative at 3. Noting that, while manual flats volumes did increase in FY 2021, these volumes are still below their FY 2019 level. *Id.*

Commission analysis. The Commission is encouraged by the reduction in the cost of manual processing for flat-shaped mail in FY 2021.

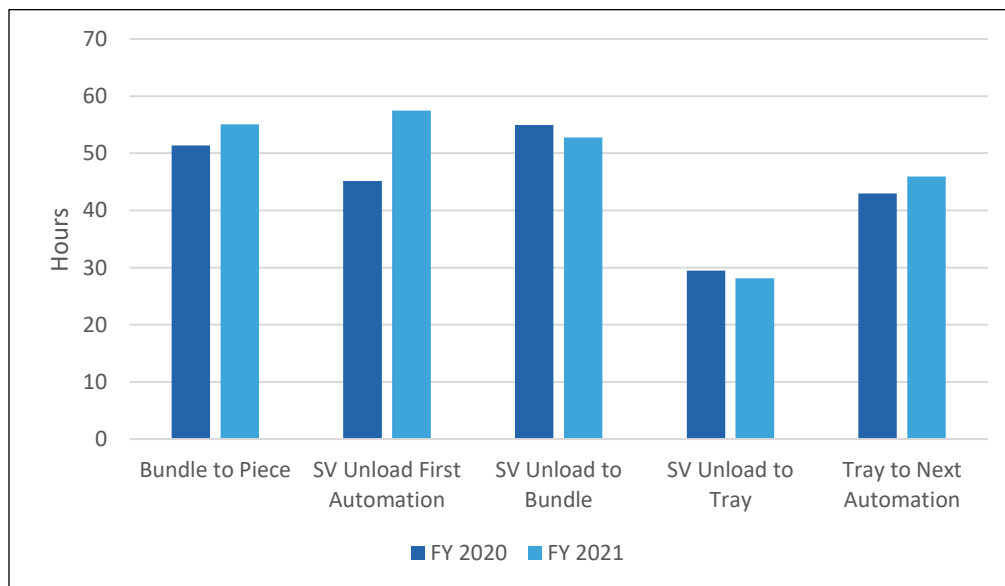
The Commission recommends that in FY 2022, the Postal Service develop an accurate method to track flat-shaped mail that is manually processed. Once there is an accurate measurement of such flat-shaped mail, the Postal Service shall develop a specific plan to: (1) continue to decrease the quantity of flat-shaped mailpieces processed manually, and (2) achieve a proportional reduction in unit mail processing costs for manual operations.

4. Productivity and Service Issues in Allied Operations

To gain insight into allied operations, the Postal Service uses Work in Process (WIP), also known as cycle time, which is the amount of time mail spends in mail processing operations. See Section e.9 Narrative at 4. The Postal Service stated that “[m]ail processing operations run on planned schedules and any additional time spent in one operation can adversely impact the next operation and can potentially lead to service failures.” *Id.* An updated version of the Cycle Time report is now available in Informed Visibility for USPS Marketing Mail letters and flats and Periodicals. *Id.*

Figure VI-9 shows WIP cycle times for various flats mail processing operations. The earliest WIP data available was from Quarter 3 of FY 2019. To account for seasonal variation, Figure VI-9 compares WIP cycle times for FY 2020 and FY 2021. While “SV Unload to Tray” and “SV Unload to Bundle” showed small declines, all other allied operations activities showed increases in cycle times in FY 2021.

Figure VI-9
Cycle Time, FY 2020–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

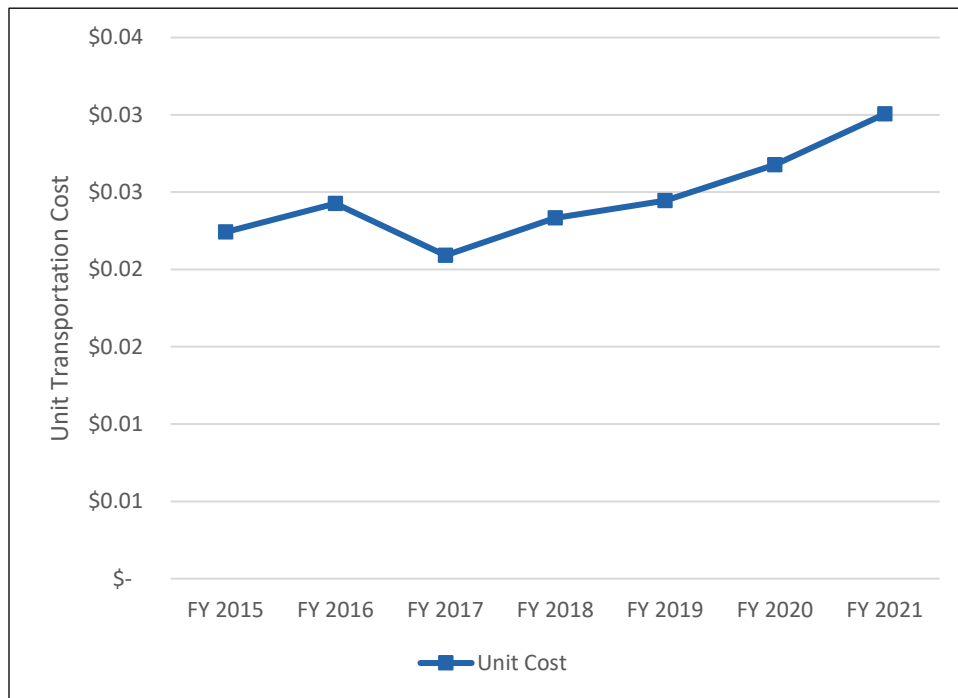
Commission analysis. The Commission is encouraged by the Postal Service’s effort in using operational efficiency tools, the GRID initiative, and cycle times update to provide additional visibility into allied operations. However, cycle times increased for most activities despite the fact that this initiative was utilized in FY 2021.

The Postal Service must develop a plan to reduce the costs associated with allied operations and gain additional insight into allied operations. In addition, the Postal Service must use the updated version of the Cycle Time report to generate detailed data/reports on mail entry points. Furthermore, the Postal Service must indicate the WIP cycle time for each processing point, and the corrective action(s) taken when delays occur in processing points.

5. Transportation Cost and Time

In FY 2021, unit transportation costs increased by 12.3 percent, which is a continuation of a trend that began in FY 2017. See Figure VI-10. Moreover, transportation costs increased even though flats volume and weight both decreased in FY 2021. The Postal Service notes that the COVID-19 pandemic affected transit failures by impacting employee and contractor availability and that increases in e-commerce put stress on transportation capacity for all mail products. Section e.9 Narrative at 6. The Postal Service increased hiring and converted 64,000 non-career employees to career to address employee shortages.

Figure VI-10
Flats Transportation Unit Costs FY 2015–FY 2021³⁸⁷



Source: Library Reference PRC-LR-ACR2021-9.

³⁸⁷ The data in this table reflects all but one flat-shaped mail products that contain at least 80 percent flat-shaped mailpieces, and which are generally discussed in this Chapter. EDDM-Retail is omitted as it does not have any cost in cost segment 14.

The Postal Service provided data from SVWeb³⁸⁸ related to transportation. *See* Section e.9 Narrative at 6-7. Results are displayed in Table VI-15. These data show that although the FY 2021 load percentages have increased, both On-time departures and On-time arrivals have declined relative to FY 2020. The Postal Service attributes these declines to disruptions in the network caused by the COVID-19 pandemic.

Table VI-15
On-Time Departure, On-Time Arrival, and Average Load, FY 2018–FY 2021

Metric	FY 2018	FY 2019	FY 2020	FY 2021
On-time Departure	70.50%	72.60%	87.20%	84.60%
On-time Arrival	62.00%	63.40%	74.70%	73.14%
Average Load	32.10%	32.10%	38.60%	39.75%

Source: Library Reference PRC-LR-ACR2021-9.

Commission analysis. In FY 2021, the unit transportation costs increased and the Postal Service does not have a specific plan to address this issue.

In FY 2022, the Postal Service must develop a plan to reduce the costs associated with transporting flat-shaped mail. The plan shall establish specific achievable goals to 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 \$3.9 billion on delivery costs for flats in FY 2021, or 16.9 cents per piece.³⁸⁹ There are two parts of city delivery operations, in-office and street time. FY 2015 ACD at 177. City carrier in-office costs include the cost of casing to DPS. *See* Figure VI-11. When the additional mail processing costs associated with the FSS are added to the city carrier in-office costs, the Postal Service spent \$1.15 billion processing flats to DPS in FY 2021.³⁹⁰ This is a 4.6 percent reduction from FY 2020, when the Postal Service spent \$1.61 billion on processing flats to DPS.³⁹¹ However, it is only \$491 million less than the

³⁸⁸ 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. *See* Docket No. ACR2015, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, July 26, 2016, at 61-62. Using these reports, the Postal Service is able to track the usage of transportation resources, and identify opportunities to mitigate costs. *Id.*

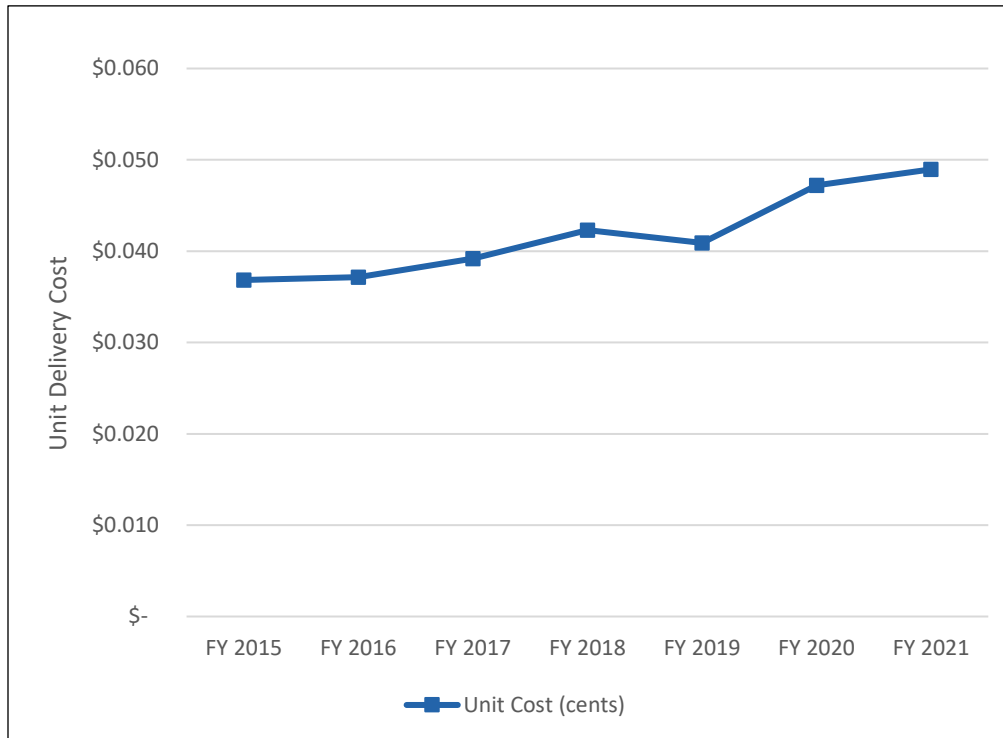
³⁸⁹ Total delivery cost for all flats pieces is calculated by using total piggybacked city delivery costs and total piggybacked rural delivery costs. *See* Library Reference USPS-FY21-24, December 29, 2021. The analysis of unit delivery cost is further detailed in Section F.

³⁹⁰ The cost of FSS processing in for NDC facilities in FY 2020 was \$167 million. *See* Library Reference USPS-FY21-45, folder "Paragraph (b) -- Financial Report," Excel file "FY21.Rule.3050.50.Para.B.xlsx," tab "Item b6."

³⁹¹ *See* Library Reference PRC-LR-ACR2021-9, Excel File "CH 6 Data and Tables.xlsx," tab "Table VI-12-FSS." The unit cost of processing flats to DPS in FY 2021 was 6.4 cents per piece. *See id.*

amount spent casing flats in FY 2008, when volume was more than double.³⁹² In FY 2008, the Postal Service manually cased all flats because there were no FSS machines. Despite the addition of FSS machines and 50.1 percent less volume, the Postal Service has only reduced the cost of the final sortation operation for flats by 23 percent since FY 2008.

Figure VI-11
Cost Segment 6: City Delivery Carriers – Office Activity³⁹³
Unit Costs, FY 2015–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

To monitor the service impact of last-mile delivery, the Postal Service uses last mile indicator (LMI) quarterly scores. For every quarter in FY 2021, the LMI average quarterly scores decreased compared to the same quarter in FY 2020. See Library Reference PRC-LR-ACR2021-9.

Commission analysis. In FY 2021, unit in-office delivery costs increased significantly and the Postal Service does not have a specific plan to address this issue.

³⁹² See Library Reference PRC-LR-ACR2021-9, Excel file “CH 6 Data and Tables.xlsx,” tab “Figure VI-11-Delivery.” As detailed in Library Reference PRC-LR-ACR2021-9, the cost segment 6 in-office cost for flats in FY 2008 was \$1.64 billion, \$491 million more than the combined FSS mail processing and in-office cost of \$1.149 billion in FY 2021. As further detailed in Library Reference PRC-LR-ACR2021-9, flats volume was 47.94 billion pieces in FY 2008 and declined to 23.48 billion pieces in FY 2021, which represents a 51.0 percent decline. See *id.*

³⁹³ The data in this table reflects all eight flat-shaped mail products that contain at least 80 percent flat-shaped mailpieces.

The Postal Service must develop a plan in FY 2022 to reduce the costs associated with delivering flat-shaped mail. The plan should establish specific achievable goals that reduce delivery costs for flat-shaped mail. The Commission will continue to monitor the costs of last-mile delivery in FY 2022 to ensure the Postal Service efforts result in improvements.

F. Analysis of Unit Costs for Major Functional Categories (by Dependent Component)

For each product that consists of more than 80 percent flat-shaped mail, 39 C.F.R § 3050.50(b)(2) requires the Postal Service to provide the functional analysis of unit attributable cost disaggregated into the following cost categories: mail processing, delivery, vehicle service driver, purchased transportation, window service, and other.³⁹⁴ These functional cost categories are identified as relevant to providing context to the Pinch Points discussed in Section E, *supra*. Functional cost categories are not the same as cost segments. They include all relevant cost segments, *e.g.*, delivery category includes city delivery (cost segment 6 and cost segment 7) and rural delivery (cost segment 10) and multiple dependent components from other cost segments based on the piggyback factors.³⁹⁵ Specifically, dependent components costs are calculated using non-operation piggyback factors employed in cost studies to augment labor cost estimates for the major functions by adding the costs associated with supervisors and administration, service-wide benefits, along with facility-related and equipment-related costs.³⁹⁶

Table VI-16 provides average unit costs for eight flats products by functional cost category from FY 2019 through FY 2021. In FY 2021, mail processing, delivery, and purchased transportation unit costs constituted on average 40.9 percent, 47.1 percent and 8.1 percent, respectively, of the total unit cost for all flats products. *See* Table VI-17. The Commission focuses on these three major unit attributable cost categories and analyzes such costs by dependent component.³⁹⁷ Table VI-17 provides the unit cost structure by flat-shaped product by major functional category.

³⁹⁴ See Library Reference USPS-FY21-45, folder "Rule 3050.50 Flats," folder "Paragraph (b) -- Financial Report," Excel file "FY20.Rule.3050.50.Para.B.xlsx," tab "Item b2."

³⁹⁵ See Library Reference USPS-FY21-24, PDF file "USPS-FY21-24 Preface.pdf," Excel file FY21Public.PB.xlsx, tab "Doc." The exception to this framework, in the analysis that follows, is for the cost category of purchased transportation, as purchased transportation costs are captured in their entirety in cost segment 14, and do not require the use of piggyback factors to glean a complete picture of costs in the category. *Id.*

³⁹⁶ See Library Reference USPS-FY21-24, PDF file "USPS-FY21-24 Preface.pdf," Excel file FY21Public.PB.xlsx, tab "Doc."

³⁹⁷ The term "dependent component" is therefore different from the term "component." *See, e.g.*, Library Reference USPS-FY21-2, PDF file "USPS-FY21-2 Preface.pdf," at 1; Library Reference USPS-FY21-24, PDF file "USPS-FY21-24 Preface.pdf," Excel file FY21Public.PB.xlsx, tab "Doc."

Table VI-16
Flats Average Unit Cost by Functional Cost Category (\$), FY 2019–FY 2021³⁹⁸

Functional Cost Category	FY 2019	FY 2020	FY 2021
Mail Processing	0.133	0.142	0.146
Delivery	0.145	0.160	0.169
Vehicle Service Driver	0.005	0.006	0.005
Purchased Transportation	0.024	0.026	0.029
Window Service	0.002	0.003	0.002
Inframarginal	0.002	0.001	0.001
Other	0.005	0.006	0.005
Total	0.316	0.344	0.358

Source: Library Reference PRC-LR-ACR2021-9.

Table VI-17
Distribution of Flats Unit Cost by Major Functional Cost Category, FY 2019–FY 2021

Functional Cost Category	FY 2019	FY 2020	FY 2021
Mail Processing	42.2%	41.3%	40.9%
Delivery	45.9%	46.5%	47.1%
Vehicle Service Driver	1.6%	1.7%	1.4%
Purchased Transportation	7.6%	7.6%	8.1%
Window Service	0.7%	0.9%	0.6%
Inframarginal	0.5%	0.4%	0.4%
Other	1.5%	1.7%	1.5%

Source: Library Reference PRC-LR-ACR2021-9.

The Commission uses the non-operation specific piggyback factor analysis to review and analyze components for mail processing and delivery functional cost categories.³⁹⁹ For purchased transportation, that does not include any piggyback factors, the Commission uses the Public Version of the Cost Segment and Component Report. *See* Part B Narratives at 2.

³⁹⁸ Average unit cost is calculated as a weighted average for eight flats products. *See* Library Reference PRC-LR-ACR2021-9.

³⁹⁹ *See* Library Reference USPS-FY21-24, PDF file "USPS-FY21-24 Preface.pdf," Excel file "FY21Public.PB.xlsx," tab "MailProc" for Mail Processing, tab "CityCarriers" for City Delivery, tab "Rural" for Rural Delivery; Library Reference USPS-FY20-24, December 29, 2020, Excel file FY20.Public.PB.xlsx, tab "MailProc" for Mail Processing, tab "CityCarriers" for City Delivery, tab "Rural" for Rural Delivery; Library Reference USPS-FY19-24, December 27, 2019, Excel file "FY19.Public.PB.xlsx," tab "MailProc" for Mail Processing, tab "CityCarriers" for City Delivery, tab "Rural" for Rural Delivery. *See also* Part B Narratives.

Considering that postal operations are generally structured around shape, rather than products within a particular shape, the Commission examines, first, the relative unit cost impact of each functional category for flat-shaped products and, second, the relative unit cost impact of major dependent components associated with mail processing, delivery, and purchased transportation.

Table VI-18
Distribution of Flats Unit Cost by Functional Cost Category by Product, FY 2021

Mail Class/Product	Mail Processing	Delivery	Vehicle Service Driver	Purchased Transportation	Window Service	Inframarginal	Other
First-Class Mail Flats	56.3%	20.2%	2.1%	17.5%	2.2%	0.2%	1.4%
USPS Marketing Mail High Density and Saturation Flats/ Parcels	11.8%	82.3%	0.3%	0.8%	0.2%	1.2%	3.6%
USPS Marketing Mail Carrier Route	28.3%	65.6%	1.0%	3.4%	0.1%	0.4%	1.2%
USPS Marketing Mail Flats	55.8%	33.0%	1.6%	8.0%	0.4%	0.2%	0.9%
USPS Marketing Mail EDDM-Retail	6.0%	88.9%	0.0%	0.0%	0.5%	0.1%	4.6%
Periodicals	44.0%	43.1%	1.8%	10.0%	0.2%	0.2%	0.8%
Package Services Bound Printed Matter Flats	45.9%	40.4%	2.5%	8.9%	0.5%	0.0%	1.8%

Source: Library Reference PRC-LR-ACR2021-9.

1. Mail Processing Unit Cost

The “Mail Processing”⁴⁰⁰ unit cost generally consists of costs for clerks and mail handlers (cost segment 3), which includes salaries, benefits and related costs of clerk and mail handler work. This mail processing functional cost category includes more than 30 dependent components.⁴⁰¹

For the following products/classes in FY 2021, mail processing unit cost share was the greatest: First-Class Mail Flats (56.3 percent), USPS Marketing Mail Flats (55.8 percent), BPM Flats (45.9 percent), and Periodicals class overall⁴⁰² (44.0 percent). See Table VI-18.

Figure VI-12 illustrates the mail processing unit cost trends for flats products from FY 2018 through FY 2021. Mail processing unit costs for the majority of flats products have increased steadily since FY 2019 (except for High Density and Saturation Flats/Parcels, Carrier Route and BPM Flats that experienced a decrease in unit cost in FY 2020). The mail

⁴⁰⁰ Note the distinction between the mail processing functional unit cost category, and the mail processing dependent component within cost segment 3.

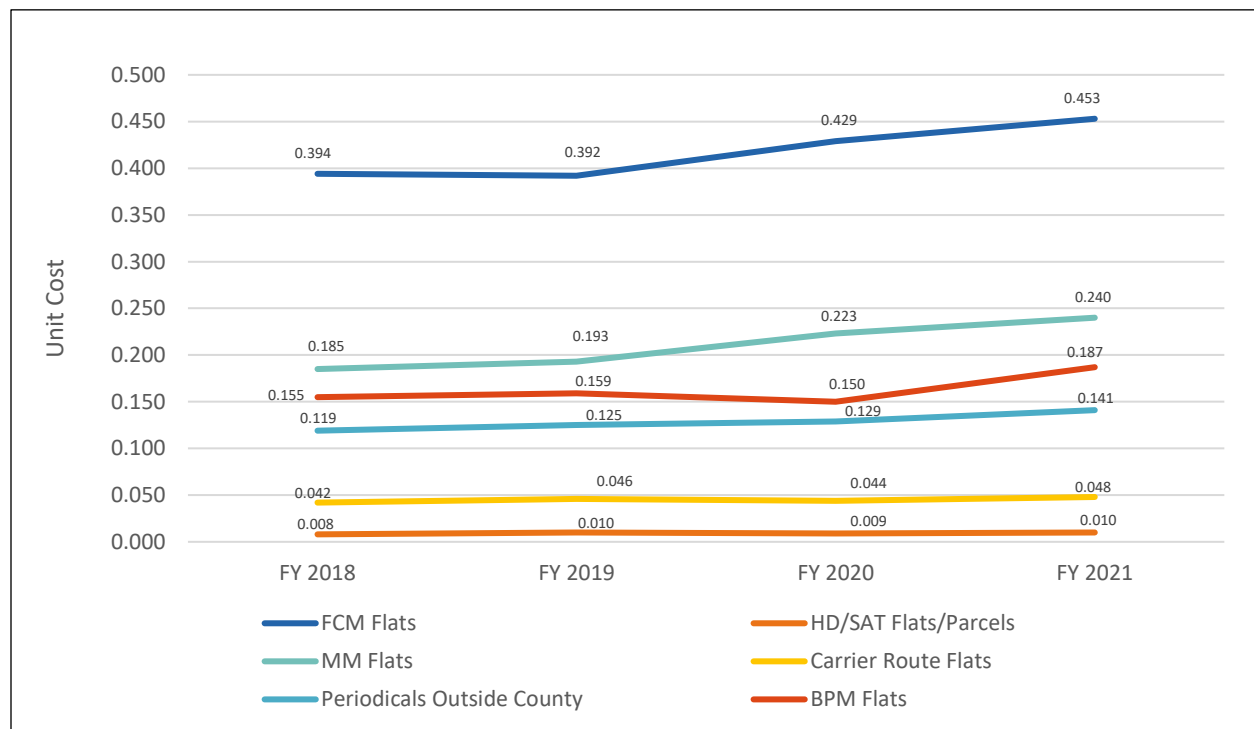
⁴⁰¹ See Library Reference USPS-FY21-24, PDF file “USPS-FY21-24 Preface.pdf,” Excel file “FY21Public.PB.xlsx,” tab “MailProc.”

⁴⁰² The Postal Service has not separated Periodicals products in this analysis of unit costs.

processing unit cost for First-Class Mail Flats dwarfs the mail processing unit costs of all other flat-shaped mail products.

Substantial increases in unit costs are prevalent for products requiring primary sortation. The mail processing unit cost is much lower for High Density and Saturation Flats/Parcels, which do not require a primary sort.

Figure VI-12
Mail Processing Unit Cost by Product, FY 2018–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

In FY 2021, First-Class Mail Flats became non-compensatory for the first time. Its mail processing unit cost is higher than other flats products and has grown significantly over the past 4 years. *See* Figure VI-12. Consequently, the Commission specifically examines the First-Class Mail Flats mail processing category unit cost by major dependent component from FY 2018 through FY 2021. The percentage changes in flats mail processing functional unit cost category mirrors the percentage changes in flats mail processing component unit cost from FY 2019 to FY 2020. However, the significant increase (by 23.8 percent) in operating equipment maintenance component unit cost from FY 2018 to FY 2019 did not necessarily translate into a significant unit cost increase in mail processing functional unit category. This underscores the relevance of mail processing unit cost changes amongst all dependent components.

Table VI-19
Change in First-Class Mail Flats Mail Processing Unit Cost by Dependent Component,
FY 2018–FY 2021⁴⁰³

Dependent Component	FY 2018-FY 2019	FY 2019-FY 2020	FY 2020-FY 2021
Mail Processing	-0.5%	9.4%	5.8%
Operating Equipment Maintenance	23.8%	-1.2%	2.2%
Retiree Health Benefits Current	2.8%	7.5%	11.5%
All Others	2.5%	13.0%	-0.3%

Source: Library Reference PRC-LR-ACR2021-9.

First-Class Mail Flats mail processing cost category has three major dependent components: mail processing, operating equipment maintenance, and retiree health benefits current. The share of the mail processing dependent component in the product's mail processing cost category is by far the largest, approximately 61 percent from FY 2018 through FY 2021. *See* Library Reference PRC-LR-ACR2021-9. Retiree health benefits current and operating equipment maintenance both have a share of approximately 6 percent from FY 2018 to FY 2021. *Id.* The shares of other dependent components are in the range between 0.1 and 3.4 percent. *Id.*

It is important to specifically focus on the mail processing dependent component because a small change in its unit cost has a more significant impact on flats unit cost than a change in the unit costs of all other dependent components of the overall mail processing cost category. In FY 2021, the unit cost for the mail processing dependent component continued to rise despite the initiatives pursued to curb its growth. The Commission finds this concerning. The Postal Service states that “[o]n average, the First-Class [Mail] Flats mail processing unit costs have increased 6.4 percent each of the past four years.” *See* FY 2021 ACR at 9. Higher mail processing unit cost leads to an increase in overall unit attributable cost for flats products, which has the domino effect of suppressing efforts to improve product cost coverages. Low productivity, volume decline and mail mix changes also contributed to mail processing unit cost increases. In FY 2021, unit attributable cost increases for most flats products were primarily driven by increases in mail processing unit cost, which increased by 4.1 percent for First-Class Mail Flats, 5.4 percent for USPS Marketing Mail Flats, alarming 164.8 percent for EDDM-R, 7.3 percent for Outside County Periodicals, and 20.0 percent for BPM Flats. However, mail processing unit cost still declined by 3.9 percent for High Density and Saturation Flats/Parcels. *See* Part B Narratives at 2-3.

2. Delivery Unit Cost

Generally, the Delivery functional cost category comprises City Delivery (cost segment 6 and cost segment 7) and Rural Delivery (cost segment 10) cost segments, which both include multiple additional dependent components from different cost segments. For three

⁴⁰³ First-Class Mail Flats is singled out because it has the highest unit cost and has only recently become non-compensatory.

flat-shaped products delivery costs constitute the largest share of overall unit attributable cost: USPS Marketing Mail EDDM-R (88.9 percent), USPS Marketing Mail High Density and Saturation Flats/Parcels (82.3 percent) and USPS Marketing Mail Carrier Route (65.6 percent). The Commission examines city and rural delivery costs separately.⁴⁰⁴

The Commission identifies five major dependent components for city delivery: In-Office Direct Labor, Delivery Activities, In-Office Support Overhead, In-Office Support Other, and Retiree Health Benefits Current. The Commission examines unit cost trends for In-Office Direct Labor and Delivery Activities for flats products.⁴⁰⁵ Unit cost trends for In-Office Direct Labor for most flats products show an interesting dynamic especially between FY 2019 and FY 2020. Table VI-20 illustrates significant increases in costs for all flats products except USPS Marketing Mail Flats from FY 2019 to FY 2020. Specifically, BPM Flats experienced the most significant unit cost increases: from 25.3 percent between FY 2018 and FY 2019 to 98.8 percent between FY 2019 and FY 2020. Between FY 2019 and FY 2020, In-Office Direct Labor unit cost increased by 24.2 percent for First-Class Mail Flats, 27.9 percent for Marketing Mail Carrier Route, 59.5 percent for Outside County Periodicals and 63.9 percent for High Density and Saturation Flats/Parcels. The Postal Service attributed increases in City Carrier In-Office unit costs in FY 2020, in part, to a costing methodology change regarding sampling of city carriers in the office which led to higher delivery costs. FY 2020 ACD at 47. However, increases between FY 2020 and FY 2021 were relatively smaller.

Table VI-20
Change in City Delivery In-Office Direct Labor Unit Cost

Product/Class	FY 2018-FY 2019	FY 2019-FY 2020	FY 2020-FY 2021
First-Class Mail Flats	-2.4%	24.2%	-6.8%
USPS Marketing Mail Flats	-5.7%	-2.8%	8.3%
USPS High Density and Saturation Flats/Parcels	-0.3%	63.9%	3.7%
USPS Marketing Mail Carrier Route	1.0%	27.9%	4.0%
Outside County Periodicals	1.8%	59.5%	4.9%
Package Services Bound Printed Matter Flats	25.3%	98.8%	1.4%

Source: Library Reference PRC-LR-ACR2021-9.

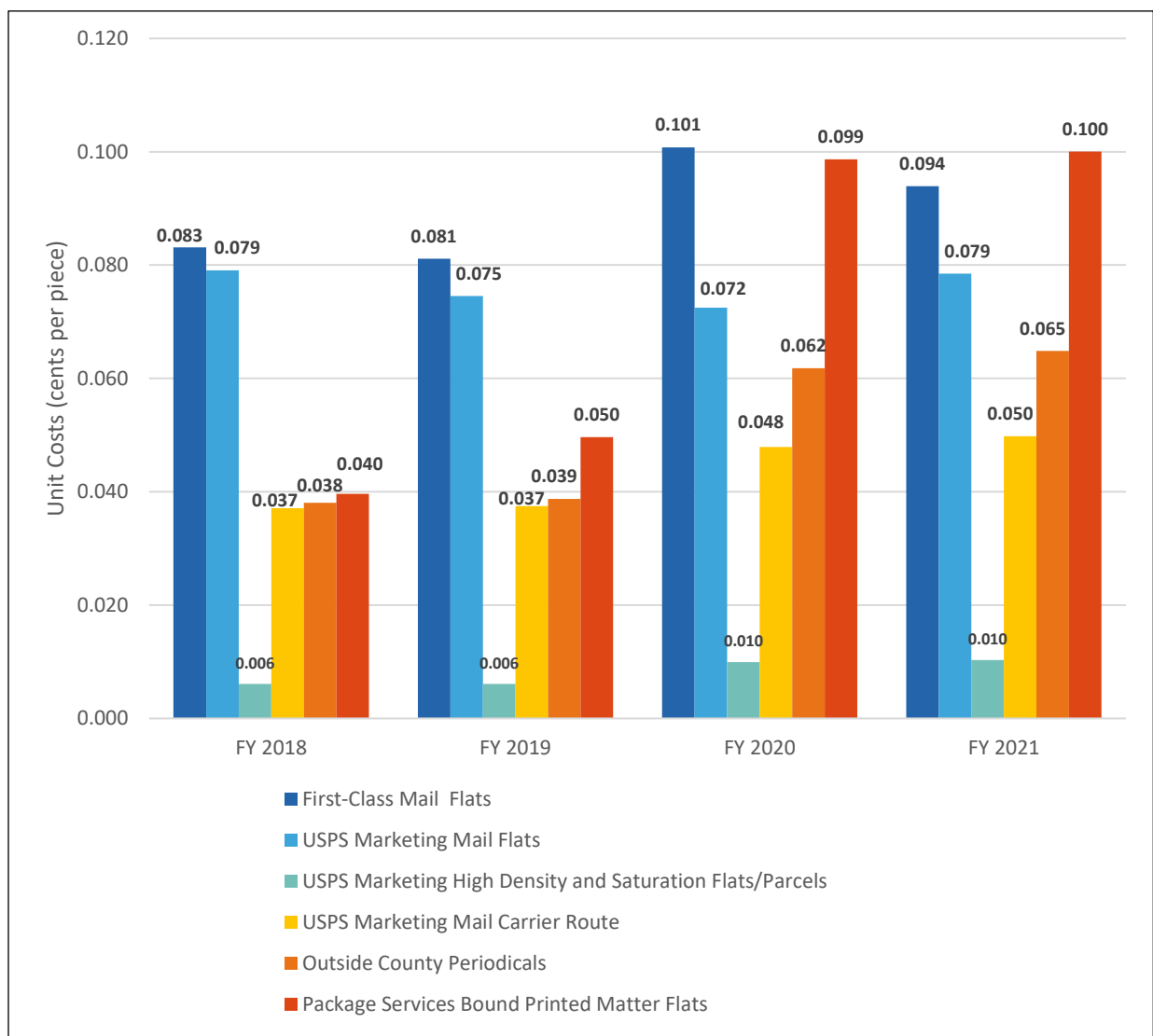
Figure VI-13 shows unit cost trends by flats product for In-Office Direct Labor. Except for FY 2020, which experienced a marked increase in component's unit cost, In-Office Direct Labor unit cost has increased only moderately from FY 2018 to FY 2021 with First-Class Mail Flats experiencing decreases in FY 2019 and FY 2021.

⁴⁰⁴ City carriers have more than 50 dependent components. See Library Reference USPS-FY21-24, PDF file "USPS-FY21-24 Preface.pdf," Excel file "FY21Public.PB.xlsx," tab "CityCarriers" for City Delivery, tab "Rural" for Rural Delivery.

⁴⁰⁵ This analysis is only for City Delivery. Also, USPS Marketing Mail EDDM-R and In-County Periodicals products are not included.

The Delivery Activities dependent component, on the other hand, experienced decreases in unit cost between FY 2019 and FY 2020, except for USPS Marketing Mail Flats and BPM Flats, which had increases in unit costs of 4.5 percent and 14.0 percent, respectively. High Density and Saturation Flats/Parcels experienced the largest decrease of 10.8 percent in FY 2020. USPS Marketing Mail Flats experienced increases in Delivery Activities unit cost between FY 2018 and FY 2021 from a 2.1 percent increase in FY 2019 to a 10.6 percent increase in FY 2021. All other flat-shaped products experienced moderate increases from FY 2018 through FY 2021, ranging from 2.0 percent to 5.7 percent. *See Table VI-21.*

Figure VI-13
City Delivery In-Office Direct Labor Unit Cost Trends by Product



Source: Library Reference PRC-LR-ACR2021-9.

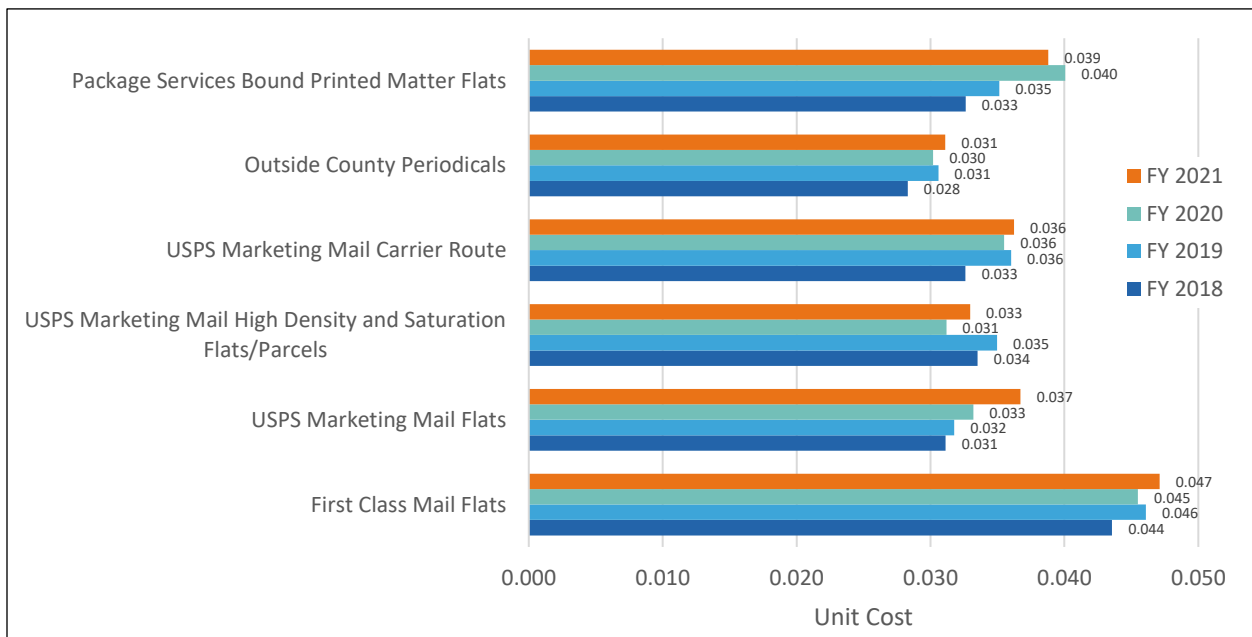
Table VI-21
Change in City Delivery Activities Unit Cost by Product, FY 2018–FY 2021

Product/Class	FY 2018-FY 2019	FY 2019-FY 2020	FY 2020-FY 2021
First-Class Mail Flats	5.8%	-1.3%	3.6%
USPS Marketing Mail Flats	2.1%	4.5%	10.6%
USPS High Density and Saturation Flats/Parcels	4.3%	-10.8%	5.7%
USPS Marketing Mail Carrier Route	10.4%	-1.4%	2.0%
Outside County Periodicals	8.1%	-1.3%	3.0%
Package Services Bound Printed Matter Flats	7.7%	14.0%	-3.1%

Source: Library Reference PRC-LR-ACR2021-9.

Figure VI-14 displays city Delivery Activities unit cost trends for flats from FY 2018 through FY 2021. First-Class Mail Flats and BPM Flats bear the highest unit costs. From FY 2019 to FY 2021, unit costs of USPS Marketing Mail Carrier Route and Outside County Periodicals were relatively stable.

Figure VI-14
City Delivery Activities Unit Cost Trends by Product, FY 2018–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

Rural Delivery includes 34 dependent components. However, only one component, evaluated routes, which constitutes more than 70 percent of the rural delivery unit cost,

merits discussion in this section.⁴⁰⁶ Similar to In-Office Direct Labor unit cost, unit cost for evaluated routes increased on average 21.2 percent from FY 2019 to FY 2020. However, while unit cost for evaluated routes experienced increases each year for most flats from FY 2018 to FY 2021, BPM Flats experienced a 25.4 percent decrease from FY 2018 to FY 2019 before increasing in FY 2020 and FY 2021. See Table VI-22.

Table VI-22
Change in Rural Delivery Evaluated Routes Unit Cost
by Product, FY 2018– FY 2021⁴⁰⁷

Product/Class	FY 2018-FY 2019	FY 2019-FY 2020	FY 2020-FY 2021
First-Class Mail Flats	11.5%	20.2%	14.6%
USPS Marketing Mail Flats	10.3%	20.1%	20.5%
USPS Marketing Mail High Density and Saturation Flats/Parcels	10.0%	24.2%	6.6%
USPS Marketing Mail Carrier Route	11.0%	18.7%	6.9%
Periodicals	14.0%	20.6%	13.6%
Package Services Bound Printed Matter Flats	-25.4%	23.1%	10.8%

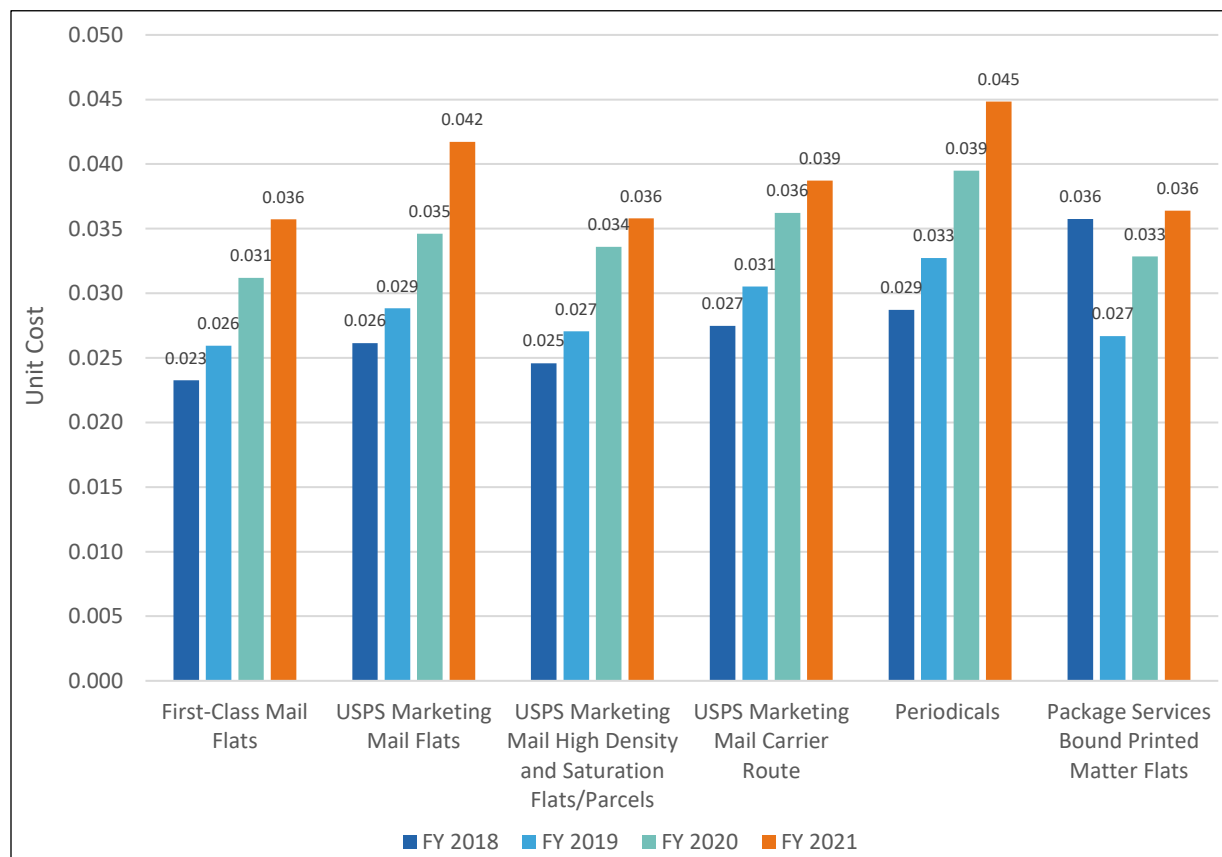
Source: Library Reference PRC-LR-ACR2021-9.

Figure VI-15 illustrates annual increases in unit cost for evaluated routes for all flats products from FY 2018 through FY 2021 except BPM Flats which decreased in FY 2019, but increased in FY 2020 and FY 2021.

⁴⁰⁶ Rural routes are divided into two broad categories, depending on the way the carrier is paid. Most rural routes are evaluated routes, that is, the rural route is evaluated in terms of time standards, and the carrier is paid a salary based on the evaluated time.

⁴⁰⁷ USPS Marketing Mail EDDM-R is not included in this analysis.

Figure VI-15
Rural Delivery Evaluated Routes Unit Cost Trends by Product, FY 2018–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

Unit attributable cost increases for most flats products were driven in part, by increases in delivery unit costs. *See Part B Narratives at 2-4.* In FY 2021, these unit costs increased for most flat-shaped products: by 5.7 percent for High Density and Saturation Flats/Parcels, by 4.2 percent for Carrier Route, by 11.7 percent for USPS Marketing Mail Flats, by 3.3 percent for EDDM-R, by 7.0 percent for Outside County Periodicals, and by 2.0 percent for BPM Flats.

3. Purchased Transportation Unit Cost

Purchased Transportation (cost segment 14) is another important functional cost category for flats. It consists of only three components, and two of them, highway and domestic air, are the major components. *See Table VI-23.*

Purchased transportation as a share of total unit cost is consistently lower than mail processing for all flat-shaped products. The purchased transportation unit cost share of total unit attributable cost for First-Class Mail Flats is 17.5 percent, for the two Periodicals

products together it is 10.0 percent, for BPM Flats it is 8.9 percent, and for USPS Marketing Mail Flats it is 8.0 percent. *See* Table VI-18.

Purchased transportation cost consists of three components: Domestic Air, Highway, and Rail. Since FY 2019, domestic air and highway as a percent of purchased transportation unit costs have trended in opposite directions. The domestic air share has decreased from 21.7 percent to 17.7 percent in 2 years, while the highway unit cost share has increased slightly from 76.2 percent in FY 2019 to 80.1 percent in FY 2021. Railroad has maintained a relatively consistent share ranging from 1.5 to 1.7 percent in the same time period. *See* Table VI-23.

Table VI-23
Purchased Transportation Unit Cost by Component, FY 2019–FY 2021

	FY 2019	FY 2020	FY 2021
Domestic Air	21.7%	21.0%	17.7%
Highway	76.2%	76.8%	80.1%
Rail	1.5%	1.7%	1.6%

Source: Library Reference PRC-LR-ACR2021-9.

Table VI-24 illustrates changes in the purchased transportation unit costs for some non-compensatory products in the period from FY 2018 through FY 2021. In FY 2021, the purchased transportation unit costs for First-Class Mail Flats and USPS Marketing Mail Flats increased by 13.4 percent and 17.2 percent respectively, and for Outside County Periodicals by 20.2 percent. Between FY 2018 and FY 2021, the purchased transportation unit cost for these three products have experienced large increases: 44.1 percent for First-Class Mail Flats, 29.9 percent for USPS Marketing Mail Flats, and 34.3 percent for Outside County Periodicals.

Table VI-24
Change in Purchased Transportation Unit Cost by Product, FY 2018–FY 2021⁴⁰⁸

Product	FY 2018-FY 2019	FY 2019-FY 2020	FY 2020-FY 2021	FY 2018-FY 2021
First-Class Mail Flats	19.6%	6.2%	13.4%	44.1%
USPS Marketing Mail Flats	-5.3%	17.0%	17.2%	29.9%
Outside County Periodicals	12.8%	-1.0%	20.2%	34.3%

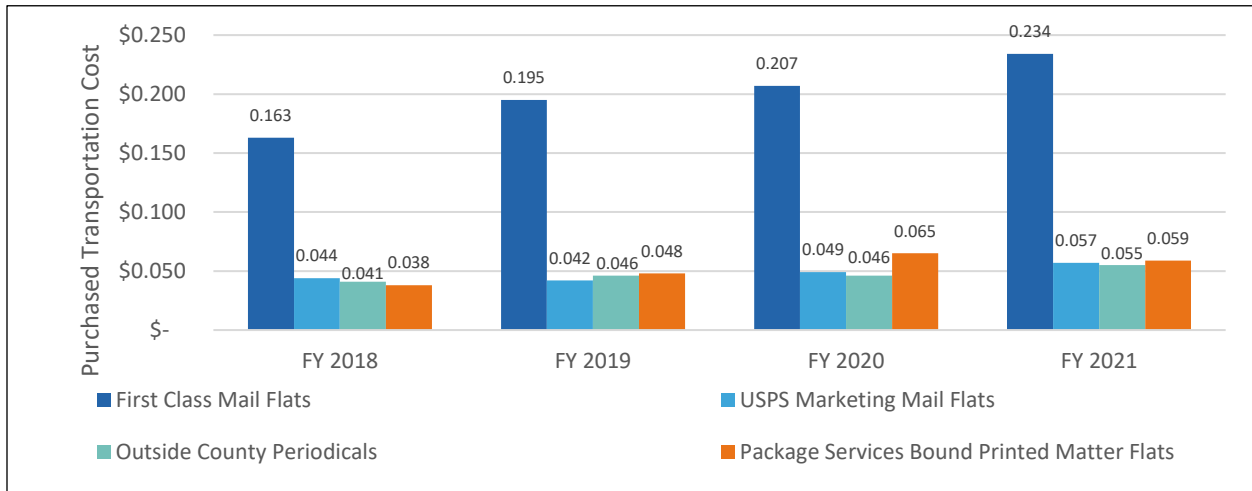
Source: Library Reference PRC-LR-ACR2021-9.

Figure VI-16 depicts trends in purchased transportation unit cost (in dollar amounts) by product in the period from FY 2018 through FY 2021. At a product level, there is a substantial unit cost difference between First-Class Mail Flats and other flats products. For

⁴⁰⁸ USPS Marketing Mail Carrier Route and In-County Periodicals are not included because the impact of changed in purchased transportation unit cost is relatively small.

example, in FY 2021, the unit cost difference between First-Class Mail Flats and BPM Flats was \$0.175. See Figure VI-16.

Figure VI-16
Purchased Transportation Unit Cost by Product, FY 2018–FY 2021

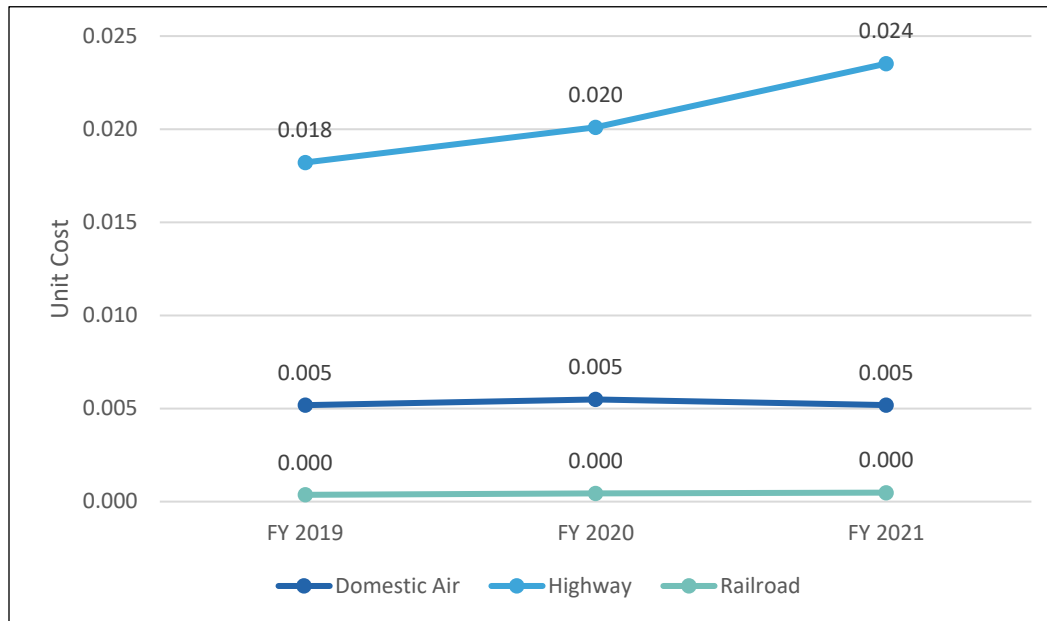


Source: Library Reference PRC-LR-ACR2021-9.

Purchased transportation unit cost increases also contributed to unit attributable cost increases for two flats products: First-Class Mail Flats (a 12.3 percent increase in purchased transportation unit cost) and USPS Marketing Mail Flats (a 16.8 percent increase in purchased transportation unit cost). However, for BPM Flats, the purchased transportation unit cost declined by 10.1 percent. See Part B Narratives at 2-4.

As illustrated by Figure VI-17, at the component level, unit cost trends for purchased highway transportation and domestic air are diverging.

Figure VI-17
Purchased Transportation Unit Cost by Component, FY 2019–FY 2021



Source: Library Reference PRC-LR-ACR2021-9.

The purchased transportation unit cost increased by 13.4 percent, which is attributed in part to higher variabilities presented in Docket No. RM2021-1 (Proposal Seven). FY 2021 ACR at 9. Higher highway variabilities led to increases in attributable costs for all flats products except EDDM-R. *See* Order No. 5999 at 35. Furthermore, the declining flats volumes could have resulted in fewer average pieces per container, which would also lead to higher transportation unit costs, assuming all other factors were unchanged. FY 2021 ACR at 9.

4. Summary of Analysis

Depending on the magnitude, unit cost changes in any of the three major functional categories (mail processing, delivery, and purchased transportation) will lead to a change in unit attributable costs for flat-shaped products. The Postal Service notes that “eight flat-shaped products experienced a percentage change in average unit attributable cost that was greater than the percentage change in total market dominant unit attributable cost” in FY 2021. Part B Narratives at 2. While the main cost drivers are increases in mail processing, purchased transportation, and delivery, either singularly or collectively, changes in unit costs for their respective major dependent components further enhance unit cost increases. Within the mail processing category, mail processing dependent component unit cost increases have been one of the main reasons for unit attributable cost increases for flats products. Similarly, increases in unit costs for the highway transportation dependent component have especially influenced purchased transportation

unit attributable costs for flats products. Increases in unit costs for two major dependent components of city delivery (In-Office Direct Labor and Delivery Activities) influenced delivery unit costs. Likewise, increases in unit cost for the evaluated routes dependent component of rural delivery also influenced delivery unit costs. The impact of changes in unit costs for other dependent components was less visible than the impact of changes in unit costs for major dependent components discussed above.

G. Comments

ACMA states that “flats costs are either inefficiently incurred or lack the validity required to place reliance on them.” ACMA Comments at 2. It also contends that continued rate increases are counterproductive. *Id.* at 2-3. ACMA states that unit costs are not a good measure of changes in cost due to the effects of mix changes. *Id.* at 3. In addition, ACMA states the Postal Service should extend its Rule 3050.50(b)(5)(ii) response back to 2008 or even 1998.⁴⁰⁹ It further suggests that “the Commission should consider requiring the [Postal] Service to develop a weighted index that recognizes workshare and workshare-like changes within the products. ACMA Comments at 11 (emphasis omitted).

MPA observes that “the Postal Service’s longstanding cost control and service performance problems for flats worsened again in FY 2021.” MPA Comments at 1. MPA states that the Postal Service has partnered with the flats mailing industry on a cross-functional, executive-level team to develop a plan to improve flats cost and service performance by consolidating mail processing and transportation flows, eliminating excess USPS flats processing capacity, and aligning flats preparation with the Postal Service’s transitioning network. *Id.* at 3-4. MPA recommends that the Commission encourage the Postal Service to complete this plan and implement it expeditiously. *Id.* at 4. In addition, MPA suggests that “the Commission hold the Postal Service accountable for this network redesign and ensure that the desired cost coverage and service performance improvements materialize.” *Id.*

NPPC asserts that “[t]he continued inability of flats products in different classes to cover costs, despite more than a decade of exhortations by the Commission, the imposition of a plethora of reporting requirements, and higher rates, is evidence that the remedies tried to date have not proven very effective.” NPPC Comments at 17. NPPC suggests that “the Commission and the Postal Service should try a different approach – one that addresses the problem of increasing per-unit costs by trying to increase the number of pieces. *Id.* (footnote omitted). It proffers that “[o]ffering lower, rather than higher, prices for flats is more likely to do so than the unsuccessful tactics of the past decade.” *Id.* at 18.

PostCom states that “[y]ear after year, the Postal Service presents increasingly disappointing performance on flats” and FY 2021 is no different. PostCom Comments at 7. It reiterates its concern that the annual compliance process has failed for flats and it states that there is no reason to believe that this review will ever produce the intended result. *Id.*

⁴⁰⁹ *Id.* at 9. Rule 3050.50(b)(5)(ii) requires the Postal Service to submit a report analyzing volume trends and mail mix changes that includes a comparison of the calculated estimate of aggregate unit attributable costs for combined flat-shaped products for each fiscal year, using FY 2013 fiscal year’s volume distribution. 39 C.F.R. § 3050.50(b)(5)(ii).

at 8. It contends that “[t]o the extent that the Postal Service must expend additional resources collecting and supplying information on flats performance, the overall costs of the Postal Service – which are ultimately borne by mailers – will increase.” *Id.* PostCom states that “[i]f there are no corresponding improvements in productivity or performance, the Commission’s actions will further compound an already acute problem.” *Id.*

The Public Representative states that “the Postal Service appears to have complied with most of the requirements that require responses, including data, information and reports of management initiatives regarding current flats service and costs.” PR Comments at 103. Citing the disruption of ordinary operations caused by the COVID-19 pandemic, he notes that the Postal Service was unable to provide meaningful year-to-year data comparisons or to fully implement planned management initiatives. *Id.* He requests “the Commission urge the Postal Service to find opportunities to make progress on improving flats’ service and costs.” *Id.* He states that “it is fair to conclude that initiatives should focus particularly on reducing the costs of delivering flats and the associated mail processing costs.” *Id.* at 117. Nevertheless, he states that “the data that is captured can be used as a basis for analyses and initiatives to adjust to volume and mix changes going forward.” *Id.* at 119.

The Public Representative “asks the Commission to urge the Postal Service to reinstitute some or all of the meaningful FSS initiatives that were suspended in FY 2020 through FY 2021, so that they may be reviewed in the FY 2022 [ACR].” *Id.* He observes that the Postal Service “does not indicate many instances of new initiatives undertaken to reduce the impact of the pinch points on costs and service.” *Id.* at 122. He requests “the Commission to recommend the Postal Service increase its efforts to comply with the Commission’s recommendations in the FY 2020 ACD” regarding bundle breakage. *Id.* at 123. He also requests that the Commission “reemphasize its recommendations related to manual sorting of flat-shaped mail in the FY 2020 ACD.” *Id.* at 125. In addition, he notes that “methodological redistribution of costs does not have the same overall beneficial financial impact as cost reduction initiatives that eliminate costs without redistribution.” *Id.* at 133. He concludes that “[e]xpressions of concern and directives recommending that greater effort should be directed toward reducing costs overall or at pinch points in operations and improving service performance are a part of the Commission’s oversight, but regulators cannot do the job for the Postal Service’s management.” *Id.* at 136.

Commission Analysis of Comments. The Commission acknowledges the concerns of the commenters regarding flats cost and service performance issues. Given the duration and pervasiveness of issues with flats’ costs and service, identifying and procuring data that can assist the Commission and stakeholders with understanding and facilitating the remediation of those issues is critically important. With reporting requirements entering their third year and price increases targeted to non-compensatory products only in effect for a few months during FY 2021, the Commission cannot find that these requirements are counterproductive, overly burdensome, or ineffective. The Commission will continue to monitor flats service and financial performance, and if necessary, take appropriate action within its authority should the pricing or reporting requirements prove to be counterproductive.

In contrast, the Commission finds that expanding the reporting requirements to include additional historical data, as advocated by ACMA, would not be particularly relevant to current flats performance issues, especially given the potential effects of the COVID-19 pandemic on the last 2 years as well as operational and mail mix changes.

Finally, in response to comments calling for more focus on cost reduction, the Commission has previously explained that it has limited tools that directly affect costs. *See* Order No. 5337 at 156-57; Order No. 5763 at 183. The Commission maintains that the Postal Service must develop and implement plans that result in meaningful cost reductions for flats. In addition, the Commission encourages the Postal Service to continue to work with the mailing community as it develops these plans.

H. Conclusion

As highlighted above, flats had a combined negative contribution of \$1.291 billion in FY 2021. Attributable costs for flats have continued to increase despite numerous operational initiatives aimed at reducing flats costs. At the same time, flats service performance has continued to decline. For a number of the pinch points, there was still no improvement: bundle breakage increased, mail processing productivity decreased, transportation costs increased, and delivery costs increased.

Since FY 2015, the Commission has worked to identify available data to develop metrics to measure, track, and report the cost and service performance issues for flats. In FY 2019, the Commission finalized its annual reporting requirements for flats, which leverages data collected internally by the Postal Service to increase transparency and enhance the accountability of the Postal Service to solve these persistent problems. *See* Order No. 5086.

FY 2021 represents the third year that the Postal Service was required to provide specific information related to flats cost and service issues. The Commission appreciates the information provided by the Postal Service this year. The Commission recognizes the impact of the COVID-19 pandemic on flats cost and service issues, including the delayed implementation of several initiatives intended to address these issues. However, because of the continuing trend of increased costs and declines in service, the Commission continues to have concerns related to the lack of specific plans to reduce costs and improve service for flats. The Commission is also concerned that the Postal Service is unable to determine how its operational initiatives and/or changes will impact cost and service. To resolve these concerns, the Commission has identified several areas where the Postal Service should improve its data and/or develop specific plans and goals to improve service and reduce costs. In addition, the Commission encourages the Postal Service to quantify the impact of its current and future initiatives on costs and service. The fact that in FY 2021 flats products collectively had a cumulative negative contribution of almost \$1.3 billion highlights the urgency and importance of this task.

Appendix A: Key Commission Findings and Directives Requiring Postal Service Action for Future Annual Compliance Reports

Workshare Discounts with 100 Percent Passthroughs:

- *The Commission reminds the Postal Service that the workshare discounts identified in Table II-1 cannot be changed in any rate adjustment proceedings occurring prior to the issuance of the FY 2022 ACD consistent with 39 C.F.R. § 3030.282(a). FY 2021 ACD, Chapter II.*

Workshare Discounts with Passthroughs that Exceed 100 Percent:

- *In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-2 into compliance with 39 C.F.R. § 3030.283. In addition, the workshare discounts identified in Table II-2 cannot be increased in the next rate adjustment proceeding consistent with 39 C.F.R. § 3030.282(b). FY 2021 ACD, Chapter II.*

Workshare Discounts with Passthroughs Under 85 Percent:

- *In the next rate adjustment proceeding, the Postal Service must bring the workshare discounts identified in Table II-3 into compliance with 39 C.F.R. § 3030.284. In addition, all workshare discounts set below their avoided costs, including those identified in Table II-3, cannot be decreased in the next rate adjustment proceeding consistent with 39 C.F.R. § 3030.282(c). FY 2021 ACD, Chapter II.*

Market Dominant, Non-Compensatory Classes:

- Periodicals:
 - *The Commission encourages the Postal Service to continue to maximize its usage of rate authority granted under 39 C.F.R. § 3030.222 and to maximize its revenue by strategically pricing Periodicals. FY 2021 ACD, Chapter III.*
 - *All of the Commission recommendations pertaining to reducing flat-shaped mail costs in Chapter VI. of this Report apply to Periodicals. In Chapter VI., the Commission reiterates its longstanding finding that despite numerous cost-reduction initiatives designed to reduce flat-shaped mail costs, these costs continue to rise. FY 2021 ACD, Chapter III.*

- Package Services—Bound Printed Matter Parcels:
 - *The Commission finds that FY 2021 revenue for BPM Parcels was not sufficient to cover attributable cost and that the Postal Service did not take adequate steps in FY 2021 to improve the cost coverage for this product. As a result, the Commission directs the Postal Service to increase BPM Parcels' prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting the Package Services class through the issuance of the FY 2022 ACD. In addition to an above-average price increase, the Commission directs the Postal Service to further explore initiatives to reduce the unit cost of BPM Parcels in FY 2022. In the FY 2022 ACR, the Postal Service must explain in detail the initiatives it considered but did not implement in FY 2022 as well as the initiatives it implemented in FY 2022 or plans to implement in FY 2023. For any initiative that was implemented or is planned to be implemented, the Postal Service must describe the actual or expected effects on BPM Parcels' unit cost and provide any available quantitative support. FY 2021 ACD, Chapter III.*

- Package Services—Media Mail/Library Mail:
 - *The Commission finds that the FY 2021 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. The Commission strongly recommends that the Postal Service continue to apply above-average price increases to Media Mail/Library Mail in rate adjustment proceedings consistent with the FY 2021 ACR's pricing plan for Media Mail/Library Mail. FY 2021, Chapter III.*

Market Dominant, Non-Compensatory Products in Compensatory Classes:

- First-Class Mail Flats:
 - *The Commission finds that FY 2021 revenue for First-Class Mail Flats was not sufficient to cover attributable cost. Consistent with 39 C.F.R. § 3030.221, the Commission requires that the Postal Service increase First-Class Mail Flats' prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting First-Class Mail through the issuance of the FY 2022 ACD. 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 First-Class Mail Flats, as further discussed in Chapter VI of this Report. FY 2021 ACD, Chapter III.*

- USPS Marketing Mail Flats:
 - *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 through FY 2020 ACD directives. FY 2021 ACD, Chapter III.*
 - *The Commission finds that USPS Marketing Mail Flats continues to violate 39 U.S.C. § 101(d) and possesses an unacceptable deficient cost coverage that continues to constitute an intra-class subsidy, unfairly burdening other mailers within the USPS Marketing Mail class. FY 2021 ACD, Chapter III.*
 - *The Commission finds that the Postal Service's cost-reduction efforts with regard to USPS Marketing Mail Flats have been unsuccessful. In Chapter VI, the Commission explains its continued concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flat-shaped mail products, including USPS Marketing Mail Flats. FY 2021 ACD, Chapter III.*
 - *The Commission finds that the issues initially raised in the FY 2010 ACD regarding USPS Marketing Mail Flats have continued to worsen and that the product did not cover its attributable costs in FY 2021. Consistent with 39 C.F.R. § 3030.221, and in line with the FY 2018 through FY 2020 directives, the Commission requires that the Postal Service propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the average for the class. The Postal Service is encouraged to remain cognizant of mail mix changes when adjusting prices. Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and providing required documentation of those efforts in future Annual Compliance Reports. Moreover, the Postal Service must continue to comply with the FY 2015*

- directive, as further discussed in Chapter VI. of this Report. FY 2021 ACD, Chapter III.*
- USPS Marketing Mail Carrier Route:
 - *The Commission finds that FY 2021 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost. The Commission finds it appropriate to continue to direct above class-average price increases as the Commission did in its FY 2020 directive. In the each generally applicable Market Dominant price adjustment, and in compliance with the requirements of 39 C.F.R. § 3030.221, the Postal Service must propose a price increase for USPS Marketing Mail Carrier Route that is at least 2 percentage points above the class average for the USPS Marketing Mail class. In addition, the Postal Service shall continue to explore and implement opportunities to further reduce the unit costs of flat-shaped mail products, including USPS Marketing Mail Carrier Route, as further discussed in Chapter VI. of this Report. FY 2021 ACD, Chapter III.*
 - USPS Marketing Mail Parcels:
 - *The Commission finds that FY 2021 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable costs. The Commission finds it appropriate to continue to direct above class-average price increases as the Commission did in its FY 2019 and FY 2020 directives. In each generally applicable Market Dominant price adjustment, and in compliance with 39 C.F.R. § 3030.221, 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, the Postal Service is encouraged to continue to expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels and shall report on those opportunities and results in the FY 2022 ACR. FY 2021 ACD, Chapter III.*
 - Special Services—Money Orders:
 - *The Commission finds that FY 2021 revenue for Money Orders was not sufficient to cover attributable cost. Consistent with 39 C.F.R. § 3030.221, the Commission requires that the Postal Service increase Money Orders' prices by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting the Special Services class through the issuance of the FY 2022 ACD. FY 2021 ACD, Chapter III.*

Competitive Products, Cross-Subsidization:

- *The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2021. FY 2021 ACD, Chapter IV.*

Competitive Products, Cost Coverage, Domestic:

- *The Commission finds that, in FY 2021, 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). FY 2021 ACD, Chapter IV.*

Competitive Products, Cost Coverage, International:

- International Money Transfer Service—Inbound:
 - *The Commission finds that the IMTS—Inbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021. The Commission encourages the Postal Service to continue its efforts towards termination of the remaining agreements comprising the IMTS—Inbound product, if any, during FY 2022. Should the progress towards this goal include modifications, rather than terminations, of international postal money order agreements, the Commission directs the Postal Service to report the details of any agreements' modifications, including the impact on the IMTS—Inbound product's reportable transactions and revenues, as part of its FY 2022 ACR filing. In addition, the Commission directs the Postal Service to provide data on all foreign-issued money orders processed through the Federal Reserve Bank for payment in the United States in FY 2022, as part of its FY 2022 ACR filing. These data shall include additional details, such as country of origin, number of paper and electronic money orders, and information on whether they were issued by a foreign postal operator or other financial institution. These data shall additionally include information on the number of money orders cashed at Postal Service retail windows and those cashed at United States banks, as well as information on whether a fee or a commission was paid to the Postal Service, to the extent possible. FY 2021 ACD, Chapter IV.*
- International Money Transfer Service—Outbound:
 - *The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021. The Commission directs the Postal Service to propose price increases for the two components of the IMTS—Outbound product that more adequately reflect the impact that decreases in IMTS—Inbound*

transactions have on the proportions of total IMTS costs distributed to International Money Orders and Electronic Money Transfers, in its next request to adjust prices of general applicability for Competitive products. FY 2021 ACD, Chapter IV.

- International Ancillary Services—Inbound Competitive International Registered Mail:
 - *The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021, and that one of its sub-components, Inbound Competitive International Registered Mail, did not cover cost. The Commission directs the Postal Service to provide a detailed analysis of the current attribution of costs and revenues for inbound registered items that entered the Postal Service's mail stream in FY 2021 under applicable MCS sections within 90 days of issuance of this ACD. This detailed analysis shall separately describe the attribution of costs and revenues associated with the delivery of host mail pieces and those associated with the provision of registered service (ancillary to delivery of host mail pieces), and be supported with data sources from the FY 2021 International Cost and Revenue Analysis. Additionally, the analysis shall identify any potential new methodology that would improve the accuracy of cost and revenue attribution for inbound registered items included under the applicable MCS sections, including items under Inbound Competitive International Registered Mail. FY 2021 ACD, Chapter IV.*

- International Ancillary Services—Outbound International Insurance:
 - *The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2021, and that one of its components, Outbound International Insurance, did not cover cost. The Commission recommends that the Postal Service investigate the increases in window service costs and international indemnities, and take adequate and appropriate corrective action that would lead to compensatory Outbound International Insurance. Such corrective action might not be limited to a price increase for Outbound International Insurance in the next request to adjust prices of general applicability for Competitive products. FY 2021 ACD, Chapter IV.*

Competitive Products, Cost Coverage, Competitive Outbound International Products Consisting of NSAs:

- Outbound:
 - *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 outbound international NSA and take steps to terminate or renegotiate agreements that are not compensatory. FY 2021 ACD, Chapter IV.*
- Inbound:
 - *The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product. The Commission recommends that the Postal Service continually monitor the financial performance of each inbound international NSA and take steps to terminate or renegotiate agreements that are not compensatory. FY 2021 ACD, Chapter IV.*

Competitive Products, Cost Coverage, Nonpostal Services:

- *The Commission concludes that Competitive Nonpostal Services satisfied 39 U.S.C. § 3633(a)(2) because revenues exceeded attributable cost for each product. FY 2021 ACD, Chapter IV.*

Competitive Products, Appropriate Share:

- *The Commission finds that in FY 2021 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs. FY 2021 ACD, Chapter IV.*

Competitive Products, Pilot Program—Gift Cards:

- *The Commission directs the Postal Service to report quarterly information on the Pilot Program, including updates on volume and revenue, as well as future plans for the Pilot Program as long as it remains in effect. In addition, the Commission directs the Postal Service to file a notice of termination with the Commission when the Pilot Program ends, including notification no later than 14 days after the publication of the ACD whether the Postal Service is continuing the program past its initially anticipated end date of March 2022. Should the Pilot Program remain in effect after March 2022, the Commission will initiate a Mail Classification proceeding pursuant to 39 C.F.R. § 3040 to explore and review the issues discussed in this section. FY 2021 ACD, Chapter IV.*

Service Performance Targets for Market Dominant Products:

- *At the time of filing the FY 2022 ACR, if the Postal Service maintains its current goal to “transition over approximately the next two to three years” all Market Dominant product service performance targets to 95 percent on-time (see Response to CHIR No. 18, question 1.a.i.1.), the Commission directs the Postal Service to include as a part of its FY 2022 ACR filing a specific plan for moving service performance targets from their current interim levels to 95 percent for each Market Dominant product. This plan should include a proposed timeline for setting interim targets and key criteria for each product that the Postal Service uses to assess what those interim targets will be. In developing this plan, the Postal Service should balance the interests of setting realistically achievable interim targets with its stated goal of moving service performance targets up to 95 percent over “approximately the next two to three years.” If the Postal Service does not maintain this goal at the time of filing the FY 2022 ACR, the Commission directs the Postal Service to identify its revised goal and the rationale for the change as a part of its FY 2022 ACR filing. FY 2021 ACD, Chapter V.*

Service Performance Measurement for Market Dominant Products:

- *The Commission recommends that, as the impacts to the Postal Service caused by the COVID-19 pandemic begin to abate, the Postal Service renew its focus on analyzing and improving its mail in measurement. FY 2021 ACD, Chapter V.*

First-Class Mail Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for its First-Class Mail products in FY 2022. The Commission recognizes that the COVID-19 pandemic has continued to exacerbate the Postal Service's difficulty in achieving its service performance targets and takes that into account in formulating its directives.*
- *The Commission is concerned that FY 2021 is the seventh consecutive year that no First-Class Mail product category achieved its service performance target and over that time, service performance results for First-Class Mail have continued to decline, particularly for the 3-5-Day product categories. The Commission has found Single-Piece Letters/Postcards out of compliance since FY 2015, and Single-Piece Outbound International out of compliance since FY 2020. See FY 2020 ACD at 180. However, Presorted Letters/Postcards has also been below target since FY 2015 for all categories. Flats have been below-target since FY 2010 for all categories. Inbound Letter Post, like Single-Piece Outbound International, has been below-target since FY 2009. In FY 2021, the Postal Service revised service performance targets substantially downward for every First-Class Mail product category, yet every product category still failed to achieve its applicable service performance target, in some cases (as with Flats and Single-Piece Outbound International) by a significant margin. Given the long-standing problems the Postal Service has had achieving its service performance targets, and given that every category of First-Class Mail missed its service performance target in FY 2021 even after the targets had been revised substantially downwards, the Commission determines that all First-Class Mail products were out of compliance in FY 2021.*
- *The Commission directs the Postal Service to provide information on the following five 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 should file a motion for clarification in Docket No. ACR2021, if necessary. Where appropriate, the Postal Service shall explain the reasons for any differences in the calculation of data in FY 2022 versus FY 2021 and shall propose a method for comparing the FY 2022 data to the FY 2021 data.*

(a) FY 2022 Nationwide Transit and Last Mile Improvement Initiatives

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.

- 1. The transit evaluation shall explain how the progress made in FY 2022 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2022. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*
- 2. The Last Mile evaluation shall explain how the progress made in FY 2022 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2022. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2022. Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally, the Commission will allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated evaluation and plan shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(b) FY 2022 Division Improvement Initiatives

Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement initiatives are led by personnel in the Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.

- 1. For each Division, the Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2022. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2022.*
- 2. For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

Because every First-Class Mail product remains below its applicable target and the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization. The report for each Division shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report from each Division shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) Consistent Data

Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directs the Postal Service to provide the following data, described in items 1 through 5. Data shall be provided for FY 2022 Quarter 1, Quarter 2, and “mid-year” within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, “second-half” and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022). The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.

1. *The top five root cause point impacts for First-Class Mail, disaggregated by shape/product and service standard, presented for the nation and each Area. Present results for Flats at the product level and disaggregated by the single-piece and presorted categories.*
2. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.*
3. *The number of CLTs (any HCR that is late by more than 4 hours), presented for the nation, each Area, and each District.*
4. *The performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals), presented for the nation, each Area, and each District.*
5. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2022. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2022, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2021.*

(d) FY 2022 ISC Improvement Initiatives

To monitor the Postal Service’s initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility responsible for processing Outbound Single-Piece International) on the following matters, described in items 1 and 2.

1. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International by describing the facility’s progress made toward addressing the identified deficiencies related to each facility’s adherence to processing requirements and explaining how the*

facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2022.

2. *For each facility, the Postal Service shall provide a detailed plan to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece International that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations described in items 1 and 2 above shall include quantitative analysis that identifies the KPI(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece International volume it processed each Quarter and provide corresponding quantification for the same period during FY 2021. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report from each facility shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

With respect to Inbound Letter Post specifically, the Postal Service shall further provide information on the following matters, described in items 3 and 4.

3. *In its FY 2022 ACR, the Postal Service shall provide both SPM and QLMS CY 2021 and CY 2022 reports, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve QLMS service performance. The Postal Service shall state in its FY 2022 ACR whether it forfeited revenue in CY 2021 and CY 2022 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2021 and CY 2022, the Commission directs the Postal Service to provide the forfeited amounts for CY 2021 and for CY 2022 based on all results available to date and explain how this amount is calculated based on service performance results.*
4. *The Postal Service shall file a report within 90 days of issuance of this ACD (by June 27, 2022) that includes the following: QLMS service performance reports for CY 2021 and all available reports for CY 2022; a status update on projects and initiatives to improve QLMS service performance in FY 2021, and their effectiveness in improving service performance based on available KPI(s); root cause failures identified through coordination with the UPU and International*

Post Corporation (IPC) and steps that have been taken to address them; and the amount of Inbound Letter Post forfeited revenue due to not meeting UPU service performance targets in CY 2021 and CY 2022. The Postal Service shall provide an update to this report at the time of the FY 2022 ACR (by December 29, 2022).

(e) National Monthly Service Performance Results

To monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national service performance results, disaggregated by month, for each First-Class Mail product (all service standards and combined). These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).

FY 2021 ACD, Chapter V.

USPS Marketing Mail Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets in FY 2021 for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, or Parcels. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission recognizes that the COVID-19 pandemic has continued to exacerbate the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.*
- *The Commission is concerned that service performance problems with respect to many of these products have been long-standing and that generally results for many of these products have continued to decline over time. High Density and Saturation Flats/Parcels has been below-target since FY 2013. Except for FY 2017, Carrier Route has been below-target since FY 2012. Flats have been below-target since FY 2012. Every Door Direct Mail—Retail has been below target since FY 2015. For the first time, the Postal Service reports that Parcels results failed to meet the applicable target in FY 2021, and the Parcels results reported in FY 2021 decreased rapidly from the corresponding results reported in FY 2020. In FY 2021, the Postal Service revised service performance targets substantially downwards for all USPS Marketing Mail products, yet five out of seven products still failed to achieve the applicable service*

performance target, in some cases (as with Flats, Every Door Direct Mail—Retail, and Parcels) by a significant margin. In light of this, the Commission finds that High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels were each out of compliance in FY 2021.

- *To monitor the Postal Service’s initiatives to remediate service performance issues with respect to these noncompliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide information concerning the following four matters for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2022).*

(a) Consistent Data

First, the Commission directs the Postal Service to provide the top five root cause point impacts for USPS Marketing Mail for each quarter and annually for FY 2022, disaggregated by shape/product and entry level/service standard. Data shall be provided for FY 2022 Quarter 1, Quarter 2, and “mid-year” within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, “second-half” and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022).

(b) FY 2021 Improvement Initiatives

Second, the Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve service performance for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2022), and to provide specific detailed plans to improve these products’ service performance, as described in items 1 and 2.

1. *The Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time results for these products by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic’s impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and ACR2021) and explaining how the Postal Service’s progress (or lack thereof) affected on-time results for these products in FY 2022. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2022.*

2. *The Postal Service shall provide a detailed plan to improve on-time results for these products that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to these products, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) National Monthly Service Performance Results

Third, to monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national on-time percent results, disaggregated by month (all service standards and combined), for High Density and Saturation Flats/Parcels, Carrier Route, Flats, Every Door Direct Mail—Retail, and Parcels. These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).

(d) Status Report on Parcels

Fourth, the Postal Service shall provide a report on the status of its initiative to correct the source system error with respect to Parcels identified in Response to CHIR No. 2, question 6. The report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

Periodicals Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for either Periodicals product in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission is concerned that for these products, for which on-time service performance scores have remained below target since FY 2009, the Postal Service in FY 2021 revised service performance targets substantially downwards, yet both products nevertheless scored substantially below the applicable targets and declined from the levels observed in FY 2020. Therefore, the Commission determines that In-County and Outside County Periodicals remained out of compliance for FY 2021. The Commission recognizes that the COVID-19 pandemic has continued to exacerbate the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.*
- *To monitor the Postal Service's initiatives to remediate service performance issues with respect to these noncompliant products, the Commission directs the Postal Service to provide information concerning the following three matters.*

(a) Consistent Data

First, the Commission directs the Postal Service to provide the top five root cause point impacts for Periodicals for each quarter and annually for FY 2022. Data shall be provided for FY 2022 Quarter 1, Quarter 2, and "mid-year" within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, "second-half" and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022).

(b) FY 2021 Improvement Initiatives

Second, the Commission directs the Postal Service to evaluate the efficacy of its FY 2022 nationwide initiatives to improve In-County and Outside County Periodicals service performance and to provide specific detailed plans to improve Periodicals service performance, as described in items 1 and 2.

1. *The Postal Service shall evaluate the efficacy of its FY 2022 initiatives to improve on-time results for Periodicals by describing the progress made (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and ACR2021) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2022. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2022 Quarter 1 to FY 2021 Quarter 1) and provide a*

narrative explaining the practices employed to remediate the underlying problem(s) in FY 2022.

2. *The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) National Monthly Service Performance Results

Third, to monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national on-time percent results, disaggregated by month, for In-County and Outside County Periodicals. These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for January 2022 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).

FY 2021 ACD, Chapter V.

Package Services Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for BPM Flats and Media Mail/Library Mail in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.*
- *While the on-time performance result for BPM Flats increased from FY 2020 to FY 2021 by 6.0 percentage points, the Commission remains concerned that this product is substantially below its target. Moreover, FY 2021 marks the tenth consecutive year that BPM Flats has remained below its target. The Commission is also concerned that the FY 2021 on-time performance result for Media Mail/Library Mail remains below*

target and declined again for the fourth consecutive year. The Commission acknowledges that the Postal Service has repeatedly asserted that both of these products have significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is slower and costlier. Nevertheless, given the history of service performance problems for these products, the Commission finds that both BPM Flats and Media Mail/Library Mail were out of compliance in FY 2021.

- *To monitor the Postal Service's initiatives to remediate these ongoing issues related to these noncompliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide the information in the FY 2022 ACR for BPM Flats and Media Mail/Library Mail concerning the following three matters.*

(a) Consistent Data

First, for BPM Flats, the Commission directs the Postal Service to provide the top five root cause point impacts for each quarter and annually for FY 2022. See, e.g., Response to CHIR No. 11, question 13. Data shall be provided for FY 2022 Quarter 1, Quarter 2, and "mid-year" within 90 days of the issuance of this ACD (by June 27, 2022). Data shall be provided for FY 2022 Quarter 3, Quarter 4, "second-half" and annualized for the fiscal year, in the FY 2022 ACR (by December 29, 2022).

(b) FY 2021 Improvement Initiatives

Second, the Postal Service shall evaluate the efficacy of the Postal Service's FY 2022 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and ACR2021) to improve on-time service performance for BPM Flats and Media Mail/Library Mail. The Postal Service shall also provide a detailed plan for how each product's results will be improved, describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion. The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to BPM Flats and Media Mail/Library Mail, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 27, 2022). An updated report shall be filed at the time of the FY 2022 ACR (by December 29, 2022).

(c) National Monthly Service Performance Results

Third, to monitor the Postal Service's initiatives to remediate the decline from FY 2020 to FY 2021, the Commission directs the Postal Service to provide national on-time

percent results, disaggregated by month, for BPM Flats and Media Mail/Library Mail. These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022 through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).

FY 2021 ACD, Chapter V.

Special Services Service Performance Targets:

- *The Commission finds that the Postal Service did not meet its service performance targets for Post Office Box Service or Ancillary Services in FY 2021 and directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2022. The Commission recognizes that the COVID-19 pandemic has exacerbated the Postal Service's challenges in achieving its service performance targets and takes that into account in formulating its directives.*
- *Post Office Box Service results have been below-target since FY 2015. Ancillary Services results have been below-target since FY 2020 but have decreased rapidly. Given the ongoing nature of service performance problems with respect to Special Services, the Commission finds that both Post Office Box Service and Ancillary Services were out of compliance in FY 2021. To monitor the Postal Service's initiatives to remediate these ongoing issues with respect to these noncompliant products, which have been exacerbated by the COVID-19 pandemic, the Commission directs the Postal Service to provide the following information in the FY 2022 ACR for Post Office Box Service and Ancillary Services: (1) an evaluation of the efficacy of the Postal Service's FY 2022 initiatives (including how the Postal Service adapted its initiatives in light of the COVID-19 pandemic's impacts and the status of initiatives identified in Docket Nos. ACR2019, ACR2020, and ACR2021) to improve on-time service performance for each product; and (2) a detailed plan explaining how each product's results will be improved.*
- *The Commission further directs the Postal Service to provide national on-time percent results, disaggregated by month, for Post Office Box Service and Ancillary Services. These monthly results shall be due on the following schedule: May 10, 2022 (monthly results for October 2021 through March 2022), August 9, 2022 (monthly results for April 2022 through June 2022), November 9, 2022 (monthly results for July 2022 through September 2022), February 9, 2023 (monthly results for October 2022*

through December 2022), and May 10, 2023 (monthly results for January 2023 through March 2023).

FY 2021 ACD, Chapter V.

Customer Access:

- *The Commission reiterates the importance of providing consistent information among the Annual Report, ACR, and CHIR responses. In the FY 2022 Annual Report and the FY 2022 ACR, the Postal Service must report the number of retail facilities using data from the same system to ensure that information is accurate and consistent. If there are any discrepancies in the number of retail facilities or delivery points, the Postal Service must identify and reconcile them in the FY 2022 ACR instead of in CHIR responses. FY 2021 ACD, Chapter V.*

Post Office Suspensions:

- *The Commission directs the Postal Service to continue filing quarterly reports on the status of the suspensions remaining from FY 2016. The Postal Service must file this information within 40 days after the end of each quarter in FY 2022 and in FY 2023 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing, at a minimum, the same columns and information provided in the spreadsheet filed in Docket No. ACR2020 on November 9, 2021.*
- *Each quarterly report must provide the most accurate data currently available and correct any discrepancies from the prior quarterly report. The Postal Service must identify and reconcile any discrepancies or differences in the body of the report and the accompanying Excel spreadsheet. Also, the FY 2022 ACR must include a detailed plan and timeline for resolving all remaining suspended post offices, including post offices suspended from FY 2017 through FY 2022.*

FY 2021 ACD, Chapter V.

Collection Boxes:

- *The Commission will continue to monitor the number of collection boxes in Docket No. ACR2022. In FY 2022, the Commission recommends that the Postal Service continue conducting annual density testing of collection boxes consistent with the procedures specified in the POM to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission also recommends that the Postal Service describe in the FY 2022 ACR any plans or initiatives to remove collection boxes beyond the procedures specified in the POM. FY 2021 ACD, Chapter V.*

Wait Time in Line:

- *The Commission encourages the Postal Service to continue implementing strategies designed to improve wait time in line in FY 2022. In the FY 2022 ACR, the Postal Service must describe actions taken during FY 2022 to improve wait time in line. If wait time in line worsens during FY 2022, the FY 2022 ACR should:*
 - *Explain why wait time in line increased and identify factors contributing to the increase*
 - *Describe plans for improving wait time in line during FY 2023 that include specific actions, strategies, and initiatives designed to address factors contributing to increased wait time in line, including reduced employee availability*

FY 2021 ACD, Chapter V.

Alternative Access:

- *The Commission recommends that the Postal Service continue to expand alternative access channels to ensure customers have ready access to essential postal services during the COVID-19 pandemic and beyond. To promote transparency, the Commission suggests that the Postal Service continue to disaggregate alternative access data and track the number of transactions and revenue by class or product. FY 2021 ACD, Chapter V.*

Customer Satisfaction:

- *In FY 2022, the Postal Service should continue to take appropriate actions to maintain large business customer satisfaction with Market Dominant products and improve residential and small/medium business customer satisfaction across all mailing services. In the FY 2022 ACR, the Postal Service must:*
 - *Describe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2022 to improve residential and small/medium business customer satisfaction with Market Dominant products*
 - *Explain how these actions, plans, initiatives, and strategies were targeted to improve Market Dominant product satisfaction for each customer type*
 - *Explain how these actions, plans, initiatives, and strategies impacted FY 2022 results*
- *If customer satisfaction with Market Dominant products declines for any customer type between FY 2021 and FY 2022, the FY 2022 ACR must explain why. When responding to these directives, the FY 2022 ACR must group explanations and*

descriptions by customer type (residential, small/medium business, and large business) or otherwise identify which explanations and descriptions apply to each customer type.

- *The Commission reiterates its recommendation that the Postal Service consider revising the Delivery survey to ask follow-up questions and questions about service performance for each Market Dominant mailing service to allow the Postal Service to assess how service performance results affect customer satisfaction with those mailing services.*

FY 2021 ACD, Chapter V.

Flat-Shaped Mail:

- *The Commission recommends that the Postal Service continue to estimate and report the additional cost that bundle breakage adds to flats processing. In FY 2022, the Postal Service must work to reduce the number of broken bundles while continuing to increase the number of tracked bundles. In addition, the Postal Service shall continue to study the causes, impacts and ways to reduce bundle breakage; enhance reporting and tracking of bundle irregularities; and work with mailers to ensure corrective actions are implemented when irregularities are shared through the Mailer Irregularity Application on the Mailer Scorecard. FY 2021 ACD, Chapter VI.*
- *The Commission directs the Postal Service to implement initiatives to reduce mail processing costs, as costs must be controlled even in a declining volume environment. Further, if mail processing facilities have extreme (unusually high or low) productivity values or have quarterly productivity values based on a large number of missing workhours or volume at the operation and daily tour-level, the Commission directs the Postal Service to target those sites to improve their reporting or explain why the provided productivity is accurate for a given facility, mail processing category, fiscal year, and quarter. FY 2021 ACD, Chapter VI.*
- *The Commission recommends that in FY 2022, the Postal Service develop an accurate method to track flat-shaped mail that is manually processed. Once there is an accurate measurement of such flat-shaped mail, the Postal Service shall develop a specific plan to: (1) continue to decrease the quantity of flat-shaped mailpieces processed manually, and (2) achieve a proportional reduction in unit mail processing costs for manual operations. FY 2021 ACD, Chapter VI.*
- *The Postal Service must develop a plan to reduce the costs associated with allied operations and gain additional insight into allied operations. In addition, the Postal Service must use the updated version of the Cycle Time report to generate detailed data/reports on mail entry points. Furthermore, the Postal Service must indicate the*

WIP cycle time for each processing point, and the corrective action(s) taken when delays occur in processing points. FY 2021 ACD, Chapter VI.

- *In FY 2022, the Postal Service must develop a plan to reduce the costs associated with transporting flat-shaped mail. The plan shall establish specific achievable goals to reduce transportation costs for flat-shaped mail. The Commission will continue to monitor the SVWeb transportation metrics to ensure the Postal Service continues to make progress towards its goals. FY 2021 ACD, Chapter VI.*
- *The Postal Service must develop a plan in FY 2022 to reduce the costs associated with delivering flat-shaped mail. The plan should establish specific achievable goals that reduce delivery costs for flat-shaped mail. The Commission will continue to monitor the costs of last-mile delivery in FY 2022 to ensure the Postal Service efforts result in improvements. FY 2021 ACD, Chapter VI.*

Appendix B: Commenters

2021 Annual Compliance Determination

Commenter	Comment Citation	Citation Short Form
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association (ACMA) January 31, 2022	ACMA Comments
The Association of Magazine Media (MPA)	Comments of MPA – The Association of Magazine Media, January 31, 2022	MPA Comments
Association for Postal Commerce (PostCom)	Comments of the Association for Postal Commerce, January 31, 2022	PostCom Comments
Greeting Card Association (GCA)	Initial Comments of the Greeting Card Association, January 31, 2022	GCA Comments
The Lexington Institute (LI)	Comments of the Lexington Institute January 31, 2022	LI Comments
National Association of Presort Mailers (NAPM)	Comments of the National Association of Presort Mailers, January 31, 2022	NAPM Comments
National Postal Policy Council (NPPC)	Comments of the National Postal Policy Council, January 31, 2022	NPPC Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc. January 31, 2022	Pitney Bowes Comments
Public Representative (PR)	Public Representative Comments January 31, 2022	PR Comments
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, February 14, 2022	Postal Service Reply Comments

Appendix C: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AADC	automated area distribution center
ACD	<i>Annual Compliance Determination</i>
ACMA	American Catalog Mailers Association, Inc.
ACR	<i>Annual Compliance Report</i>
ADC	area distribution center
ADUS	Automated Delivery Unit Sorter
AFSM	Automated Flats Sorting Machine
APBS	Automated Parcel and Bundle Sorter
APPS	Automated Package Processing System
BPM	Bound Printed Matter
C.F.R.	Code of Federal Regulations
CHIR	Chairman's Information Request
CIR	Commission Information Request
CLT	Critically Late Trip
CPI	consumer price index
CPI-U	consumer price index for all urban consumers
CPO	community Post Office
CPU	contract postal unit
CPUT	Contract Post Unit Technology
CRA	Cost and Revenue Analysis
CRID	Customer Registration Identification
CV	coefficient of variation
CX	customer experience
CY	Calendar Year
DDU	destination delivery unit
DMU	Detached Mail Unit
DNDC	destination network distribution center
DPS	delivery point sequence
DSCF	destination sectional center facility
ECP	Efficient Component Pricing
ECSI	educational, cultural, scientific, or informational (value)
EDDM	Every Door Direct Mail
EDDM-R	Every Door Direct Mail—Retail

Acronym/Abbreviation	Meaning
EMS	Express Mail Service
EPPS	Enhanced Package Processing System
FAST	Facility Access and Shipment Tracking
FIFO	First-In-First-Out
FPARS	Flats Postal Automated Redirection Systems
FPO	foreign postal operator
FSS	Flats Sequencing System
FY	Fiscal Year
GCA	Greeting Card Association
GEPS	Global Expedited Package Services
GEPS—NPR	Global Expedited Package Services—Non-Published Rates
HCR	Highway Contract Route
HD	High Density
HD+	High Density Plus
HTPS	High Throughput Package Sorter
IBRS	International Business Reply Service
ICRA	International Cost and Revenue Analysis
IMb	Intelligent Mail barcode
IMMS	International Mail Measurement System
IMTS—Inbound	International Money Transfer Service—Inbound
IMTS—Outbound	International Money Transfer Service—Outbound
Internal SPM	Internal Service Performance Measurement System
IOCS	In-Office Cost System
IPA	International Priority Airmail
IPC	International Post Corporation
IPPS	irregular parcels and pieces
ISAL	International Surface Air Lift
ISC	International Service Center
IV	Informed Visibility
KPI	key performance indicator
LI	Lexington Institute
LMI	last mile indicator
MAQ/PAQ	Mail Arrival Quality/Plant Arrival Quality
MCS	Mail Classification Schedule
Mixed ADC	mixed area distribution center
MODS	Management Operating Data System
MPA	MPA – The Association of Magazine Media
NAPM	National Association of Presort Mailers
NDC	network distribution center

Acronym/Abbreviation	Meaning
NPPC	National Postal Policy Council
NSA	negotiated service agreement
OIG	Office of Inspector General
P&DC	processing and distribution center
P&DC/F	processing and distribution center/facility
P&DF	processing and distribution facility
PAEA	Postal Accountability and Enhancement Act
Pitney Bowes	Pitney Bowes Inc.
PO Boxes	Post Office Boxes
POM	Postal Operations Manual
PostCom	Association for Postal Commerce
PR	Public Representative
Priority Mail—NPR	Priority Mail—Non-Published Rates
PSAs	Package Support Annexes
PTR	Product Tracking and Reporting
QLMS	Quality Link Measurement System
RFID	Radio Frequency Identification
SCF	sectional center facility
SDR	Special Drawing Right
SIPS	Single Induction Package Sorter
SPBSTS	Sorter/Small Parcel and Bundle Sorter Tracking
SPCCS	Special Purpose Carrier Cost System
SPM	Service Performance Measurement
SPR	Special Purpose Routes
SRP	supplementary remuneration program
SSKs	Self-Service Kiosks
STC	surface transfer center
TACS	Time and Attendance Collection System
THS	Terminal Handling Service
TPF	total pieces fed
U.S.C.	United States Code
UPS	United Parcel Service, Inc.
UPU	Universal Postal Union
VPO	Village Post Office
WIP	Work in Process

HELP US IMPROVE THIS REPORT

In connection with Section 2 of the Plain Writing Act of 2010, the Postal Regulatory Commission is committed to providing communications that are valuable to our readers.

We would like to hear your comments on what you find useful about our Annual Compliance Determination report and how we can improve its readability and value.

Please contact the Commission's Office of Public Affairs and Government Relations to provide your feedback.

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