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POSTAL REGULATORY COMMISSION

# Annual Compliance Determination Report

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Fiscal Year 2015

March 28, 2016

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# EXECUTIVE SUMMARY

This report reviews the Postal Service's performance in Fiscal Year (FY) 2015, fulfilling the Commission's responsibility to produce an annual assessment of Postal Service rates and service mandated by Title 39, section 3653, of the United States Code. It is based on information the Postal Service is required to provide within 90 days after the close of the fiscal year and on comments subsequently received from the public. Specific Commission findings and directives are identified in italics in each chapter.

Consistent with the approach adopted last year, the *Annual Compliance Determination* 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 2015 were not in compliance with chapter 36 of Title 39 of the United States Code and whether any service standards in effect during FY 2015 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2015-4 combined with the exigent surcharge approved in Docket No. R2013-11 for Market Dominant products, and all the rates in effect during FY 2015 for Competitive Products.

The financial analysis that had been incorporated in past ACDs is expanded in the *Financial Analysis of United States Postal Service Financial Results and 10-K Statement 2015*. The Commission will also issue a separate report on the Postal Service's *FY 2015 Annual Performance Report and FY 2016 Performance Plan* to fulfill its statutory responsibilities under 39 U.S.C. § 3653(c).

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

In Chapter 2, the Commission identifies compliance issues related to 53 workshare discounts, finding that 24 of the discounts did not comply with section 3622(e). Workshare discounts that exceed avoided costs adversely affect Postal Service finances because they incent mailers to perform worksharing that the Postal Service could have done on a less costly basis.

- For four of the 24 workshare discounts that were not in compliance with section 3622(e), the removal of the exigent surcharge in Docket No. R2013-11R aligns the discounts with avoided costs; therefore no further action is required.
- For the 20 workshare discounts remaining out of compliance with section 3622(e), the Postal Service must either align workshare discounts with avoided costs in the next Market Dominant price adjustment or specify an applicable statutory exception.

Additionally, for the Periodicals class, the Commission finds that the Postal Service failed to meaningfully address the FY 2014 ACD directives to report on the cost and contribution impact of worksharing incentives offered for 5-Digit and Carrier Route presortation and progress in improving pricing efficiency. The Commission therefore directs the Postal Service within 120 days of issuance of this ACD to file a report which:

- Discusses whether the 5-Digit, Carrier Route, and FSS workshare discounts are the proper economic incentives and send efficient pricing signals to mailers.
- Reports the cost, contribution, and revenue impact of the pricing changes made by the Postal Service in FY 2015.
- Provides a detailed quantitative analysis of the progress made in leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing in FY 2015.
- Identifies any obstacles to providing the requested analysis as well as the Postal Service's strategy and timeframe for addressing those obstacles. The Postal Service must provide steps it has taken towards overcoming the obstacles identified.

## **B. Principal Findings: Market Dominant Noncompensatory Products**

In Chapter 3, the Commission identifies seven noncompensatory Market Dominant products: Periodicals In-County, Periodicals Outside County, Standard Flats, Standard Parcels, Media Mail/Library Mail, Inbound Letter Post, and Stamp Fulfillment Services.

With respect to Periodicals In-County, Periodicals Outside County, and Standard Mail Flats, the Commission finds that additional information regarding costs is needed, and directs the Postal Service to provide a report in 120 days of issuance of this ACD as detailed in Chapter 6.

For Inbound Letter Post, the Commission recommends that the Postal Service continue to develop a more compensatory Universal Postal Union (UPU) terminal dues formula for the next rate cycle (CY 2018 through CY 2021) and pursue bilateral agreements with foreign postal operators that result in an improved financial position for the Postal Service.

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

## **C. Principal Findings: Competitive Products Rate and Fee Compliance**

In Chapter 4, the Commission finds that revenues for the following six products did not cover attributable costs and thus did not comply with section 3633(a)(2): Priority Mail Contract 135; Parcel Return Service Contract 8; International Money Transfer Service

(IMTS)—Inbound; IMTS—Outbound; Inbound Parcel Post (at UPU rates); and Inbound Air Parcel Post (at non-UPU rates). The Commission orders the Postal Service to take corrective action, including reporting on the status of contracts, agreements, or negotiations, identifying obstacles to renegotiating international agreements, and discussing the impact of recent price changes as appropriate.

## **D. Principal Findings: Service Performance and Customer Access**

In Chapter 5, the Commission finds that the majority of products failed to meet their service performance targets for FY 2015. The Commission also notes its ongoing concern with the increasing number of facilities under suspension.

- The Postal Service met its service performance targets for High Density and Saturation Letters, Standard Mail Parcels, Bound Printed Matter Parcels, Media Mail/Library Mail, and most Special Services products.
- Service performance results for all First-Class Mail products, both Periodicals products, most products in Standard Mail, and Bound Printed Matter Flats did not meet their targets despite Postal Service initiatives to improve performance.
- The number of facilities under suspension increased by 180 from the end of FY 2014 to the end of FY 2015.

In the FY 2014 ACD, the Commission issued directives to the Postal Service for products composed of flats to improve service performance results during FY 2015 or otherwise provide an explanation as to why efforts to improve performance were ineffective and identify further planned changes to improve those results. The Commission finds that during FY 2015 service performance results for these products remain substantially below their targets, and in all but one case, the performance results declined. The Commission also finds that the Postal Service's plans to improve service performance results, where provided for certain products pursuant to the FY 2014 ACD directives, are not adequate to address the service performance issues. As a result, with respect to First-Class Single-Piece Flats, First-Class Presort Flats, Periodicals In-County, Periodicals Outside County, Standard Mail Flats, Standard Mail Carrier Route, and Bound Printed Matter Flats, the Commission finds that additional information regarding service performance is needed, and directs the Postal Service to provide a report in 120 days of issuance of this ACD as detailed in Chapter 6.

The Commission is concerned with the recent dramatic decline of service performance for First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard and determines that First-Class Mail Single-Piece Letters/Postcards does not meet its service performance target and, therefore, is not in compliance. The Postal Service must provide an explanation in the FY 2016 ACR identifying specific efforts targeted to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2016.

Further, it must provide a detailed, comprehensive plan to improve service performance for First-Class Mail Single-Piece Letters/Postcards within 90 days of issuance of this ACD.

The Commission also notes its concern with the growing number of postal retail facilities under suspension, as the number of facilities under suspension has nearly tripled from the end of FY 2012 to the end of FY 2015. The Commission requires, if the Postal Service does not reduce the number of facilities under suspension in FY 2016, that the Postal Service provide a detailed explanation in its FY 2016 ACR as to why it was unable to do so.

## **E. Principal Findings: Flats Cost and Service Issues**

In Chapter 6, the Commission finds that the Postal Service's efforts relating to improving flats products' service and contribution (profitability) are ongoing and interrelated. The Commission draws from the issues examined in Chapters 4 and 5 and explores potential causes for those problems and calls on the Postal Service to take steps to better define the scope of the problems and potential solutions. Specifically, the Commission requires that the Postal Service provide a report on flats issues within 120 days of issuance of this ACD that quantifies what the Commission understands to be the main drivers of these significant and ongoing service failures and cost shortfalls. The Commission will evaluate the report and may use the information provided to form the basis of a new proceeding or other appropriate action.

# CHAPTER 1: INTRODUCTION

## A. Statutory Context

Two sections of Title 39 of the United States Code (U.S.C.), as amended by the Postal Accountability and Enhancement Act (PAEA),<sup>1</sup> require ongoing, systematic reports and assessments of the financial and operational performance of the Postal Service. The first provision, 39 U.S.C. § 3652, requires the Postal Service to file certain annual reports with the Commission, including an Annual Compliance Report (ACR). *See* 39 U.S.C. § 3652(a). The second provision, 39 U.S.C. § 3653, requires the Commission to review the Postal Service's annual reports and issue an Annual Compliance Determination (ACD) regarding whether rates were not in compliance with applicable provisions of Title 39 and whether any service standards were not met. 39 U.S.C. § 3653(b). Together, these provisions establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service.

The Commission has once again decided to report separately on the Postal Service's financial condition and its performance plans and program performance.<sup>2</sup> It issued its financial analysis on March 29, 2016,<sup>3</sup> and anticipates issuing its analysis of the performance plans and program performance, required by 39 U.S.C. § 3653(d), during May of 2016. This ACD focuses on the requirements of §§ 3653(b)(1) and (b)(2).<sup>4</sup>

For regulations governing rates and fees, Congress divided mail categories and services between Market Dominant and Competitive products. For Market Dominant products, §§ 3622 and 3626 of Title 39 are relevant for rates and fees; § 3633 is relevant for Competitive products.

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

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<sup>1</sup> Pub. L. 109-435, 120 Stat. 3198 (2006).

<sup>2</sup> *See* Notice and Order Regarding the Postal Service FY 2015 Annual Performance Report and FY 2016 Annual Performance Plan, January 14, 2016 (Order No. 3027).

<sup>3</sup> Analysis of Postal Service Financial Results and 10-K Statement for FY 2015, March 29, 2016.

<sup>4</sup> In this ACD, the Commission addresses only rates and fees that have been challenged by commenters, or otherwise present compliance issues.

Included in this year's ACD is a new Chapter 6 in which the Commission discusses cost and service issues for flat-shaped mailpieces (flats).

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

## **B. Timeline and Review of Report**

The Postal Service is required to file the ACR no later than 90 days after the end of each fiscal year (*i.e.*, 90 days after September 30). The Commission is required to complete the ACD within 90 days of receiving the ACR. The Postal Service filed the FY 2015 ACR on December 29, 2015; thus, the Commission must issue this ACD no later than March 28, 2016.

## **C. Focus of the ACR**

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

## **D. Other Reports**

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

## **E. Commission Responsibilities**

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

## F. Procedural History

On December 29, 2015, the Postal Service filed its FY 2015 ACR, covering the period from October 1, 2014, through September 30, 2015.<sup>5</sup> The ACR included an extensive narrative and a substantial amount of detailed public and non-public information contained in library references. The library references include the Cost and Revenue Analysis (CRA), the International Cost and Revenue Analysis (ICRA), cost models supporting workshare discounts, and volume information presented in billing determinants. Library Reference USPS-FY15-9, December 29, 2015, summarizes the other materials included in the ACR, and contains a list of special studies and a discussion of obsolescence<sup>6</sup> in response to § 3050.12 of Title 39 of the Code of Federal Regulations (C.F.R.).

The Postal Service concurrently filed its 2015 *Annual Report and Comprehensive Statement on Postal Operations* as part of Library Reference USPS-FY15-17, December 29, 2015, to the FY 2015 ACR.<sup>7</sup> It also filed its *Annual Report* to the secretary of the U.S. Department of the Treasury regarding the Competitive Products Fund, as required by 39 U.S.C. § 2011(i), as part of Library Reference USPS-FY15-39, December 29, 2015.

On December 30, 2015, the Commission issued an order establishing Docket No. ACR2015 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing February 2, 2016 and February 12, 2016, as the deadlines for comments and reply comments, respectively.<sup>8</sup>

## G. Methodology Changes

The FY 2015 ACR generally employs the methodologies used most recently by the Commission.<sup>9</sup> In this ACR proceeding, the Postal Service relies upon 17 approved changes.<sup>10</sup>

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<sup>5</sup> United States Postal Service FY 2015 Annual Compliance Report, December 29, 2015 (FY 2015 ACR). The Postal Service made five further filings that revise the FY 2015 ACR and selected Library References. Notice of the United States Postal Service of Filing of Revised Versions of USPS-FY15-28 and USPS-FY15-NP26—Errata, January 15, 2016; Notice of the United States Postal Service of Filing of Revised Annual Compliance Report Pages—Errata, January 21, 2016; Notice of the United States Postal Service of Filing of a Revised Version of USPS-FY15-33—Errata, February 3, 2016; Notice of the United States Postal Service of Filing of Further Revised Annual Compliance Report Page—Errata, February 5, 2016; and Notice of the United States Postal Service of Filing of Revised Version of USPS-FY15-NP27—Errata, February 8, 2016. Unless otherwise noted, references to the Postal Service's FY 2015 ACR are to its ACR, as revised.

<sup>6</sup> Here, obsolescence refers to studies that may be outdated (*e.g.*, a study may not reflect current operating conditions and procedures).

<sup>7</sup> 2015 *Annual Report and Comprehensive Statement of Postal Operations*, December 29, 2015. Included as parts of Library Reference USPS-FY15-17 are the Postal Service's 2015 *Performance Report* and its 2016 *Performance Plan*.

<sup>8</sup> Order No. 2968, Notice of Postal Service's Filing of *Annual Compliance Report* and Request for Public Comments, December 30, 2015; *see also* 81 FR 523-525 (January 6, 2016). On January 14, 2016, the Commission established separate comment dates for the Postal Service's FY 2015 *Performance Report* and FY 2016 *Performance Plan*. *See* Order No. 3027.

<sup>9</sup> *See* FY 2015 ACR at 3-4.

<sup>10</sup> *Id.* at 4-6. Four of the methodologies were approved after the Postal Service submitted its FY 2014 ACR and thirteen methodologies were approved prior to the filing of the FY 2015 ACR. *Id.* *See also* Docket No. ACR2014, *Annual Compliance Report*, December 29, 2014 (FY 2014 ACR).

In addition, the Commission posts the most current workshare cost avoidance models on its website.<sup>11</sup> Those models were used in its preparation of the FY 2015 ACD.

## H. Product Analysis

The Postal Service provides an analysis of each Market Dominant product, including special services, and domestic and international negotiated service agreements (NSAs) active during FY 2015. 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 reference to standards under 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. Last, the Postal Service discusses three Competitive market tests conducted in FY 2015, as well as, two Market Dominant and nine Competitive non-postal products.<sup>12</sup>

## I. Service Performance

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

## J. Confidentiality

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

## K. Requests for Additional Information

Twenty Chairman's Information Requests (CHIRs) were issued with respect to the ACR from January 6, 2016, to March 11, 2016. The Postal Service responded to the CHIRs, often filing supplemental information in support of the responses.<sup>13</sup> The Commission appreciates the Postal Service's responsiveness to these requests.

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<sup>11</sup> See directory of Commission workshare cost avoidance models at <http://www.prc.gov/sites/default/files/FY%202014%20Workshare%20Cost%20Model%20Directory%2011.25.2015%20%28%29.pdf>.

<sup>12</sup> FY 2015 ACR at 70-71.

<sup>13</sup> Several of the Postal Service's CHIR responses were accompanied by motions requesting late acceptance. *E.g.*, Motion of the United States Postal Service for Late Acceptance of Its Responses to Questions 1-2 of Chairman's Information Request No. 5, February 3, 2016. Each of the Postal Service's motions for late acceptance is granted.

# CHAPTER 2: MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

## A. Introduction

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

## B. The Class-Level Price Cap

The Commission approved price adjustments that went into effect during FY 2015.<sup>14</sup> At the time they were implemented, the price changes complied with the price cap provision. However, changes in prices generally affect the mix of volumes within classes. When applied to actual mail volumes, price increases may produce results that differ from the application of the same price increases to the historical billing determinants used by the Commission during its pre-implementation review of the proposed increases. In past ACDs, the Commission has analyzed the price changes by comparing the percentage change in rates for each class weighted according to two different sets of billing determinants—the historical, pre-implementation billing determinants and the post-implementation billing determinants for the first full year that the rates had been in effect.<sup>15</sup>

Because the rates in effect during FY 2015 included the exigent surcharge,<sup>16</sup> it is not possible to analyze only the effect of the CPI-U price change. For this reason, this ACD does not contain an empirical analysis of the price cap.

## C. Workshare Discounts

Workshare discounts provide reduced rates for mail that is prepared or entered to avoid certain activities the Postal Service would otherwise have to perform. These discounts are

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<sup>14</sup> Docket No. R2015-4, Order on Price Adjustments for Special Services Products and Related Mail Classification Changes, March 10, 2015 (Order No. 2388); Docket No. R2015-4, Order No. 2461, Order on First-Class Mail Promotions and Related Mail Classification Schedule Changes, April 30, 2015; Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015 (Order No. 2472).

<sup>15</sup> See, e.g., Docket No. ACR2012, *Annual Compliance Determination*, May 7, 2013, Appendix A (Empirical Review of Price Cap Application) (FY 2012 ACD).

<sup>16</sup> See Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013, at 4 n.1 (Order No. 1926); Docket No. R2013-11R, Resolving Issues on Remand, July 29, 2015, at 1 (Order No. 2623). The Postal Service has appealed the Commission's order on remand. *United States Postal Service v. Postal Regulatory Commission*, No. 15-1297 (D.C. Cir. filed Aug. 28, 2015). The Postal Service filed notice of its intent to remove the exigent surcharge on April 10, 2016. Docket No. R2013-11, Notice of the United States Postal Service of Removal of the Exigent Surcharge, February 25, 2016.

based on the estimated avoided costs that result from the mailer performing the activity. 39 U.S.C. § 3622(e)(2) directs the Commission to ensure that workshare discounts do not exceed the costs the Postal Service avoids as a result of the worksharing activity. The statute provides four exceptions to this requirement. *See* 39 U.S.C. §§ 3622(e)(2)(A) through (D).

The Commission analyzes discounts to determine whether they comply with applicable statutory provisions. Section 3653(b)(1) of U.S.C. Title 39 requires the Commission to base its determinations on rates and fees “in effect” during FY 2015. The prices in effect in FY 2015 were the prices approved in Docket No. R2015-4 and included the exigent surcharge.<sup>17</sup> Discounts evaluated for compliance were based on these prices. Workshare discounts that were not greater than their avoided costs were in compliance for FY 2015.<sup>18</sup> Although passthroughs below 100 percent are lawful, they send inefficient pricing signals to mailers. Passthroughs set as close as possible to 100 percent would promote efficiency, lower the total combined costs for mailers, and encourage the retention and growth of the Postal Service’s most profitable products.

The Public Representative suggests that the Commission direct the Postal Service to make adjustments to unlawful workshare discounts at the time the exigent surcharge is removed.<sup>19</sup> He notes that in the past, the Commission has accepted the Postal Service’s proposed remedy to align discounts with avoided costs in the next Market Dominant price adjustment. PR Comments at 41. He asserts that “with inflation running extremely low, it is not possible to predict when the next upcoming price adjustment will occur.” *Id.* He contends that if the Commission allows the Postal Service to wait until the next Market Dominant price adjustment to align discounts with avoided costs, workshare discounts may be out of compliance for a long time. *Id.* Alternatively, he suggests that if the surcharge is made permanent, the Commission should require the Postal Service to promptly file a Market Dominant price adjustment. *Id.*

The Postal Service contends that the Public Representative’s suggestion “contradicts Order No. 2319, in which the Commission plainly states that the Postal Service should only address 39 U.S.C. § 3622(e)’s worksharing requirements when it makes CPI-based adjustments.”<sup>20</sup> The Postal Service states further that the Public Representative’s suggestion “is contrary to the Commission’s previous mandate and would interfere with the Postal Service’s pricing flexibility.” USPS Reply Comments at 17.

The Commission is sensitive to the concerns expressed by the Public Representative. However, directing the Postal Service to align discounts with avoided costs in the planned

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<sup>17</sup> *See* n.14, *supra*, and accompanying text.

<sup>18</sup> The difference between the workshare discount and the avoided costs is referred to as the passthrough. Passthroughs above 100 percent indicate discounts that are greater than avoided costs. Passthroughs below 100 percent indicate discounts that are below avoided costs.

<sup>19</sup> Public Representative Comments, February 2, 2016, at 41 (REVISED February 17, 2016) (PR Comments). *See* Notice of Errata to Public Representative Comments Filed February 2, 2016, February 17, 2016.

<sup>20</sup> Reply Comments of the United States Postal Service, February 12, 2016, at 17 (USPS Reply Comments).

removal of the exigent surcharge is inconsistent with the Commission's decision in Order No. 2319. In ordering paragraph 3 the Commission stated, "[t]he Postal Service is not required to demonstrate compliance with 39 U.S.C. [§] 3622, including workshare provisions, if it removes the exigent surcharge without an accompanying inflation-based adjustment." Order No. 2319 at 16. Additionally, the Commission notes that there is always some uncertainty with regards to the timing of the "next" Market Dominant price adjustment. In previous ACDs, when the Commission directed the Postal Service to adjust discounts in the next Market Dominant price adjustment, it did not know when the Postal Service would file the next Market Dominant price adjustment with the Commission. The Postal Service's pricing flexibility allows the Postal Service to set its schedule of price adjustments and make revisions to the schedule at will. The Commission will follow the same approach as it has in previous ACDs.

The sections below are organized by class of mail and review workshare discounts that are greater than the avoided costs associated with the discount.

## 1. First-Class Mail

Six First-Class Mail workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2015. Those six workshare discounts are contained in the Presorted Letters/Cards and Flats products.

### a. Presorted Letters/Cards

The following five workshare discounts for Presorted Letters/Cards exceeded avoided costs in FY 2015:

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

Each is discussed below. All remaining discounts offered for Presorted Letters/Cards were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2015. Table II-1 shows the discounts for the Presorted Letters/Cards product for FY 2015.

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

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>First-Class Mail Automation Letters: Barcoding &amp; Presorting</b>			
Automation Mixed AADC Letters (Metered Letters)	4.6	3.3	139.4%
Automation AADC Letters (Automation Mixed AADC Letters)	2.3	2.0	115.0%
Automation 3-Digit Letters (Automation AADC Letters)	0.0	0.6	0.0%
Automation 5-Digit Letters (Hybrid Automation AADC/3-Digit Letters)	2.5	3.6	69.4%
<b>First-Class Mail Non-automation Letters: Barcoding</b>			
Non-automation Presort Letters (Metered Letters)	1.4	4.3	32.6%
<b>First-Class Mail Automation Cards: Barcoding &amp; Presorting</b>			
Automation Mixed AADC Cards (Non-automation Presort Cards)	1.1	1.0	110.0%
Automation AADC Cards (Automation Mixed AADC Cards)	0.9	0.8	112.5%
Automation 3-Digit Cards (Automation AADC Cards)	0.0	0.2	0.0%
Automation 5-Digit Cards (Hybrid Automation AADC/3-Digit Cards)	1.5	1.3	115.4%

Source: Library Reference PRC-LR-ACR2015/3.

(1) Automation Mixed AADC Letters

The discount for Automation Mixed AADC Letters was 139.4 percent of avoided cost. FY 2015 ACR at 9. The Postal Service does not provide a statutory exception to justify this excessive passthrough. *See id.* at 9-10.

*The Commission finds that the discount for Automation Mixed AADC Letters was not in compliance in FY 2015. The Postal Service must align the discount for Automation Mixed AADC Letters with avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.*

(2) Automation AADC Letters

The discount for Automation AADC Letters was 115.0 percent of avoided cost. *Id.* at 10. The Postal Service contends that although the FY 2015 passthrough is out of compliance using the prices that include the exigent surcharge, it will be in compliance when the exigent

surcharge is removed. *Id.* However, the Postal Service has not provided a statutory reason to justify the excessive passthrough. *See id.*

*The Commission finds that the discount for Automation AADC Letters was not in compliance in FY 2015. However, the removal of the exigent surcharge in FY 2016 aligns the Automation AADC Letters discount with avoided cost; therefore, no further action is required.*

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

Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards passed through 110.0 percent, 112.5 percent, and 115.4 percent of avoided costs, respectively. *Id.* at 11, 12. The Postal Service does not provide an applicable statutory exception to justify these excessive passthroughs. *See id.* at 11-12.

*The Commission finds that these three Automation Cards discounts were not in compliance in FY 2015. For the discount for 5-Digit Automation Cards, the removal of the exigent surcharge in FY 2016 aligns the discount with avoided cost; therefore, no further action is required. With respect to the discounts for Automation Mixed AADC Cards and Automation AADC Cards, the Postal Service must align the discounts with avoided costs in the next Market Dominant price adjustment or provide support for an applicable statutory exception.*

b. First-Class Mail Flats

The following workshare discount for First-Class Mail Flats exceeded avoided cost in FY 2015:

- Automation 5-Digit Flats

All remaining discounts for Presorted Flats were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2015. Table II-2 shows the discounts for the Presorted Flats product for FY 2015.

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

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>First-Class Mail Automation Flats: Barcoding &amp; Presorting</b>			
Automation ADC Flats (Automation Mixed ADC Flats)	8.0	9.8	81.6%
Automation 3-Digit Flats (Automation ADC Flats)	4.0	5.0	80.0%
Automation 5-Digit Flats (Automation 3-Digit Flats)	19.2	15.9	120.8%

Source: Library Reference PRC-LR-ACR2015/3.

The discount for Automation 5-Digit Flats was 120.8 percent of avoided cost. *Id.* at 13. The Postal Service contends that the above-100-percent passthrough is justified by 39 U.S.C. § 3622(e)(2)(B), due to the volatility of cost avoidance estimates and the significant price increase for 5-Digit Automation Flats in FY 2015. *Id.* However, it did not explain the adverse effects the increase would have on users of Automation 5-Digit Flats. *See id.*

*The Commission finds that the discount for Automation 5-Digit Flats was not in compliance in FY 2015. The Postal Service's use of the rate shock exception for the Automation 5-Digit Flats discount was not sufficiently supported. The Postal Service must align the discount for Automation 5-Digit Flats with avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.*

c. Single Piece Letters/Cards

No workshare discounts for Single Piece Letters/Cards exceeded avoided costs in FY 2015. Table II-3 shows the discounts for the Single Piece Letters/Cards product for FY 2015.

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

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>First-Class Mail Single Piece Letters: Qualified Business Reply Mail Barcoding</b>			
QBRM (Handwritten Reply Mail)	1.4	1.8	77.8%
<b>First-Class Mail Single Piece Cards: Qualified Business Reply Mail Barcoding</b>			
QBRM (Handwritten Reply Cards)	1.1	1.8	61.1%

Source: Library Reference PRC-LR-ACR2015/3.

## 2. Periodicals

- a. Fiscal Year 2015 Periodicals Workshare Discounts
  - (1) Passthroughs over 100 percent

In FY 2015, one In-County Periodicals passthrough and 13 Outside County Periodicals passthroughs exceeded 100 percent. Table II-4 identifies these passthroughs.

**Table II-4  
Periodicals Workshare Discounts Exceeding Avoided Costs<sup>21</sup>**

Type of Worksharing	Year End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>Outside County</b>			
<b>Presorting</b>			
1. Machinable Non-automation 5-Digit Flats	10.5	8.8	119.3%
2. Saturation	2.7	0.7	385.7%
3. Machinable Automation FSS Flats	16.5	8.9	185.4%
4. Machinable Automation 5-Digit Flats	9.1	7.8	116.7%
5. Non-machinable Non-automation 3-Digit Flats	10.7	4.0	267.5%
6. Non-machinable Non-automation 5-Digit Flats	15.6	7.9	197.5%
7. Non-machinable Automation ADC Flats	10.7	9.8	109.2%
8. Non-machinable Automation 3-Digit Flats	8.9	3.8	234.2%
9. Non-machinable Automation 5-Digit Flats	14.3	8.2	174.4%
<b>Barcoding</b>			
10. Machinable Automation Mixed ADC Flats	3.6	3.5	102.9%
<b>Presorting Automation Letters</b>			
11. Automation ADC Letter	3.6	1.5	240.5%
12. Automation 3-Digit Letter	2.0	0.4	448.3%
13. Automation 5-Digit Letter	6.8	2.5	269.0%
<b>In-County</b>			
<b>Presorting</b>			
14. Saturation	1.5	0.7	214.3%

Source: Library Reference PRC–LR–ACR2015/5.

Workshare discounts may exceed avoided costs if a statutory exception applies. *See* 39 U.S.C. § 3622(d). The Postal Service justifies Periodicals workshare discounts that exceeded 100 percent passthroughs on the basis of 39 U.S.C. § 3622(e)(2)(C), which authorizes workshare discounts greater than avoided costs if provided in connection with a subclass that consists exclusively of mail matter with educational, cultural, scientific, or informational (ECSI) value. FY 2015 ACR at 43.

In its comments, the Association of Magazine Media (MPA) notes the wide variation in Outside County Periodicals passthroughs.<sup>22</sup> MPA also points out that the passthrough for

<sup>21</sup> The Periodicals pricing structure differs from the other Market Dominant classes, in that it includes piece, pound, bundle, and container elements. *See* Library Reference PRC–LR–ACR2015/5 for a comprehensive display of all Periodicals prices and worksharing relationships for FY 2015.

<sup>22</sup> Initial Comments of the Association of Magazine Media, February 2, 2016, at 3-4 (MPA Comments).

5-Digit Automation Flats has exceeded 100 percent since FY 2010. MPA Comments at 3-4. In its reply comments, the Postal Service cautions that an immediate reduction in this passthrough to 100 percent would impose a 5-percent price increase on 5-Digit Automation Flats. USPS Reply Comments at 23. The Postal Service nevertheless agrees, in principle, with moving this passthrough toward 100 percent at a moderate pace in future Market Dominant price adjustments. *Id.*

(2) Passthroughs Under 100 Percent

MPA also comments that by keeping certain passthroughs under 100 percent, the Postal Service has ignored the Commission's directive to redesign the Periodicals rate structure to give mailers stronger incentives to engage in cost-saving practices. *See* MPA Comments at 3. For example, MPA asserts that maintaining the Carrier Route passthrough at about 60 percent created larger disincentives for mailers to presort to the Carrier Route level in FY 2015. *Id.* at 3-4. The Postal Service replies that it used its pricing flexibility to encourage efficient mail preparation in FY 2015. *See* USPS Reply Comments at 21-22. The Postal Service states that raising this passthrough to 100 percent of avoided cost could cause some mailers to migrate to lower revenue rate categories and could worsen Periodicals cost coverage. *Id.* at 22. The Postal Service also notes that adjusting passthroughs may lead to significant postage increases for small volume mailers who are not capable of responding to efficient pricing signals to the same degree as large volume mailers. *Id.* at 22-23.

(3) Commission Analysis

(a) Statutory Considerations for Passthroughs

Because the Periodicals class is consistent with ECSI values, the Commission finds that the Periodicals workshare discounts that exceeded avoided costs in FY 2015 were consistent with 39 U.S.C. § 3622(e). Given that the Periodicals class does not cover costs, sending efficient price signals is particularly important. Although § 3622(e) does not prohibit the Postal Service from offering workshare discounts with passthroughs that are less than 100 percent, other statutory requirements and objectives focus on sending efficient pricing signals to mailers. This concept is relevant to all passthroughs, including those that qualify for ECSI consideration. Generally, prices must "...enable the Postal Service, under best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States." 39 U.S.C. § 404(b). Moreover, the Market Dominant ratemaking system is designed to achieve nine objectives, of which one is "[t]o maximize incentives to reduce costs and increase efficiency." 39 U.S.C. § 3622(b)(1). Therefore, the Postal Service should, in all cases, consider whether such passthroughs send efficient pricing signals to mailers.

Inefficient pricing signals may contribute to Periodicals revenues not covering costs if the price does not signal mailers to prepare Periodicals mailings efficiently. However, as the Postal Service notes, for a specified discount, a sudden price change to bring passthroughs

to 100 percent may not be prudent.<sup>23</sup> Continued moderate improvement of the relationship between discounts and avoided costs should signal to the mailer the mail preparation method that is most efficient for both the Postal Service and the mailer. The Commission emphasized in past ACDs that, as a general principle, passthroughs closer to 100 percent would send better pricing signals to mailers and would maximize contribution and cost savings to the Postal Service.<sup>24</sup>

In FY 2015, the Postal Service responded to the Commission's recommendations to set price signals that better reflect costs. Specifically, the Postal Service improved the alignment of bundle and pallet price signals and costs.<sup>25</sup> Moreover, in accordance with the Commission's recommendation in the FY 2013 ACD, the Postal Service discontinued the discount for the pre-barcoding of Non-machinable Automation Mixed Area Distribution Center (Mixed ADC) Flats. *Id.* at 51. By taking this action, the Postal Service addressed the long-running issue with the Non-machinable Automation Mixed ADC Flats pre-barcoding discount detailed by the Commission in the FY 2013 ACD. FY 2013 ACD at 21-22.

(b) Sending Efficient Pricing Signals in Flats  
Sequencing System and Non-Flats Sequencing  
System Zones

For several years, the Commission highlighted the growing disparity between the Postal Service's pricing signals that appear to encourage 5-Digit presortation and discourage Carrier Route presortation.<sup>26</sup> Because the Postal Service implemented Flats Sequencing System (FSS) prices for Periodicals,<sup>27</sup> the Postal Service no longer offers Carrier Route prices for mailpieces destinating in FSS zones and has an additional incentive to encourage mailers to presort to the Carrier Route level, rather than to the 5-Digit level, for Periodicals destinating in non-FSS zones.

Most Outside County Periodicals volumes in non-FSS zones is presorted to Machinable Automation 5-Digit or Carrier Route Basic. Figure II-1 details changes in passthroughs for Carrier Route Basic and Machinable Automation 5-Digit piece presorting from FY 2008 to FY 2015.

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<sup>23</sup> See Chapter 3, *infra*, for a discussion of how cost coverage issues and operational changes can improve the Postal Service's cost savings for Periodicals. See Chapter 6, *infra*, for a holistic discussion of flat-shaped mail issues.

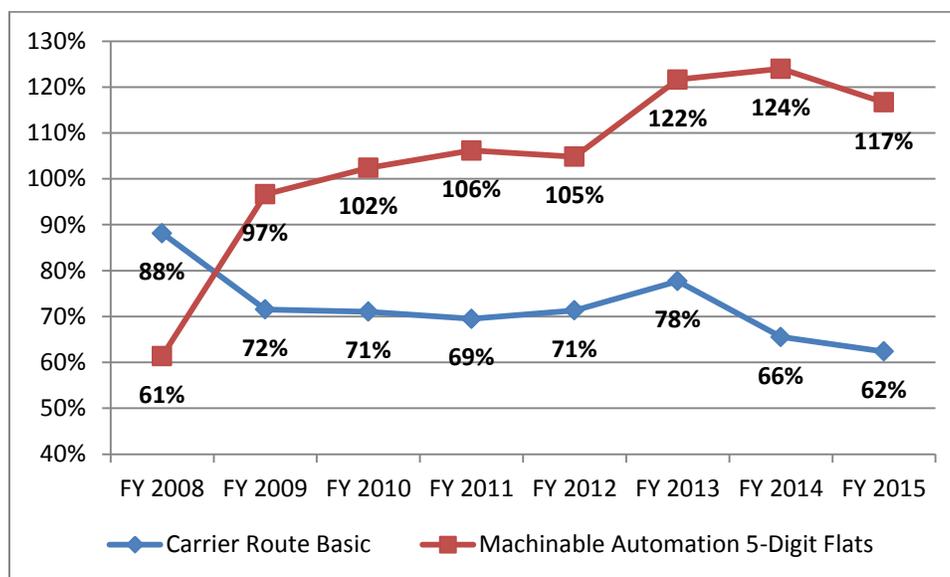
<sup>24</sup> See Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 76 (FY 2009 ACD); Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011, at 96-97 (FY 2010 ACD); Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 108-110 (FY 2011 ACD); Docket No. ACR2012, *Annual Compliance Determination* (Revised May 7, 2013), May 7, 2013, at 100-101 (FY 2012 ACD); Docket No. ACR2013, *Annual Compliance Determination*, March 27, 2014, at 21-23 (FY 2013 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015, at 14-16 (FY 2014 ACD).

<sup>25</sup> Docket No. R2015-4, United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015, at 27-28 (Docket No. R2015-4 Notice).

<sup>26</sup> See FY 2013 ACD at 21, FY 2014 ACD at 15.

<sup>27</sup> In Order No. 2472, the Commission explains that FSS prices, instead of Carrier Route prices, are required for Periodicals destinating in zip codes where FSS machines process flat-shaped mailpieces (FSS zones). Order No. 2472 at 62.

**Figure II-1**  
**Carrier Route and Automation 5-Digit Passthroughs**



Source: Library Reference PRC-LR-ACR2015/5.

Between FY 2008 and FY 2015, the Machinable Automation 5-Digit passthrough increased considerably, whereas the Carrier Route Basic passthrough decreased considerably.<sup>28</sup> In FY 2015, the passthrough for Carrier Route Basic decreased to 62.4 percent. The Machinable Automation 5-Digit passthrough continued to be above 100 percent in FY 2015, decreasing from 124.0 percent to 116.7 percent. The Postal Service should increase its efforts to narrow the gap between 5-Digit and Carrier Route passthroughs to promote Carrier Route presortation in non-FSS zones.

The passthrough for Machinable Automation FSS Flats was 185.4 percent. Because most Periodicals are presorted to Machinable Automation FSS Flats (in FSS zones) or Carrier Route Basic (in non-FSS zones) levels, the Postal Service should ensure these passthroughs send efficient pricing signals.

b. Postal Service Response to Fiscal Year 2014 *Annual Compliance* Determination Directives

In the FY 2014 ACD, the Commission directed the Postal Service to report: the cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation; and its progress in improving Periodicals pricing efficiency. FY 2014 ACD at 16-17. For the reasons described below, the Commission finds the Postal Service failed to meaningfully address these directives and directs the Postal Service to file a report within 120 days of issuance of this ACD.

<sup>28</sup> The price difference between the Machinable Automation 5-Digit and Carrier Route Basic discounts is 9.8 cents when the exigent surcharge is not included, unchanged from FY 2008.

(1) Detailed Analysis of Cost and Contribution Impact of Worksharing Incentives for 5-Digit and Carrier Route Presortation

In the FY 2014 ACD, the Commission directed the Postal Service to provide a detailed analysis of the cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation. FY 2014 ACD at 16. The Postal Service has not provided a meaningful response. The Postal Service explains the design of the workshare discounts without providing any analysis of the cost and contribution impact. FY 2015 ACR at 46.

A CHIR was issued requesting that the Postal Service quantify the cost savings and contribution impact associated with the Postal Service's "pricing strategy designed to encourage the entry of more Carrier Route pallets in non-FSS zones."<sup>29</sup> The Postal Service was also requested to discuss any obstacles to quantification. CHIR No. 4, question 9. In its response, the Postal Service does not provide any quantification of cost savings or contribution impact, asserting it does not know how mail would have been prepared by mailers under an alternative pricing scheme and stating that the strategy has not been in effect long enough to have more than a minimal impact on cost savings and contribution.<sup>30</sup>

An additional CHIR was issued asking the Postal Service to confirm "plans to study if the FY 2015 pricing incentives encouraged customers to enter more Carrier Route pallets in [non-FSS] zones or to prepare Periodicals more efficiently." CHIR No. 12, question 5. In response, the Postal Service does not confirm that it has plans to study those issues and reiterates the obstacle posed by the lack of knowledge regarding how mailers would have prepared mailings under an alternative pricing scheme.<sup>31</sup> The Postal Service states that it will monitor the changes in billing determinants and mail preparation to see if the changes in mail preparation are consistent with the intent of the price incentives. February 17, 2016, Responses to CHIR No. 12, question 5.

(2) Improving Periodicals Pricing Efficiency

In the FY 2014 ACD, the Commission directed the Postal Service to provide a "report on its progress in improving Periodicals pricing efficiency." FY 2014 ACD at 17. In a related directive, the Commission directed the Postal Service to report on its progress in improving Periodicals cost coverage and to provide a detailed analysis of the "impact of leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing." *Id.* at 40.<sup>32</sup>

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<sup>29</sup> Chairman's Information Request No. 4, January 15, 2016, question 9 (quoting FY 2015 ACR at 45) (CHIR No. 4).

<sup>30</sup> Responses of the United States Postal Service to Questions 1-23 of Chairman's Information Request No. 4, January 22, 2016, question 9 (Responses to CHIR No. 4).

<sup>31</sup> Responses of the United States Postal Service to Questions 2-5, 7, 9, 11 and 13-17 of Chairman's Information Request No. 12, February 17, 2016, question 5 (February 17, 2016, Responses to CHIR No. 12).

<sup>32</sup> For additional information about Periodicals pricing strategies, see Chapter 7 of the *Periodicals Mail Study*.

The Postal Service states that significant changes to the pricing strategy for Periodicals approved in Docket No. R2015-4 improved Periodicals pricing efficiency. FY 2015 ACR at 45. The Postal Service states that the price changes implemented in Docket No. R2015-4 “started the process of addressing the Periodicals cost coverage by sending more efficient pricing signals to mailers....” *Id.* The Postal Service bases prices for most Periodicals bundles and pallets on the estimated costs of handling those bundles and pallets.<sup>33</sup> The Postal Service explains that certain exceptions were made such as in the prices for Mixed ADC pallets, to avoid “exorbitant” price increases, or to incentivize desirable mailer preparation, such as the prices for pure Carrier Route pallets.<sup>34</sup> The Postal Service reports that it leveraged its pricing flexibility by lowering pound prices to create the price cap space needed to increase bundle and pallet prices for Periodicals.<sup>35</sup>

A CHIR was issued requesting that the Postal Service quantify the cost savings and contribution impact associated with its efforts to “set the prices for Periodicals bundles and pallets based on the costs of handling them.” CHIR No. 4, question 10 (quoting FY 2015 ACR at 45). The Postal Service was also requested to discuss any obstacles to quantification. CHIR No. 4, question 10. The Postal Service responded that quantification was not possible because the Postal Service does not know how mailers under an alternative pricing scheme would have prepared mailings. Responses to CHIR No. 4, question 10.

In Order No. 2472, the Commission directed the Postal Service to develop a methodology for determining the avoided costs of the new Periodicals Presorted FSS discounts available in FSS zones. Order No. 2472 at 62. The Postal Service developed a model that necessarily relied on volume estimates because the new Presorted FSS discounts went into effect near the end of FY 2015.<sup>36</sup>

The Commission also directed the Postal Service to develop a methodology for determining the bottom-up costs for the new Periodicals Carrier Route bundle and container entry options available in non-FSS zones. Order No. 2472 at 63. The Postal Service responded by developing a model that showed the Postal Service processes Carrier Route pallets identically to 5-Digit pallets.<sup>37</sup>

Finally, the Commission directed the Postal Service to consider whether the new Carrier Route prices changed the handling of 5-Digit pallets.<sup>38</sup> In response, the Postal Service stated

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<sup>33</sup> *Id.* at 45; Docket No. R2015-4 Notice at 27.

<sup>34</sup> FY 2015 ACR at 45-46; Docket No. R2015-4 Notice at 27.

<sup>35</sup> FY 2015 ACR at 46; Docket No. R2015-4 Notice at 27.

<sup>36</sup> Docket No. RM2015-16, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Seven), November 25, 2015, at 11 (Order No. 2839).

<sup>37</sup> Docket No. RM2015-18, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Nine), October 1, 2015, at 7 (Order No. 2741).

<sup>38</sup> Order No. 2741 at 7-8; see Chairman's Information Request No. 12, February 9, 2016, question 6.

that no operational changes for 5-Digit pallets have resulted.<sup>39</sup> If mail processing facilities alter their procedures for 5-Digit pallets in the future, the Postal Service must notify the Commission, as directed in Order No. 2472.

c. Commission Analysis

In the FY 2015 ACR, the Postal Service does not provide any quantitative analysis of the impact of leveraging its pricing flexibility to improve the efficiency of Periodicals pricing. Overall, the price adjustments approved in Docket No. R2015-4 were a first step toward improving Periodicals pricing efficiency. Particularly, introducing the FSS pricing options improved pricing signals by better aligning those signals with operational reality.<sup>40</sup> Further, by pricing bundles and pallets based on handling costs, the Postal Service improved its pricing signals to mailers regarding how to prepare more efficient mailings. However, additional steps are needed to further improve Periodicals pricing efficiency. Moreover, the development of more accurate costing information is needed to facilitate the design of prices that cover costs. Accurate information may also facilitate decreasing costs and increasing contribution over time. The Commission reiterates its suggestion that the Postal Service continue to improve the Periodicals model as better data become available. Order No. 2839 at 11. With time and the study of the processing of FSS pieces, the Postal Service must develop accurate cost information and should use that information to design prices that send efficient signals to mailers.<sup>41</sup>

The Postal Service's CHIR responses did identify information that can be developed to determine the impact of pricing strategies designed to incentivize increased mailer preparation. For example, the Postal Service notes that "[b]y moving Carrier Route bundles from [sectional center facility (SCF)] pallets to Carrier Route pallets, the Postal Service would avoid a bundle sort, thus saving 55 cents per bundle." Responses to CHIR No. 4, question 9.a. The Postal Service further notes that the volume of bundles entered in 5-Digit/Carrier Route pallets increased from 3.729 million in Quarter 4 of FY 2014 to 3.879 million in Quarter 4 of FY 2015. *Id.* This information demonstrates that the Postal Service can develop metrics quantifying the link between changes in pricing signals, changes in mailer behavior, and changes in Postal Service operations (including the changes in resulting costs). In this instance, the Postal Service has detailed how it can evaluate the cost of bundle sorting in light of workload changes and changes in operations.<sup>42</sup> Developing more accurate information concerning cost savings resulting from mailer preparation, such as combining billing determinants data with operational data, can aid the Postal Service in developing an assessment of how mailer preparation impacts the Postal Service's operational costs.

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<sup>39</sup> Responses of the United States Postal Service to Questions 1, 6, 8, 10 and 12 of Chairman's Information Request No. 12, February 19, 2016, question 6.b (February 19, 2016, Responses to CHIR No. 12).

<sup>40</sup> See Order No. 2472 at 19, 24-25 (discussing the operational efficiencies projected to result from using FSS machines and the Postal Service's FSS prices and workshare discounts applicable to Periodicals).

<sup>41</sup> See Chapter 3, *infra*, for a discussion of how developing accurate costing information and measuring the impact of operational changes can improve the Postal Service's cost savings for Periodicals. See Chapter 6, *infra*, for a holistic discussion of flat-shaped mail issues.

<sup>42</sup> See Chapter 3, *infra*, for more detail regarding quantifying the cost savings resulting from operational initiatives.

Quantification of the cost savings and contribution impact of the Postal Service's pricing strategies is necessary to determine whether Periodicals pricing efficiency improved. It is important to link the expected cost savings from mailer worksharing to actual results to ensure that mail processing models accurately estimate postal operations. As provided in the FY 2015 Periodicals Pricing Directive, *infra*, and Chapter 6, *infra*, the Commission provides the Postal Service more time and specific direction to develop a comprehensive report on the cost savings and contribution impact and to develop the underlying metrics associated with the Postal Service's efforts to leverage its pricing flexibility.

As the Commission has repeatedly stated, the Postal Service should design pricing signals that encourage Carrier Route presortation in non-FSS zones.<sup>43</sup> In order to determine if the Postal Service is doing so, the Commission directs the Postal Service to develop a comprehensive report on the cost savings and contribution impact of its pricing strategy and to develop the underlying metrics as required by the FY 2015 Periodicals Pricing Directive, *infra*, and Chapter 6.

The Postal Service has access to actionable information regarding the costs of its flats operations.<sup>44</sup> The Postal Service should use this data to develop metrics and meaningfully analyze the cost savings and contribution impact of its pricing strategies on Periodicals. By isolating processing costs, the Postal Service can compare avoided costs with the associated mail preparation discounts to determine whether those discounts are appropriate. For example, the Postal Service can determine the cost of incoming secondary sorting for 5-Digit presorted pieces in Non-FSS zones and can compare those avoided costs to the associated discount for Carrier Route preparation.

The Postal Service shall provide a comprehensive report within 120 days of issuance of this ACD of the cost, contribution, and revenue impact of the pricing changes made by the Postal Service in FY 2015. The report must include a detailed analysis of progress made in leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing in FY 2015. Specifically, the report must discuss whether the 5-Digit, Carrier Route, and FSS workshare discounts are the proper economic incentives and send efficient pricing signals to mailers. The report must identify any obstacles to providing the requested analysis, as well as the Postal Service's progress, strategy, and projected timeframe for addressing those obstacles. To the extent that the Postal Service provides an analysis that is preliminary or otherwise limited, the Postal Service should identify those limitations in order to enable the Commission to determine whether the Postal Service has made progress and has a rational plan to meaningfully analyze the cost savings and contribution impact of its pricing strategies on Periodicals.

*FY 2015 Periodicals Pricing Directive: The Commission finds that the Postal Service failed to meaningfully address the FY 2014 ACD directive that it report the cost and contribution*

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<sup>43</sup> See FY 2013 ACD at 21, FY 2014 ACD at 15.

<sup>44</sup> See Chapter 6, *infra*.

*impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation and on its progress in improving pricing efficiency. The Commission therefore directs the Postal Service within 120 days of issuance of this ACD to file a report which:*

- *Discusses whether the 5-Digit, Carrier Route, and FSS workshare discounts are the proper economic incentives and send efficient pricing signals to mailers.*
- *Reports the cost, contribution, and revenue impact of the pricing changes made by the Postal Service in FY 2015.*
- *Provides a detailed quantitative analysis of the progress made in leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing in FY 2015.*
- *Identifies any obstacles to providing the requested analysis as well as the Postal Service's strategy and timeframe for addressing those obstacles. The Postal Service must provide steps it has taken towards overcoming the obstacles identified.*

*The Commission also directs the Postal Service to include an updated version of the report in its FY 2016 ACR.*

### 3. Standard Mail

In FY 2015, 24 Standard Mail workshare discounts exceeded the avoided costs of the corresponding mailer workshare activity. Those 24 workshare discounts are contained in the Letters, Flats, Parcels, Carrier Route, and High Density and Saturation Letters products.

#### a. Letters

The following seven workshare discounts for Letters exceeded avoided costs in FY 2015:

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

Each is discussed below. All remaining Letters discounts were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2015. Table II-5 shows the discounts for the Letters product for FY 2015.

**Table II-5**  
**Standard Mail Letters (Commercial and Nonprofit)<sup>45</sup>**  
**Workshare Discounts and Benchmarks**

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>Standard Mail Automation Letters: Barcoding (Cents/Piece)</b>			
Automation Mixed AADC Letters (Non-automation Machinable Mixed ADC Letters)	1.3	0.4	325.0%
<b>Standard Mail Automation Letters: Presorting (Cents/Piece)</b>			
Automation AADC Letters (Automation Mixed AADC Letters)	2.1	1.5	140.0%
Automation 3-Digit Letters (Automation AADC Letters)	0.0	0.4	0.0%
Automation 5-Digit Letters (Automation 3-Digit Letters)	1.7	2.6	65.4%
<b>Standard Mail Non-automation Letters: Presorting (Cents/Piece)</b>			
Non-automation AADC Machinable Letters (Non-automation Mixed AADC Machinable Letters)	1.7	1.6	106.3%
Non-automation ADC Non-machinable Letters (Non-automation Mixed ADC Non-machinable Letters)	6.9	7.8	88.5%
Non-automation 3-Digit Non-machinable Letters (Non-automation ADC Non-machinable Letters)	2.6	2.3	113.0%
Non-automation 5-Digit Non-machinable Letters (Non-automation 3-Digit Non-machinable Letters)	8.9	7.2	123.6%
<b>Standard Mail Letters: Dropship (Cents/Piece)</b>			
DNDC Letters (Origin Letters)	3.6	1.6	225.0%
DSCF Letters (Origin Letters)	4.5	2.0	225.0%

Source: Library Reference PRC-LR-ACR2015/4.

(1) Automation Mixed AADC Letters

The passthrough for Automation Mixed AADC Letters was 325 percent in FY 2015, down from 800 percent in FY 2014. FY 2015 ACR at 31. This reduction was due to the unit cost avoidance increasing from 0.1 cent to 0.4 cent. *See id.* The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D), asserting that the barcoding discount encourages mailers to provide an Intelligent Mail barcode (IMb) on their mailpieces, thereby improving operational efficiency. *Id.* at 32. The Postal Service states further that it intends to eliminate the portion of this discount above avoided cost as soon as practicable. *Id.*

<sup>45</sup> In FY 2015, all Standard Mail Letters commercial and nonprofit discounts were equal.

*The Commission finds that the Automation Mixed AADC Letters discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2015 because encouraging mailers to use IMb should improve operational efficiency.*

- (2) Automation AADC Letters, Non-automation AADC Machinable Letters, and Non-automation 3-Digit Non-machinable Letters.

In FY 2015, Automation AADC Letters, Non-automation AADC Machinable Letters, and Non-automation 3-Digit Non-machinable Letters had passthroughs of 140.0 percent, 106.3 percent, and 113.0 percent, respectively. *Id.* at 32-33. The Postal Service does not cite a statutory exception to justify the excessive passthroughs for Automation AADC Letters and Non-automation AADC Machinable Letters. *See id.* The Postal Service states that it intends to eliminate the portion of these discounts that exceed avoided costs in future Market Dominant price adjustments. *Id.* at 32. The Postal Service also does not cite a statutory exception to justify the excessive Non-automation 3-Digit Non-machinable Letters passthrough. It states that when the exigent surcharge is removed, the discount is less than its avoided cost. *Id.* at 33.

*The Commission finds that these three discounts were not in compliance in FY 2015. The Postal Service must either align the Automation AADC Letters and Non-automation AADC Machinable Letters discounts with avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception. The removal of the exigent surcharge in FY 2016 aligns the excessive Non-automation 3-Digit Non-machinable Letters discount with avoided cost; therefore, no further action is required.*

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

Non-automation 5-Digit Non-machinable Letters had a passthrough of 123.6 percent in FY 2015, down from 143.1 percent in FY 2014. *Id.* at 33. The Postal Service reduced the discount from 9.3 cents in FY 2014 to 8.9 cents in FY 2015. The unit cost avoidance increased from 6.5 cents in FY 2014 to 7.2 cents in FY 2015. *Id.* The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* It states that aligning this discount with the avoided cost would result in a price increase as large as 5.2 percent, which could cause rate shock to mailers. *Id.* The Postal Service intends to continue reducing the discount until the passthrough reaches 100 percent. *Id.*

The Public Representative contends that this discount would only require a 3-percent increase to align with its avoided cost, which he asserts is a small enough change that it would not likely result in rate shock. PR Comments at 48. Therefore, he recommends that the discount be found out of compliance and corrective action be ordered. *Id.*

The Public Representative is correct that a 3 percent increase for the commercial price would align this discount with avoided cost. However, the resulting price increase for the nonprofit discount would be 5.2 percent as stated by the Postal Service. The Postal Service has shown that it is progressing towards a 100 percent passthrough, decreasing the discount from 9.3 cents to 8.9 cents in FY 2015.

*The Commission finds that the Postal Service has taken adequate steps in reducing this excessive passthrough in FY 2015, and that this discount continued to be adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2015. In the next Market Dominant price adjustment, the Postal Service should continue to reduce this excessive discount.*

(4) DNDC and DSCF Dropship Discounts

The passthroughs for DNDC dropship and DSCF dropship were both 225 percent. FY 2015 ACR at 33. The Postal Service justifies these excessive discounts pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* at 33-34. It states that aligning these discounts with avoided costs results in a price increases as large as 27.1 percent. *Id.* at 33. The Postal Service intends to continue reducing the discounts until the passthroughs reach 100 percent. *Id.* at 33-34.

*The Commission finds that a substantial reduction in the passthrough percentages would likely adversely affect users. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2015. However, if the discounts are not set at avoided costs in the next general Market Dominant price adjustment, the Commission expects the Postal Service to file a plan to align discounts with avoided costs.*

b. Flats

Six workshare discounts for Flats exceeded avoided costs in FY 2015:

- Automation Mixed area distribution center (ADC) Flats
- Automation flats sequencing system (FSS) Non-Scheme Flats
- Automation FSS Scheme Flats
- Non-automation ADC Flats
- Non-automation 3-Digit Flats
- Non-automation FSS Non-Scheme Flats

Each is discussed below. All remaining Flats discounts were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-6 shows the discounts for the Flats product for FY 2015.

**Table II-6**  
**Standard Mail Flats (Commercial and Nonprofit)<sup>46</sup>**  
**Workshare Discounts and Benchmarks**

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>Standard Mail Automation Flats: Barcoding (Cents/Piece)</b>			
Automation Mixed ADC Flats (Non-automation Mixed AADC Flats)	4.1	1.5	273.3%
<b>Standard Mail Automation Flats: Presorting (Cents/Piece)</b>			
Automation ADC Flats (Automation Mixed ADC Flats)	3.3	7.4	44.6%
Automation 3-Digit Flats (Automation ADC Flats)	5.7	6.8	83.8%
Automation 5-Digit Flats (Automation 3-Digit Flats)	8.7	10.8	80.6%
Automation FSS Non-scheme Flats (Automation 3-Digit Flats)	13.3	8.2	162.2%
Automation FSS Scheme Flats (Automation FSS Non-Scheme Flats)	3.3	0.9	366.7%
<b>Standard Mail Non-automation Flats: Presorting (Cents/Piece)</b>			
Non-automation ADC Flats (Non-automation Mixed ADC Flats)	4.8	3.7	129.7%
Non-automation 3-Digit Flats (Non-automation ADC Flats)	5.5	5.4	101.9%
Non-automation 5-Digit Flats (Non-automation 3-Digit Flats)	6.3	8.1	77.8%
Non-automation FSS Non-scheme Flats (Non-automation 3-Digit Flats)	8.0	4.8	166.7%
Non-automation FSS Scheme Flats (Non-automation FSS Non-scheme Flats)	0.4	1.1	36.4%
<b>Standard Mail Flats: Dropship<sup>47</sup> (Cents/Pound)</b>			
DNDC Flats (Origin Flats)	16.6	24.4	68.0%
DSCF Flats (Origin Flats)	21.6	28.3	76.3%

Source: Library Reference PRC-LR-ACR2015/4.

(1) Automation Mixed ADC Flats

The passthrough for Automation Mixed ADC Flats was 273.3 percent in FY 2015.<sup>48</sup> In response to a CHIR, the Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D). Responses to CHIR No. 14, question 10.e.

<sup>46</sup> In FY 2015, all Standard Mail Flats commercial and nonprofit discounts were equal.

<sup>47</sup> All Standard Mail Flats FSS Scheme and FSS Non-Scheme dropship discounts, avoided costs and passthroughs are presented in PRC-LR-ACR2015/4.

<sup>48</sup> See Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 14, February 23, 2016, question 10.e (Responses to CHIR No. 14).

*The Commission finds that the Automation Mixed ADC Flats discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2015 because encouraging mailers to use IMb should improve operational efficiency.*

(2) Automation FSS Non-Scheme Flats, Automation FSS Scheme Flats, and Non-automation FSS Non-Scheme Flats

The passthroughs for Automation FSS Non-Scheme Flats, Automation FSS Scheme Flats, and Non-automation FSS Non-Scheme Flats were 162.2 percent, 366.7 percent, and 166.7 percent, respectively. FY 2015 ACR at 34, 35. These discounts were first introduced in Docket No. R2015-4 as part of the worksharing initiative to move FSS Flats into a distinct price category. *Id.* at 34. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(A). *Id.* at 34, 35.

The Public Representative agrees that these excessive passthroughs are justified pursuant to 39 U.S.C. § 3622(e)(2)(A), but urges the Commission to require the Postal Service to formulate a plan to bring the passthroughs into compliance. PR Comments at 49.

*The Commission finds these three discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(A) in FY 2015 because the discounts were new in FY 2015. However, if the discounts are not set at avoided costs in the next general Market Dominant price adjustment, the Commission expects the Postal Service to file a plan to align discounts with avoided costs contemporaneously.*

(3) Non-automation ADC Flats and Non-automation 3-Digit Flats

In FY 2015, Non-automation ADC Flats and Non-automation 3-Digit Flats had passthroughs of 129.7 percent and 101.9 percent, respectively. FY 2015 ACR at 35. The Postal Service does not cite a statutory exception to justify the excessive Non-automation ADC Flats passthrough because when the exigent surcharge is removed, the discount is less than its avoided cost. *Id.* Therefore, the portion of the discount that exceeds avoided cost will be eliminated upon removal of the exigent surcharge. The Postal Service did not provide a statutory exception for excessive passthroughs in Non-automation 3-Digit Flats. *Id.* The passthrough decreased from 114.9 percent in FY 2014 to 101.9 percent in FY 2015. *Id.* The Postal Service maintains that it intends to eliminate the portion of this discount that exceeds avoided cost in future Market Dominant price adjustments. *Id.*

*The Commission finds that these two discounts were not in compliance in FY 2015. The removal of the exigent surcharge in FY 2016 aligns the Non-automation ADC Flats discount with avoided cost; therefore, no further action is required. The Postal Service must either align the Non-automation 3-Digit Flats discount with avoided cost during the next general Market Dominant price adjustment or provide support for an applicable statutory exception.*

## c. Parcels

Seven workshare discounts for Parcels exceeded avoided costs in FY 2015:

- Nonprofit network distribution center (NDC) Irregular Parcels
- Nonprofit NDC Machinable Parcels
- NDC Marketing Parcels
- Sectional center facility (SCF) Marketing Parcels
- Nonprofit Mixed NDC Machinable Barcoded Parcels
- Nonprofit Mixed NDC Irregular Barcoded Parcels
- Mixed NDC Barcoded Marketing Parcels

Each is discussed below. All remaining Parcels discounts were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-7 and Table II-8 shows the discounts for the Parcel product for FY 2015.

**Table II-7**  
**Standard Mail Parcels (Commercial and Nonprofit)<sup>49</sup>**  
**Presort and Barcode Workshare Discounts and Benchmarks**

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>Nonprofit Standard Mail Parcels: Presorting (Cents/Piece)</b>			
NDC Machinable Parcels (Mixed NDC Machinable Parcels)	41.1	39.6	103.8%
5-Digit Machinable Parcels (NDC Machinable Parcels)	29.5	58.4	50.5%
NDC Irregular Parcels (Mixed NDC Irregular Parcels)	32.4	20.2	160.4%
SCF Irregular Parcels (NDC Irregular Parcels)	38.1	43.8	87.0%
5-Digit Irregular Parcels (SCF Irregular Parcels)	11.5	58.0	19.8%
<b>Nonprofit Standard Mail Parcels: Barcoding (Cents/Piece)<sup>a</sup></b>			
Mixed NDC Machinable Barcoded Parcels (Mixed NDC Machinable Non-barcoded Parcels)	6.4	3.8	168.4%
Mixed NDC Irregular Barcoded Parcels (Mixed NDC Irregular Non-barcoded Parcels)	6.4	3.8	168.4%
<b>Standard Marketing Parcels: Presorting (Cents/Piece)</b>			
NDC Marketing Parcels (Mixed NDC Marketing Parcels)	39.2	29.0	135.2%
SCF Marketing Parcels (NDC Marketing Parcels)	32.7	29.8	109.7%
5-Digit Marketing Parcels (SCF Marketing Parcels)	13.2	59.8	22.1%
<b>Standard Marketing Parcels: Barcoding (Cents/Piece)<sup>a</sup></b>			
Mixed NDC Barcoded Marketing Parcels (Mixed NDC Non-barcoded Marketing Parcels)	6.4	3.8	168.4%

<sup>a</sup> The Postal Service charges a surcharge for non-barcoded pieces.  
Source: Library Reference PRC-LR-ACR2015/4.

<sup>49</sup> In FY 2015, all Standard Mail Parcels commercial and nonprofit discounts were equal. However, machinable and irregular Standard Mail Parcel prices are only offered to Nonprofit mailers.

**Table II-8**  
**Standard Mail Parcels (Commercial and Nonprofit)**  
**Dropship Workshare Discounts and Benchmarks**

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>Nonprofit Standard Mail Machinable Parcels: Dropship (Cents/Pound)</b>			
DNDC Machinable Parcels (Origin Machinable Parcels)	25.3	83.2	30.4%
DSCF Machinable Parcels (Origin Machinable Parcels)	52.5	97.5	53.8%
DDU Machinable Parcels (Origin Machinable Parcels)	72.8	113.1	64.4%
<b>Standard Mail Marketing Parcels: Dropship (Cents/Pound)</b>			
DNDC Marketing Parcels (Origin Marketing Parcels)	25.3	83.2	30.4%
DSCF Marketing Parcels (Origin Marketing Parcels)	52.5	97.5	53.8%
DDU Marketing Parcels (Origin Marketing Parcels)	72.8	113.1	64.4%
<b>Nonprofit Standard Mail Irregular Parcels: Dropship (Cents/Pound)</b>			
DNDC Irregular Parcels (Origin Irregular Parcels)	25.3	83.2	30.4%
DSCF Irregular Parcels (Origin Irregular Parcels)	52.5	97.5	53.8%
DDU Irregular Parcels (Origin Irregular Parcels)	72.8	113.1	64.4%

Source: Library Reference PRC-LR-ACR2015/4.

(1) Nonprofit NDC Irregular Parcels and NDC Marketing Parcels

In FY 2015, Nonprofit NDC Irregular Parcels and NDC Marketing Parcels had passthroughs of 160.4 percent and 135.2 percent, respectively. FY 2015 ACR at 36, 37. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* at 37. It states that Standard Mail Parcels received 10-percent price increases in Docket No. R2015-4, and further price increases to align discounts with lower cost avoidances could result in rate shock. *Id.* However, it does not explain how the price increases necessary to reduce both passthroughs would adversely affect users. The Postal Service states that it intends to continue reducing the discounts in future Market Dominant price adjustments. *Id.*

The Public Representative states that “[t]he magnitude of price change necessary to correct the excessive passthroughs...appears sufficiently large such that the rate shock exception would apply...” PR Comments at 48-49. He recommends that the Postal Service provide a plan to phase the excessive discount out over time. *Id.* at 49.

*The Commission concludes that a substantial reduction in the passthrough percentage would likely adversely affect users. Thus, the Commission finds that these discounts are adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2015. In the next Market Dominant price adjustment, the Postal Service should reduce this excessive discount.*

(2) Nonprofit NDC Machinable Parcels and SCF Marketing Parcels

In FY 2015, the passthroughs for Nonprofit NDC Machinable Parcels and SCF Marketing Parcels were 103.8 percent and 109.7 percent, respectively. FY 2015 ACR at 36, 37. The Postal Service does not provide any statutory justifications for the excessive discounts. Instead, it states that it will either fix the discounts in the next market dominant price adjustment or cite a statutory exception. *Id.*

*The Commission finds that these two discounts were not in compliance in FY 2015. The Postal Service must either align these discounts with avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception.*

(3) Nonprofit Mixed NDC Machinable Barcoded Parcels, Nonprofit Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels

Nonprofit Mixed NDC Machinable Barcoded Parcels, Nonprofit Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels each had passthroughs of 168.4 percent in FY 2015. *Id.* at 38. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(D), stating that it has been sending a strong signal to mailers through the non-barcoded surcharge to develop a fully barcoded parcels mailstream. *Id.*

The Public Representative agrees that these excessive passthroughs are justified pursuant to 39 U.S.C. § 3622(e)(2)(D), but recommends the Commission require the Postal Service to bring the passthroughs into compliance. PR Comments at 49.

*The Commission finds that these three discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) because having a fully barcoded mailstream would increase operational efficiency. However, if the discounts are not set at avoided costs in the next general Market Dominant price adjustment, the Commission expects the Postal Service to file a plan to align discounts with avoided costs contemporaneously.*

d. Carrier Route

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

- Destination network distribution center (DNDC) dropship Letters
- Destination sectional center facility (DSCF) dropship Letters

Each is discussed below. All remaining Carrier Route discounts were less than avoided costs and thus were in compliance with 39 U.S.C. § 3622(e). Table II-9 shows the discounts for the Carrier Route product for FY 2015.

**Table II-9**  
**Standard Mail Carrier Route (Commercial and Nonprofit)**  
**Dropship and Presort Discounts and Benchmarks**

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>Standard Mail Carrier Route Letters: Dropship (cents/piece)</b>			
DNDC Letters (Origin Letters)	3.3	1.6	206.3%
DSCF Letters (Origin Letters)	4.4	2.0	220.0%
<b>Standard Mail Carrier Route Flats: Dropship (cents/pound)</b>			
DNDC Flats (Origin Flats)	16.8	24.4	68.9%
DSCF Flats (Origin Flats)	21.8	28.3	77.0%
DDU Flats (Origin Flats)	26.3	33.1	79.5%
<b>Standard Mail Carrier Route Flats: Presorting (cents/piece)</b>			
Origin Flats on 5-Digit Pallets (Other Origin Flats)	0.5	3.3	15.2%
DNDC Flats on 5-Digit Pallets (Other DNDC Flats)	0.5	3.3	15.2%
DSCF Flats on 5-Digit Pallets (Other DSCF Flats)	0.5	3.3	15.2%
DDU Flats on 5-Digit Pallets (Other DDU Flats)	0.5	3.3	15.2%
<b>Standard Mail Carrier Route Flats: Dropship (cents/pound)</b>			
DNDC Flats on 5-Digit Pallets (Origin Flats)	16.8	24.4	68.9%
DSCF Flats on 5-Digit Pallets (Origin Flats)	21.8	28.3	77.0%
DDU Flats on 5-Digit Pallets (Origin Flats)	26.3	33.1	79.5%

Source: Library Reference PRC-LR-ACR2015/4.

In FY 2015, passthroughs for DNDC dropship Letters and DSCF dropship Letters were 206.3 percent and 220.0 percent, respectively. FY 2015 ACR at 38, 39. The Postal Service explains that these excessive passthroughs are due to an unexpected decrease in the cost avoidances. The Postal Service does not provide a statutory exception for these excessive discounts, but states that it will either fix the discounts at the time of the next Market Dominant price adjustment or cite a statutory exception at that time. *Id.* at 38-39.

*The Commission finds that these two discounts were not in compliance in FY 2015. The Postal Service must either align these discounts with avoided costs during the next general Market Dominant price adjustment or provide support for an applicable statutory exception.*

e. High Density and Saturation Letters

Two workshare discounts for High Density and Saturation Letters exceeded avoided costs in FY 2015:

- Destination network distribution center (DNDC) dropship Letters
- Destination sectional center facility (DSCF) dropship Letters

Each is discussed below. All remaining High Density and Saturation Letters discounts were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-10 shows the discounts for the Parcel product for FY 2015.

**Table II-10**  
**Standard Mail High Density and Saturation Letters (Commercial and Nonprofit)<sup>50</sup>**  
**Dropship and Presort Discounts and Benchmarks**

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
<b>Standard Mail High Density Letters: Presort (cents/piece)</b>			
High Density Letters (Carrier Route)	8.5	32.0	26.6%
<b>Standard Mail High Density Letters: Dropship (cents/piece)</b>			
DNDC Letters (Origin Letters)	3.3	1.6	206.3%
DSCF Letters (Origin Letters)	4.5	2.0	225.0%

Source: Library Reference PRC-LR-ACR2015/4.

In FY 2015, passthroughs for DNDC dropship Letters and DSCF dropship Letters were 206.3 percent and 225.0 percent, respectively. FY 2015 ACR at 39, 40. The Postal Service explains that these excessive passthroughs are due to an unexpected decrease in the cost avoidances. *Id.* The Postal Service does not provide a statutory exception for these excessive discounts, but states that it will either fix the discounts at the time of the next Market Dominant price adjustment or cite a statutory exception at that time. *Id.* at 38-39.

*The Commission finds that these two discounts were not in compliance in FY 2015. The Postal Service must either align these discounts with avoided costs during the next general Market Dominant price adjustment or provide support for an applicable statutory exception.*

## 4. Package Services

Three Package Services products offered workshare discounts in FY 2015: Media Mail/Library Mail, Bound Printed Matter (BPM) Flats, and BPM Parcels. Nine Package

<sup>50</sup> In FY 2015, all Standard Mail Flats commercial and nonprofit discounts were equal.

Services workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity.

a. Media Mail/Library Mail

Four discounts were offered for Media Mail/Library Mail in FY 2015. Two workshare discounts for Media Mail/Library Mail exceeded avoided costs in FY 2015:

- Media Mail Basic presorting
- Library Mail Basic presorting

All remaining Media Mail/Library Mail discounts did not exceed their respective avoided costs, and were in compliance with 39 U.S.C. § 3622(e) in FY 2015. Table II-11 shows the FY 2015 discounts, avoided costs, and passthroughs for this product.

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

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough <sup>a</sup>
<b>Media Mail: Presorting (Cents/Piece)</b>			
Basic (Single-Piece)	27.0	21.5	125.6%
5-Digit (Basic)	57.0	125.2	45.5%
<b>Library Mail: Presorting (Cents/Piece)</b>			
Basic (Single-Piece)	26.0	21.5	120.9%
5-Digit (Basic)	54.0	125.2	43.1%

<sup>a</sup> The calculated passthroughs are based on rounded unit avoided costs.  
Source: Library Reference PRC-LR-ACR2015/6.

The Basic presort discount for both the Media Mail/Library Mail categories exceeded avoided costs in FY 2015. The passthroughs were 125.6 percent and 120.9 percent, respectively. FY 2015 ACR at 48. The Postal Service justifies the FY 2015 passthroughs pursuant to section 3622(e)(2)(C) because Media Mail/Library Mail consists of mail matter with ECSI value. *Id.* The Postal Service explains that it plans to move the discounts toward their avoided costs over time, while avoiding any drastic changes that could cause rate shock. *Id.*

*The Commission concludes that the Media Mail/Library Mail Basic presort discounts were justified pursuant to 39 U.S.C. § 3622(e)(2)(C) because the product qualifies for the ECSI exemption.*

b. Bound Printed Matter Flats and Bound Printed Matter  
Parcels

In FY 2015, 14 discounts were offered for BPM Flats and 12 discounts were offered for BPM Parcels. The following seven workshare discounts for BPM Flats and BPM Parcels exceeded avoided costs in FY 2015:

- BPM Flats destination network distribution center (DNDC) dropship
- BPM Flats destination sectional center facility (DSCF) dropship
- BPM Flats Destination Flats Sequencing System (DFSS) dropship
- BPM Flats destination delivery unit (DDU) dropship
- BPM Parcels DNDC dropship
- BPM Parcels DSCF dropship
- BPM Parcels DDU dropship

All remaining BPM Flats and BPM Parcels discounts did not exceed their respective avoided costs and were in compliance with 39 U.S.C. § 3622(e) in FY 2015. Table II-12 and Table II-13 show the FY 2015 discounts, avoided costs, and passthroughs for the BPM Flats and BPM Parcel products in FY 2015.

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

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough <sup>a</sup>
<b>Presorting (Cents/Piece)<sup>b</sup></b>			
Basic Flats (Single-Piece Flats)	45.7	See Note b	N/A
FSS Flats (Single-Piece Flats)	45.9	See Note b	N/A
Carrier Route Flats (Basic Flats)	13.7	14.8	92.6%
<b>Presorting (Cents/Piece)<sup>b</sup>: Basic, Carrier Route Flats (Single-Piece Flats)</b>			
Zones 1&2	4.9	See Note b	N/A
Zone 3	7.1	See Note b	N/A
Zone 4	5.8	See Note b	N/A
Zone 5	6.3	See Note b	N/A
Zone 6	7.1	See Note b	N/A
Zone 7	6.8	See Note b	N/A
Zone 8	7.0	See Note b	N/A
<b>Dropship (Cents/Piece)</b>			
Basic, Carrier Route DNDC Flats (Basic Origin Flats)	11.6	10.4	111.5%
Basic, Carrier Route DSCF Flats (Basic Origin Flats)	60.8	54.9	110.7%
Basic, DFSS Flats (Basic Origin Flats)	61.6	54.9	112.2%
Basic, Carrier Route DDU Flats (Basic Origin Flats)	78.0	69.8	111.7%

<sup>a</sup> The calculated passthroughs are based on rounded unit avoided costs.

<sup>b</sup> The BPM cost model does not estimate cost differences between Single-Piece and presorted BPM. Single-Piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between Single-Piece and presorted BPM were based on an assumption that unit mail processing costs for Single-Piece BPM were twice that of presorted BPM. See Docket No. R2006-1, USPS-T-38, at 8. Source: Library Reference PRC-LR-ACR2015/6.

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

Type of Worksharing (Benchmark)	FY 2015		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough <sup>a</sup>
<b>Presorting (Cents/Piece)<sup>b</sup></b>			
Basic Parcels (Single-Piece Parcels)	79.4	See Note b	N/A
Carrier Route Parcels (Basic Parcels)	11.9	14.8	80.4%
<b>Presorting (Cents/Pound)<sup>b</sup>: Basic, Carrier Route Parcels (Single-Piece Parcels)</b>			
Zones 1&2	6.1	See Note b	N/A
Zone 3	6.4	See Note b	N/A
Zone 4	5.6	See Note b	N/A
Zone 5	6.1	See Note b	N/A
Zone 6	6.4	See Note b	N/A
Zone 7	4.0	See Note b	N/A
Zone 8	4.2	See Note b	N/A
<b>Dropship (Cents/Piece)</b>			
Basic, Carrier Route DNDC Parcels (Basic Origin Parcels)	11.6	10.4	111.5%
Basic, Carrier Route DSCF Parcels (Basic Origin Parcels)	63.2	54.9	115.1%
Basic, Carrier Route DDU Parcels (Basic Origin Parcels)	80.9	69.8	115.9%

<sup>a</sup> The calculated passthroughs are based on rounded unit avoided costs.

<sup>b</sup> The BPM cost model does not estimate cost differences between Single-Piece and presorted BPM. Single-Piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between Single-Piece and presorted BPM were based on an assumption that unit mail processing costs for single-piece BPM were twice that of presorted BPM. See Docket No. R2006-1, USPS-T-38, August 10, 2006, at 8.

Source: Library Reference PRC-LR-ACR2015/6.

All seven of the dropshipping discounts for BPM Flats and BPM Parcels exceeded the corresponding avoided costs. Both the DNDC dropship discount for BPM Flats and the DNDC dropship discount for BPM Parcels had a passthrough of 111.5 percent. FY 2015 ACR at 48. In Docket No. R2015-4, the Postal Service set the DNDC dropship discounts for BPM Flats and BPM Parcels equal to their respective avoided costs.<sup>51</sup> However, those discounts were set using FY 2014 avoided cost data. Since the Docket No. R2015-4 proceeding, the avoided costs have decreased, resulting in passthroughs greater than 100 percent for FY 2015.

<sup>51</sup> See Docket No. R2015-4, Library Reference PRC-LR-R2015-4/11, May 7, 2015, Excel file "R2015-4 Package Services Worksharing\_.xlsx," which shows that the DNDC dropship discount and unit avoided costs were 11.6 cents for both BPM Flats and BPM Parcels.

The Postal Service states it intends to align the discounts with their avoided costs in its next Market Dominant price adjustment. FY 2015 ACR at 49.

The DSCF dropship discounts for BPM Flats and BPM Parcels also exceeded avoided costs in FY 2015. The passthroughs for BPM Flats and BPM Parcels were 110.7 percent and 115.1 percent, respectively. *Id.* In Docket No. R2015-4, the Postal Service set the DSCF dropship discounts for BPM Flats equal to its respective avoided costs and for BPM Parcels slightly above avoided costs.<sup>52</sup> However, those discounts were set using FY 2014 avoided costs data. Since the Docket No. R2015-4 proceeding, the avoided costs decreased, resulting in passthroughs greater than 100 percent for FY 2015.

The Postal Service states it intends to align the discounts with their avoided costs in its next Market Dominant price adjustment. FY 2015 ACR at 49.

The DFSS dropship discount for BPM Flats exceeded avoided cost in FY 2015 with a passthrough of 112.2 percent. *Id.* at 50. In Docket No. R2015-4, the Postal Service set this discount at 101.7 percent, asserting this was necessary to maintain a consistent relationship between the price cells so mailers in non-FSS zones would not experience a further rate increase while still incentivizing mailers to “enter scheme containers of mail at the DFSS (which is of economic benefit to the Postal Service).”<sup>53</sup> However, that discount was set using FY 2014 avoided cost data. Since the Docket No. R2015-4 proceeding, the avoided cost of DSCF dropship discount for BPM Flats decreased, resulting in passthroughs greater than 100 percent for DFSS in FY 2015.

The Postal Service states it intends to align the discount with the avoided cost in its next Market Dominant price adjustment. FY 2015 ACR at 50.

The DDU dropship discount for BPM Flats and BPM Parcels exceeded unit avoided costs in FY 2015. The passthroughs for BPM Flats and BPM Parcels were 111.7 percent and 115.9 percent, respectively. *Id.* In Docket No. R2015-4, the Postal Service set the DDU dropship discounts for BPM Flats equal to its respective avoided costs and for BPM Parcels slightly above avoided costs.<sup>54</sup> However, those discounts were set using FY 2014 avoided costs data. Since the Docket No. R2015-4 proceeding, the avoided costs decreased, resulting in FY 2015 passthroughs that exceeded 100 percent.

The Postal Service states it intends to align the discounts with their avoided costs in its next Market Dominant price adjustment. FY 2015 ACR at 50.

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<sup>52</sup> See Docket No. R2015-4, PRC-LR-R2015-4/11, Excel file “R2015-4 Package Services Worksharing .xlsx,” which shows that the DSCF dropship discount and avoided costs for BPM Flats and BPM Parcels were 58.3 and 60.6 cents, respectively. Avoided costs were 58.3 cents for each product.

<sup>53</sup> Docket No. R2015-4, Response of the United States Postal Service to Questions 1-5 of Chairman’s Information Request No. 1, January 30, 2015, question 5.c.

<sup>54</sup> See Docket No. R2015-4, PRC-LR-R2015-4/11, Excel file “R2015-4 Package Services Worksharing .xlsx,” which shows that the DDU dropship discount and avoided costs for BPM Flats and BPM Parcels were 75.1 cents and 78.3, respectively. Avoided costs were 75.1 cents for each product.

The Public Representative notes that the Postal Service does not offer a statutory exemption to justify the BPM products with passthroughs greater than 100 percent and suggests that the Commission find those passthroughs out of compliance. PR Comments at 50. He recommends that the Postal Service be required to correct these deficient passthroughs prior to the reversal of the exigent surcharge. *Id.*

*The Commission finds that these seven discounts are not in compliance in FY 2015. The Postal Service must either align these discounts with avoided costs during the next general Market Dominant price adjustment or provide support for an applicable statutory exception.*

## **D. Preferred Rate Requirements**

Section 3626 of Title 39 of the U.S.C. identifies preferred rate requirements applicable to Periodicals, Standard Mail, and Package Services prices.

Periodicals is a preferred class of mail and receives several statutory discounts in section 3626, such as a 5-percent discount for nonprofit and classroom publications. In Docket No. R2015-4, prices for Periodicals were set to be consistent with statutory preferences for mail in that class. Order No. 2472 at 56-57.

Section 3626(a)(6) of Title 39 requires nonprofit prices in Standard Mail to be set in relation to their commercial counterparts regardless of nonprofits' independent costs. In Docket No. R2015-4, nonprofit prices were set to yield average per-piece revenues of 60.2 percent of commercial per-piece revenues at the class level. *Id.* at 44. The Commission calculates that the actual per-piece revenue from Standard Mail nonprofit pieces was 59.0 percent in FY 2015. Changes in the mix of mail after price changes make it difficult to precisely attain the 60 percent relationship required by law.

One preferred rate requirement applies to Media Mail/Library Mail, a product in Package Services: Section 3626(a)(7) of Title 39 requires Library Mail prices to be set at 95 percent of Media Mail prices. Docket No. R2015-4 set these prices accordingly. *Id.* at 61.

*The Commission finds that prices in FY 2015 were in compliance with all of the preferred rate requirements identified in 39 U.S.C. § 3626.*

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

## A. Introduction

Commenters raise other rate and fee compliance issues, most of which relate to the objectives and factors established by 39 U.S.C. § 3633 and to the policies of Title 39 of the United States Code. These issues include noncompensatory products, negotiated service agreements (NSAs),<sup>55</sup> and pricing issues related to differences in cost coverage.

This chapter begins with an analysis of noncompensatory products organized by class. It also includes a discussion of matters relating to NSAs, and other pricing issues. Issues specific to flat-shaped mailpieces (flats), which includes Standard Mail Flats and Periodicals, are areas of concern for several commenters and are discussed in Chapter 6.

## B. Noncompensatory Products

### 1. Periodicals

#### a. FY 2015 Financial Results

The cost coverage for Periodicals decreased slightly from FY 2014 to FY 2015, from 76.2 percent to 75.6 percent. FY 2015 ACR at 42. Since the enactment of the PAEA, Periodicals cost coverage has declined from 83.0 percent. As Table III-1 illustrates, this low cost coverage has resulted in cumulative negative contribution of almost \$5 billion since FY 2007.

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<sup>55</sup> NSAs are written contracts between a mailer and the Postal Service, effective for a defined period of time, that provide for mailer-specific rates, fees, or terms of service according to the contract. 39 C.F.R. § 3001.5(r). The mailer often receives discounts (rebates) designed to encourage higher mail volumes and contributions.

**Table III-1**  
**Periodicals Cost Coverage, FY 2007–FY 2015 (\$ Millions)**

Fiscal Year	Volume	Revenue	Cost	Cost Coverage	Contribution
2007	8,795	\$2,188	\$2,636	83.01%	-\$448
2008	8,605	\$2,295	\$2,732	84.00%	-\$437
2009	7,953	\$2,038	\$2,680	76.04%	-\$642
2010	7,269	\$1,879	\$2,490	75.46%	-\$611
2011	7,077	\$1,821	\$2,430	74.94%	-\$609
2012	6,741	\$1,732	\$2,402	72.10%	-\$670
2013	6,359	\$1,658	\$2,179	76.10%	-\$521
2014	6,045	\$1,625	\$2,134	76.16%	-\$509
2015	5,838	\$1,589	\$2,101	75.64%	-\$512
					<b>-\$4,959</b>

Source: Library Reference PRC–LR–ACR2015/5.

Unit revenue for the Periodicals class as a whole increased from 26.9 cents in FY 2014 to 27.2 cents in FY 2015. FY 2015 ACR at 43. However, unit cost also increased from 35.3 cents to 36.0 cents during the same period. *Id.* Because the increase in unit cost outpaced the increase in unit revenue in FY 2015, unit contribution declined in FY 2015. *Id.* Table III-2 details the unit cost, revenue, and contribution for Periodicals during the PAEA era.

**Table III-2**  
**Periodicals Unit Cost, Revenue, and Contribution, FY 2007–FY 2015**

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

Source: Library Reference PRC–LR–ACR2015/5.

### (1) Comments

The Public Representative highlights that Periodicals have “failed to cover attributable costs since enactment of the PAEA.” PR Comments at 35. Moreover, he notes that in FY 2015, “both Periodicals products (In-County and Outside County) failed to cover attributable costs” and had lower levels of cost coverage than in FY 2014. *Id.* He states that the Postal Service’s explanation, which attributes Periodicals’ decreased cost coverage to unit cost increasing faster than unit revenue, is insufficient. *Id.* at 35-36. Although Periodicals volume has declined every year since FY 2007, he notes that in the last 3 years, Periodicals revenue did not decrease as sharply as Periodicals volume. *Id.* at 35. He suggests that “the Postal Service ... provide a comprehensive analysis of the factors that negatively affect the Periodicals cost coverage.” *Id.* at 38.

### (2) Commission Analysis of FY 2015 Financial Results

Since FY 2007, Periodicals volume declined 33.6 percent, revenue declined 27.4 percent, cost declined 20.3 percent, and the Periodicals class accumulated negative contribution of \$5 billion. Increasing unit cost contributed to Periodicals’ inability to cover its cost. Consistent with the Public Representative’s observations, since FY 2012, Periodicals volume declined 13.4 percent, revenue declined 8.2 percent, and cost declined 12.5 percent. The exigent surcharge, which went into effect on January 26, 2014,<sup>56</sup> improved the revenue generated during part of FY 2014 and all of FY 2015. The increase in average unit cost, however, outpaced the slight increase in average unit revenue.

Decreases in both the average weight and advertising content of the mailings also affected FY 2015 Periodicals revenue. Because Periodicals prices are tied (in part) to the weight of the piece, minor weight changes have a greater effect on the price paid by the mailers than on the cost incurred by the Postal Service. As the Postal Service explains, minor weight increases do not significantly affect cost within the weight range of typical mailpieces (3 to 16 ounces) or the productivity of mail processing equipment.<sup>57</sup> Minor weight changes can, however, have significant effects on prices. Average weight for Outside County Periodicals decreased from 6.16 ounces per piece in FY 2014 to 6.09 ounces per piece in FY 2015. Furthermore, advertising pounds, which pay higher prices, decreased from 39.5 percent of total Outside County Periodicals pounds in FY 2014 to 39.1 percent in FY 2015.

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

### (3) Commission Analysis of Outside County Periodicals Unit Cost

The Periodicals class is comprised of two products: In-County<sup>58</sup> and Outside County. In FY 2015, Outside County constituted 90.2 percent of Periodicals total volume and 95.8

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<sup>56</sup> See Order No. 1926 at 193.

<sup>57</sup> FY 2015 ACR at 46 (identifying the following equipment: the Automated Flats Sorting Machine 100 (AFSM 100), Flats Sequencing System (FSS), Automation Parcel and Bundle Sorter (APBS), or Automated Package Processing System (APPS)).

<sup>58</sup> The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

percent of Periodicals total attributable cost. Because Outside County pieces incur most of the costs for the Periodicals class, operational initiatives focused on Outside County Periodicals have greater potential for cost savings for the Periodicals class. Table III-3 shows that Outside County Periodicals total unit costs increased by 0.68 cents from FY 2014 to FY 2015.

**Table III-3**  
**Change in Outside County Periodicals Unit Costs, FY 2008–FY 2015<sup>59</sup>**

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

Source: Library Reference PRC–LR–ACR2015/5.

In FY 2015, the increases in delivery and transportation unit costs surpassed the slight reductions in mail processing and other unit costs. Two changes to accepted analytical principles (cost methodology changes) implemented by the Postal Service in FY 2015 following approval by the Commission, the new city carrier street time letter route cost model and the modified carrier vehicle cost, contributed to the increase in delivery unit cost.<sup>60</sup> The trends for transportation and mail processing unit costs, however, show that the Postal Service has not realized cost savings from increased mailer preparation (worksharing), via dropshipping and presortation.

Since FY 2008, mailers have increasingly dropshipped Outside County Periodicals. In FY 2008, 58.6 percent of Outside County Periodicals mail was dropshipped at the Destination Sectional Center Facility (DSCF). In FY 2015, 72.0 percent of Outside County Periodicals mail was dropshipped at the DSCF or the destination FSS (DFSS) facility.<sup>61</sup> Entry of Outside County Periodicals closer to the end destination should lead to an overall decrease in the Postal Service's transportation unit cost. However, since FY 2008, transportation unit cost for Outside County Periodicals has increased. The Postal Service should explore why its transportation unit costs are rising despite increased dropshipping.

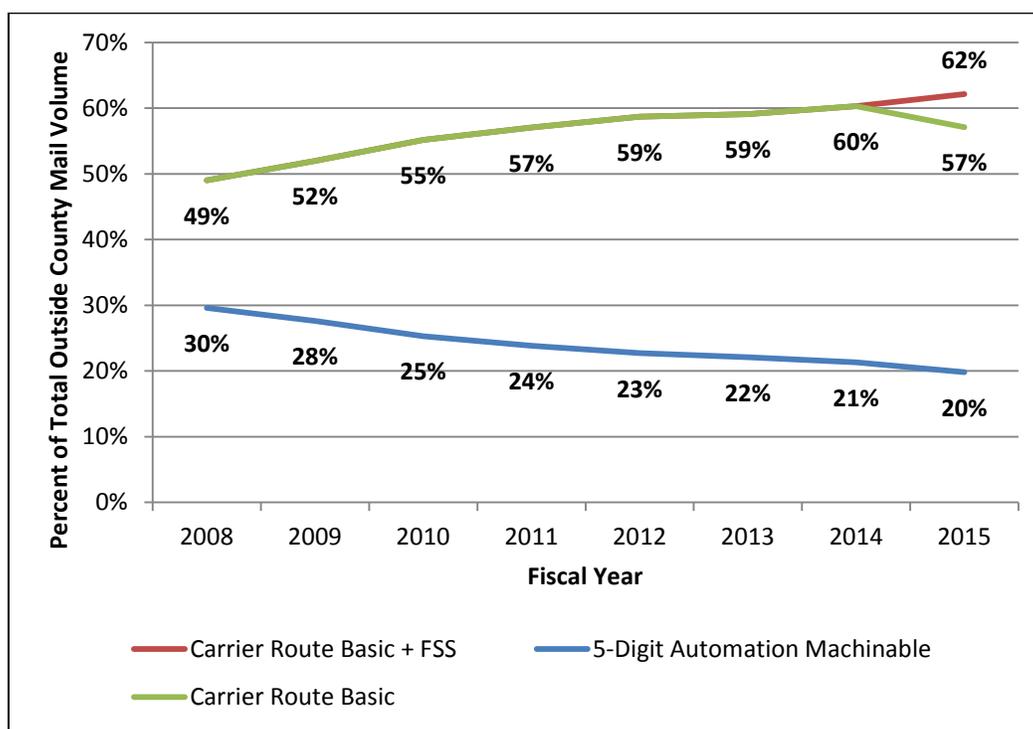
<sup>59</sup> The unit cost figures in the Cost and Revenue Analysis (CRA) report include piggybacks. The figures in this table do not include piggybacks. A majority of the other costs are piggybacked onto mail processing, delivery, and transportation.

<sup>60</sup> February 8, 2016, Responses to CHIR No. 7, question 18.

<sup>61</sup> With the implementation of Docket No. R2015-4 prices, some mailpieces that were previously dropshipped at a DSCF are now dropshipped at a DFSS. Hence, the DSCF and DFSS dropshipped pieces are totaled to demonstrate the degree to which mailers dropshipped Outside County Periodicals mailings in FY 2015.

Since FY 2008, mail processing unit cost has remained relatively flat even though mailer presortation of Outside County Periodicals has increased substantially. As Figure III-1 illustrates, 49.0 percent of mail volume was presorted to the Carrier Route level in FY 2008, whereas 62.2 percent of mail volume was presorted to the Carrier Route or FSS level in FY 2015.<sup>62</sup>

**Figure III-1**  
**Change in Outside County Periodicals Mail Mix, FY 2008–FY 2015<sup>63</sup>**



Source: Library Reference PRC–LR–ACR2015/5.

Mail processing unit costs are much lower for mailpieces presorted to the Carrier Route level than to the 5-Digit level. The Postal Service does not separate mail processing costs for Carrier Route presorted Periodicals from other presorted Periodicals, such as 5-Digit and 3-Digit, because they are not separate products. However, Carrier Route and Standard Mail Flats (such as 5-Digit and 3-Digit) are separate products and therefore, the CRA isolates the mail processing cost for this level of presortation in Standard Mail. The Standard Mail information from the CRA may provide insight into the potential for cost differences within the Periodicals class.

<sup>62</sup> With the implementation of Docket No. R2015-4 prices, some mailpieces that were previously Carrier Route are now required to be prepared at the FSS level. Hence, the Carrier Route and FSS pieces are totaled to demonstrate the degree to which mailers prepared Outside County Periodicals mailings in FY 2015.

<sup>63</sup> *Id.*

The piggybacked mail processing unit cost of Standard Mail Carrier Route was 5.88 cents in FY 2015.<sup>64</sup> The piggybacked mail processing unit cost of Standard Mail Flats was nearly five times higher, 27.95 cents in FY 2015.<sup>65</sup> For each mailpiece that moves from the 5-Digit to the Carrier Route presortation level, the Postal Service should avoid considerable cost. This would suggest that mail processing unit cost of Outside County Periodicals should have decreased since FY 2008.

Since FY 2008, mail processing unit costs for non-Carrier Route flats have increased.<sup>66</sup> Declining mail processing productivity contributed considerably to this increase. Table III-4 details changes in productivity for selected flats processing operations since FY 2008.

**Table III-4**  
**Change in Productivity for Selected Flats Processing Operations, FY 2008–FY 2015**

Operation	Productivity Change
Automated Flats Sorting Machine 100 (AFSM 100) Incoming Secondary	-18%
Small Parcel Bundle Sorter (SPBS)/Automated Parcel Bundle Sorter (APBS) Incoming	-19%
Automated Package Processing System (APPS) Incoming	-39%
Flats Sequencing System (FSS) <sup>67</sup>	-4%

Source: Library Reference PRC–LR–ACR2015/5.

Despite projecting improved flats mail processing performance in its reports and requested changes to prices and services in recent years,<sup>68</sup> the Postal Service has yet to achieve any of its projected productivity increases. Flats productivity has decreased since FY 2008. Although the changing Outside County Periodicals mail mix will likely result in less processing on the AFSM 100, SPBS/APBS, and APPS, Periodicals will continue to have cost coverage issues if the Postal Service does not address declining productivity.

b. Postal Service Response to FY 2014 ACD Directives

In FY 2014, the Commission directed the Postal Service to provide a detailed analysis of the progress made in improving Periodicals cost coverage. The Commission specifically

<sup>64</sup> See Library Reference USPS–FY15–26, December 29, 2015, Excel file “shp15prc.xls,” tab “Flats (4),” cell BV23.

<sup>65</sup> See *id.* cell BV25.

<sup>66</sup> The piggybacked mail processing unit cost for Standard Mail Flats has increased from 22.89 cents in FY 2008 to 27.95 cents in FY 2015. Compare Library Reference USPS–FY08–26, Excel file “shp08prc.xls,” tab “Flats (4),” cell BP25 with Library Reference USPS–FY15–26, Excel file “shp15prc.xls,” tab “Flats (4),” cell BV25.

<sup>67</sup> The FSS machine productivity is measured from its introduction in FY 2011.

<sup>68</sup> See, e.g., United States Postal Service Office of the Inspector General Report, Flats Sequencing System: Program Status and Projected Cash Flow, July 27, 2010, at 10 (Report Number DA-AR-10-007) (projecting that the lower bound or worst case scenario for the FSS would be a return on investment of 14.25 percent without transitional employees and 26.9 percent with transitional employees); Docket No. R2010-4, Responses of the United States Postal Service to Questions from the Bench at the Hearing for Mr. Neri, August 19, 2010, at 7 (“Expectations are for flats workhours to decline another 11 percent in FY 2010.”); Docket No. N2012-1, Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS–T–4), December 5, 2011, at 29-30 (projecting an increase in AFSM 100 productivity of 15 percent).

directed that the Postal Service include in the FY 2015 ACR “[t]he progress in developing metrics to assess the cost savings impact of operational strategies” and “[t]he cost savings from the implementation of operational strategies outlined in Chapter 7 of the *Periodicals Mail Study*<sup>69</sup> and in the Postal Service’s Flats Operational and Pricing Strategies in Docket No. R2010-4.”<sup>70</sup>

In the FY 2015 ACR, the Postal Service describes its operational changes, and specifically identifies three strategies outlined in Chapter 7 of the *Periodicals Mail Study* that were implemented: full deployment of the FSS; movement of flats up the automation ladder; and implementation of the Automated Parcel Bundle Sorter (APBS). FY 2015 ACR at 18-28. However, the FY 2015 ACR contains no detailed analysis of the cost savings impact of these operational changes or the progress in developing metrics to assess the resulting cost savings. The Postal Service states that it “is unable to provide an estimate of the financial impacts of these operational initiatives at this time.” *Id.* at 19.

Several CHIRs were issued to better understand the specifics of the operational strategies, the cost savings impacts of the Flats operational strategies, and the obstacles to developing cost savings impact metrics.<sup>71</sup> The Postal Service’s responses clarify its calculation of performance metrics related to the FSS.<sup>72</sup> The Postal Service discusses the cost of manually sorting 10 percent of flats and discusses efforts to reduce manual sorting. Responses to CHIR No. 4, question 14. The Postal Service states that “[t]he lack of visibility into manual piece processing also impedes the ability to determine a lowest cost mail flow.”<sup>73</sup>

The Postal Service contends that it is unable to quantify the cost savings impact of requiring FSS Scheme pallet or FSS Scheme bundle preparation.<sup>74</sup> The Postal Service provides a status update concerning its past and ongoing efforts to reduce bundle breakage, but does not provide any analysis of the cost of broken bundles. Responses to CHIR No. 4, question 18. The Postal Service states that its evaluation of potential revisions to the Domestic Mail Manual (DMM) bundle preparation requirements remains pending without a current timeframe for conclusion or any reported recommendations. February 17, 2016, Responses to CHIR No. 12, question 9. The Postal Service provides its Periodicals Value Stream Map, which it has not updated since 2010. February 19, 2016, Responses to CHIR No. 12, question 1.

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<sup>69</sup> Periodicals Mail Study, Joint Report of the United States Postal Service and Postal Regulatory Commission, September 2011 (Periodicals Mail Study).

<sup>70</sup> FY 2014 ACD at 40; see Docket No. R2010-4, Library Reference USPS–R2010–4/9, July 6, 2010.

<sup>71</sup> See CHIR No. 4, questions 13-18; Chairman’s Information Request No. 7, February 1, 2016, questions 7-14 (CHIR No. 7); Chairman’s Information Request No. 12, February 9, 2016, questions 1-4, 8-14 (CHIR No. 12).

<sup>72</sup> Responses to CHIR No. 4, question 13; Responses of the United States Postal Service to Questions 1-15, 17-29 of Chairman’s Information Request No. 7, February 8, 2016, question 10 (February 8, 2016, Responses to CHIR No. 7).

<sup>73</sup> February 19, 2016, Responses to CHIR No. 12, question 8.b.

<sup>74</sup> Responses to CHIR No. 4, question 17; February 8, 2016, Responses to CHIR No. 7, question 7; Notice of the United States Postal Service of Filing a Revised Response to Question 11 of Chairman’s Information Request No. 12 -- ERRATA, February 18, 2016, question 11 (February 18, 2016, Response to CHIR No. 12).

The Postal Service represents that it is unable to update its projected return on investment for the FSS machines. February 8, 2016, Responses to CHIR No. 7, question 8. According to the Postal Service, the decreasing flats processing productivity is partially attributable to declining flats volume, which has reduced machine-compatible mail more than manual mail.<sup>75</sup> However, the Postal Service “has not determined the percentage of total volume that equates to the most efficient processing for FSS.” February 8, 2016, Responses to CHIR No. 7, question 12.b.

(1) Comments

Two commenters address issues specific to whether the Postal Service’s operational changes reduced costs. The Association of Magazine Media (MPA) contends that although the Postal Service invested in the FSS machine in order to reduce flats costs, FSS machines increased flats costs in FY 2015. MPA Comments at 4-5. The Postal Service replies that the unit mail processing cost of Outside County Periodicals decreased from 19.78 cents in FY 2014 to 18.89 cents in FY 2015. USPS Reply Comments at 21.

PostCom states that for Outside County Periodicals, mail processing cost increased by 4.5 percent and delivery cost increased by 7.91 percent in FY 2015.<sup>76</sup> The Postal Service replies that Periodicals delivery cost in FSS zones are lower than Periodicals delivery cost in non-FSS zones, and attributes the increase of delivery cost, in part, to two cost methodology changes.<sup>77</sup>

MPA and the Public Representative make recommendations specific to the Postal Service’s efforts to improve Periodicals cost coverage through operational changes. MPA suggests that the Commission require the Postal Service in the FY2016 ACR to perform a detailed analysis of the mail processing and delivery costs for flats destinating in FSS and non-FSS zones and fully quantify the extent to which operational changes result in lower costs. MPA Comments at 6-7. The Public Representative recommends that the Postal Service report the effects of pending operational changes on cost coverage and expand its efforts to reduce costs and improve productivity as directed in the FY 2014 ACD. PR Comments at 38.

MPA asserts that the FY 2015 ACR failed to comply with the Commission’s directives because the FY 2015 ACR merely describes operational and pricing changes without any quantification of the financial impact of those changes. MPA Comments at 3. MPA urges the Commission to require “the Postal Service to correct this major omission.” *Id.*

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<sup>75</sup> FY 2015 ACR at 20; *see also* Responses of the United States Postal Service to Questions 1-14 of Chairman’s Information Request No. 2, January 15, 2016, question 8.e. (January 15, 2016, Responses to CHIR No. 2). The Postal Service also notes that full deployment of the FSS was delayed nearly one year, resulting in substantial lost savings from both the delay and the coincident decline in volumes. FY 2015 ACR at 29-30 n.15 (noting this issue is currently a subject of litigation between the Postal Service and the supplier of the FSS machines).

<sup>76</sup> Initial Comments of the Association for Postal Commerce, February 2, 2016, at 8 (PostCom Comments).

<sup>77</sup> USPS Reply Comments at 13; *citing* February 8, 2016, Responses to CHIR No. 7, question 7.

## (2) Commission Analysis

Periodicals has persistently failed to cover its costs. The Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.<sup>78</sup> Recognizing that certain obstacles to the improvement of cost coverage for Periodicals also apply to Standard Mail Flats, the Commission includes a holistic discussion of flats in Chapter 6.

The Postal Service represents that it has implemented many operational strategies designed to improve the efficiency of flats processing operations, yet it has not developed cost savings figures associated with any of the strategies. The Postal Service contends that it does not have the information needed to assess the impacts of its operational strategies for improving the financial performance of its flats operations because it does not know how mailers would have prepared their Periodicals mailings under alternative operational schemes.<sup>79</sup> According to the Postal Service, the inability to isolate the effects of an operational change from other circumstances beyond the Postal Service's control, including mail volume and mail mix changes, also contributes to the difficulty in developing metrics to assess the cost savings impact of operational strategies for Periodicals. February 17, 2016, Responses to CHIR No. 12, question 4. Further, the Postal Service argues that because Periodicals are routinely co-processed with other classes of mail, developing a metric linking operational changes to cost savings specifically for Periodicals is challenging. *Id.*

Although the Postal Service cannot precisely predict how mailers would prepare Periodicals under alternative operational or pricing schemes, the Postal Service has actionable data on its own operations. For example, the Postal Service has past productivity data, which can show how productivity has changed in response to changes, including different mail volumes, mail mixes, and mailer preparation. The Postal Service can determine from its past data how its operations responded to past changes in mail volumes, mail mix, and mailer preparation. That information can be used as a baseline to project how the Postal Service's operations may react to changes in mailers' behavior. *See* Chapter 2, *supra*, for a discussion of how the Postal Service can combine billing determinant data and operational data to assess how mailer preparation can impact the Postal Service's operational costs. Quantification of the cost savings and contribution impacts of the Postal Service operational strategies would facilitate the determination of whether the strategies improve Periodicals cost coverage and provide specific focus upon which strategies result in the greatest improvements.

In Chapter 7 of the *Periodicals Mail Study*, the Postal Service provided savings estimates for three operational strategies: implementing the FSS; moving flats up the automation ladder; and implementing the APBS.<sup>80</sup> Despite implementing these three strategies since the release of that report, the Periodicals financial results provide no evidence of cost savings

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<sup>78</sup> *See* FY 2009 ACD at 75; FY 2010 ACD at 94; FY 2011 ACD at 105-106; FY 2012 ACD at 95-97; FY 2013 ACD at 44-45; FY 2014 ACD at 40-41.

<sup>79</sup> *See, e.g.*, Responses to CHIR No. 4, questions 17; February 8, 2016, Responses to CHIR No. 7, question 7.b.

<sup>80</sup> *Periodicals Mail Study* at 95-96 (projecting savings of up to \$83 million by implementing Phase 1 of the FSS, \$49.5 million for moving Outside County Periodicals up the automation ladder, \$14 million annually by implementing the APBS).

from operational improvements. Moreover, the Postal Service has not quantified any resulting cost savings. As further discussed in Chapter 6, the Postal Service must use available data to develop metrics that will enable meaningful analysis of the cost savings and contribution impact of its operational strategies on Periodicals.

The Postal Service did not comply with the FY 2014 ACD requirements set forth by the Commission.

*Chapter 6 of this Report discusses the noncompensatory cost coverage for flat-shaped mail products. In that chapter, the Commission further expresses its concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flats. In Chapter 6, the Commission recommends the Postal Service take further action by preparing a plan for flats. All of the recommendations pertaining to reducing flats' costs apply to Periodicals.*

## 2. Standard Mail Flats

### a. Introduction

In FY 2015, Standard Mail Flats had a cost coverage of 80.3 percent.<sup>81</sup> As shown in Table III-5, cost coverage for Standard Flats declined substantially between FY 2008 and FY 2011, when it reached a low of 79.5 percent. In FY 2012 and FY 2013 the cost coverage improved but it began to decline again in FY 2014. The cost coverage continued to decline in FY 2015, and was the lowest cost coverage since FY 2011.

**Table III-5  
Standard Mail Flats Cost Coverage and Contribution, FY 2008–FY 2015**

Fiscal Year	Cost Coverage	Contribution (millions)
FY 2008	94.4%	-\$217.8
FY 2009	82.1%	-\$615.6
FY 2010	81.8%	-\$577.0
FY 2011	79.5%	-\$643.2
FY 2012	80.9%	-\$527.9
FY 2013	85.1%	-\$375.9
FY 2014	83.2%	-\$411.0
FY 2015	80.3%	-\$518.9
Total		\$3,887.3

Source: Library Reference PRC–LR–ACR2015/4.

<sup>81</sup> The Commission's cost coverage calculation differs from the Postal Service's because the Commission includes fees in the revenue for each product and the Postal Service does not.

The Postal Service states that the decrease in cost coverage was the result of three cost methodology changes that, together, increased unit cost by 0.99 cents, or 2.1 percent. FY 2015 ACR at 29-30.

The aggregate negative contribution in FY 2015 was also significantly greater than FY 2014. The Postal Service notes that the volume of Standard Mail Flats increased, which resulted in an increase in the aggregate contribution shortfall. *Id.* at 30-31.

In its review of the financial performance of Standard Mail Flats for FY 2015, the Commission must consider the Postal Service's compliance with its earlier FY 2010 ACD directive regarding Standard Mail Flats. Below, the Commission discusses this directive, the Postal Service's FY 2015 ACR response, and comments concerning financial performance of Standard Mail Flats for FY 2015. In Chapter 6 of this report, the Commission discusses further action regarding Standard Mail Flats.

b. FY 2010 ACD Directive for Standard Mail Flats

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

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

*Id.* at 107.

The Postal Service appealed the Commission's FY 2010 ACD findings and directive to the United States Court of Appeals for the District of Columbia Circuit. In *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105 (D.C. Cir. 2012), issued April 17, 2012, the court rejected the Postal Service's contention that the Commission acted outside of the scope of its statutory authority by considering the general standards of 39 U.S.C. § 101(d) in an ACD "at least in extreme circumstances." *Id.* at 1108. The court remanded the case to the Commission "for a definition of the circumstances that trigger [section] 101(d)'s failsafe protection, and for an explanation of why the particular remedy imposed here is appropriate to ameliorate that extremity ...." *Id.* at 1109. In response, the Commission

issued Order No. 1427, clarifying that its analysis of the circumstances that would trigger 39 U.S.C. § 101(d) depended on the totality of circumstances.<sup>82</sup>

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

c. Response to FY 2010 ACD Directive

In its FY 2015 ACR, the Postal Service reports that it plans to increase Standard Mail Flats prices by CPI multiplied by 1.05 in the next general market dominant price change. FY 2015 ACR at 18.

The Postal Service provides some of the information required by the Commission's FY 2010 ACD directive: a description of operational changes designed to reduce Standard Mail Flats costs, a description of all costing methodology changes made in FY 2015 that affect Standard Mail Flats costs, and the historical and current fiscal year subsidy of the Standard Mail Flats product. *Id.* at 18-31. However, the Postal Service did not fully comply with the FY 2010 directive in FY 2015. The Commission requires further necessary action by the Postal Service to quantify its efforts in Chapter 6 of this Report. Those items provided by the Postal Service are discussed below.

(1) Operational Changes Designed to Reduce Flats Cost

The Postal Service describes 10 new and ongoing operational steps taken during FY 2015 designed to make processing Standard Mail Flats more efficient:

- FSS Scorecard
- Move Mail Up the Ladder
- Bundle Operation
- Service Performance Diagnostics Tool
- High Speed Flats Feeder
- Lean Mail Processing
- FSS Mail Preparation
- Reduce Bundle Breakage
- Newspaper Kaizens
- Standard Mail Outgoing Mixed States

*Id.* at 18-28.

The Postal Service maintains that these initiatives are expected to improve efficiencies and productivities, as well as reduce overall Standard Mail Flats cost. *Id.* at 18. The Commission

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<sup>82</sup> Docket No. ACR2010-R, Order on Remand, August 9, 2012, at 4 (Order No. 1427).

issued several CHIRs to obtain a better understanding of these operational initiatives.<sup>83</sup> Each initiative is discussed below.

(a) FSS Scorecard

The Postal Service uses the FSS Scorecard to measure critical aspects of FSS performance at each processing location. FY 2015 ACR at 19. It asserts that the FSS Scorecard measures FSS performance at each processing location and allows the Postal Service to identify sites where performance can be improved. *Id.* In its discussion of the FSS Scorecard, the Postal Service explains that Mail Pieces At-Risk are those pieces that did not follow the prescribed path of sortation on the FSS and required additional handling.<sup>84</sup> The Postal Service estimates that these pieces could incur additional costs, ranging from 2.609 cents to 21.899 cents.<sup>85</sup> Table III-6 presents the FSS Scorecard data from FY 2012 through FY 2015. The table shows that since FY 2012, the throughput per hour<sup>86</sup> has decreased, while the Delivery Point Sequencing percentage<sup>87</sup> and Mail Pieces At-Risk percentages have shown some improvement. The Postal Service has neither provided costs savings associated with the FSS Scorecard, nor explained its failure to quantify such savings.

**Table III-6**  
**FSS Scorecard, FY 2012–FY 2015**

Performance Metric	FY 2012	FY 2013	FY 2014	FY 2015
Throughput per hour (PPH)	8,860	8,985	8,746	8,840
Delivery Point Sequence (DPS)	56.40%	57.90%	58.57%	59.99%
Mail Pieces At-Risk	6.01%	5.84%	6.15%	5.34%

Source: FY ACR2015 at 19; Docket No. ACR2013, Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 2, January 23, 2014, question 1 (Docket No. ACR2013, Responses to CHIR No. 2).

(b) Move Mail Up the Ladder

Since FY 2011, the Postal Service has identified Move Mail Up the Ladder as an operational initiative intended to reduce Standard Mail Flats cost. This initiative aims to decrease manual processing by increasing automation processing.<sup>88</sup> Table III-7 shows that, despite this initiative, the percentage of flats that are manually processed has increased each year since FY 2012.

<sup>83</sup> See e.g., Chairman's Information Request No. 2, January 8, 2016, questions 21-25 (CHIR No. 2); CHIR No. 4, questions 1, 3, 13-18; CHIR No. 7, questions 7-14; Chairman's Information Request No. 11, February 8, 2016, questions 1-10 (CHIR No. 11); CHIR No. 12, questions 1-14.

<sup>84</sup> See Responses to CHIR No. 4, question 13.

<sup>85</sup> February 8, 2016, Responses to CHIR No. 7, question 10.

<sup>86</sup> The productivity of automated processing operations is measured in throughput per hour (PPH), which measures the average volume processed per hour or machine run-time. This differs from the measure of processing productivity used in the cost avoidance model, Total Pieces Handled per workhour compares the processed volume with the employee workhours required for said processing.

<sup>87</sup> Delivery Point Sequencing is the term used by the Postal Service for a processing operation wherein volume is sequenced in the order that it will be delivered by carriers on their routes.

<sup>88</sup> See Docket No. ACR2012, Responses of the United States Postal Service to Questions 1-9 and 12-15 of Chairman's Information Request No. 1, January 14, 2013, question 1 (Docket No. ACR2012, Responses to CHIR No. 1).

**Table III-7**  
**Move Mail Up the Ladder, FY 2012–FY 2015**

	FY 2012	FY 2013	FY 2014	FY 2015
Flats Manually Processed	8.5%	9.4%	9.8%	10.0%

Source: FY ACR2015 at 20-21; Docket No. ACR2013, Responses to CHIR No. 2, question 1.

The Postal Service estimates the cost of manual processing for these pieces is \$158 million. *See* Responses to CHIR No. 4, question 14. In order to reduce manual sortation, the Postal Service plans to develop technology to bypass bundle sortation, redeploy flats sorting equipment to replace manual processing, and ensure proper mail flow compliance. *Id.* The Postal Service explains that some of the increase is due to decreasing flats volume, which reduces machine-compatible mail more than manual mail. FY 2015 ACR at 20. The Postal Service has neither quantified any cost savings associated with Move Mail Up the Ladder, nor explained its failure to quantify such savings. However, cost savings appear unlikely due to the increase in more costly manual processing.

(c) Bundle Operation

In FY 2014, the Postal Service began adding bins to the Automated Parcel and Bundle Sorter (APBS), which reduces the need for a secondary sortation. The Postal Service added 1,264 bins in FY 2014, and 3,520 bins in FY 2015. FY 2015 ACR at 21. The Postal Service invested \$12.9 million in FY 2015 for the 3,520 bins. *See* Responses to CHIR No. 4, question 15. The Postal Service asserts that it has focused on reducing manual handling of flats bundles rather than studying the associated cost savings. Therefore, the Postal Service did not quantify any cost savings associated with this operational initiative. *Id.*

(d) Service Performance Diagnostics Tool

Since FY 2012, the Postal Service has identified Service Performance Diagnostics (SPD) Tool as an operational initiative designed to reduce Standard Mail Flats costs. *See* Docket No. ACR2012, Responses to CHIR No. 1, question 1. This tool is used to track and improve the flow of Standard Mail through the network using scan data. FY 2015 ACR at 21. As part of the SPD platform, the Postal Service uses IMb scans to measure processing time. This aspect of the SPD platform is called the Work In Process (WIP) cycle time. The WIP cycle time measures the time between a mailpiece's arrival at the plant and bundle-to-piece distribution.<sup>89</sup> Table III-8 shows that the WIP cycle time increased for Standard Mail Flats in FY 2015.

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<sup>89</sup> The term WIP cycle time is also used by the Postal Service, on occasion, to refer to intermediate steps within the entire mail processing operation. *See* January 19, 2016, Responses to CHIR No. 2, question 22.

**Table III-8**  
**Service Performance Diagnostics Tool**  
**Median 5-Day Work In Process**  
**Standard Mail Flats, FY 2012–FY 2015**

Time Period from Service Performance Diagnostics	Median Hours
FY 2012 (Week ending 3/02/12-9/28/12)	52.4
FY 2013 (Week ending 10/19/12-9/27/13)	50.5
FY 2014 (Week ending 10/01/13-9/30/14)	49
FY 2015 (Week ending 10/01/14-9/30/15)	52

Source: FY ACR2015 at 22; Docket No. ACR2013, Responses to CHIR No. 2, question 1.

The Postal Service plans to reduce the WIP cycle time by decreasing the time between bundle and next process handling. *See* Library Reference USPS–FY15–29, December 29, 2015, at 14. The Postal Service has neither quantified any cost savings from this initiative, nor explained its failure to quantify such savings.

(e) High Speed Flats Feeder

The Postal Service asserts that High Speed Flats Feeder (HSFF) enables the FSS to process more delivery points in the same operating window, while decreasing the error rate. FY 2015 ACR at 23. The Postal Service introduced the HSFF in FY 2012. *See* Docket No. ACR2012, Responses to CHIR No. 1, question 1. The Postal Service explains that this initiative will lead to improved machine accept rates, improved machine throughput, and increased capacity of the FSS to sequence more mail. February 8, 2016, Responses to CHIR No. 7, question 11. In three tests of the HSFF, the Postal Service observed consistent productivity improvements over current feeder technology.<sup>90</sup> The Postal Service estimates that it will take it at least another year to develop reliable cost savings estimates for the initiative. February 8, 2016, Responses to CHIR No. 7, question 11.

(f) Lean Mail Processing

Lean Mail Processing (LMP) is an operational initiative which the Postal Service began implementing in FY 2013.<sup>91</sup> The LMP program is a standardized, statistical program for improving mail processing. FY 2015 ACR at 24. In FY 2015 the Postal Service deployed phases three and four of LMP. *Id.*<sup>92</sup> Phase three focuses on Automated Package Processing System (APPS) and APBS operations. *Id.* Phase four of LMP focuses on proactively problem

<sup>90</sup> *See* FY 2015 ACR at 23; Responses to CHIR No. 4, question 16.

<sup>91</sup> *See* Docket No. ACR2013, Responses to CHIR No. 2, question 1. Prior to FY 2013, the Postal Service sought to rely upon Lean Six Sigma (LSS) Improvements. *See* Docket No. ACR2011, Responses of the United States Postal Service to Questions 1, 3-6, 8-27, 29-37, and 39-42 of Chairman's Information Request No. 1, January 27, 2012, question 9 (Docket No. ACR2011, Responses to CHIR No. 1); Docket No. ACR2012, Response to CHIR No. 1, question 1.

<sup>92</sup> "[P]hase one and two focused on foundational efforts affecting all mail processing operations, including flats." *Id.*

solving when discrepancies are first detected.<sup>93</sup> *Id.* The Postal has neither quantified any cost savings from the LMP initiative, nor explained its failure to quantify such savings.

(g) FSS Mail Preparation

The FSS Mail Preparation operational initiative has been cited by the Postal Service since FY 2011. *See* Docket No. ACR2011, Responses to CHIR No. 1, question 9. In FY 2015, the Postal Service explains that FSS Scheme bundle preparation requirements result in more uniform bundles, which enable more efficient FSS processing for the Postal Service. FY 2015 ACR at 25. In addition, FSS Scheme pallet requirements allow pallets to bypass bundle distribution on the APPS/APBS, which reduces bundle breakage. *Id.* at 26. The Postal Service asserts that FSS Scheme pallets reduce transportation expenses and improve service. *Id.* However, the Postal Service has been unable to measure the cost impact of FSS Scheme pallets and FSS Scheme bundles.<sup>94</sup> The Postal Service asserts that it cannot quantify the cost savings of FSS Scheme pallet preparation because it would require “knowledge of the preparation of the mail in the absence of the FSS Scheme pallet preparation requirement.” *See* Responses to CHIR No. 4, question 17.

(h) Reduce Bundle Breakage

In FY 2015, the Postal Service continued to study the causes and impact of bundle breakage. FY 2015 ACR at 27. The Postal Service asserts that bundle breakage results in higher mail processing cost. *Id.* The Postal Service is working with the Mailers Technical Advisory Committee (MTAC), Mail Service Providers (MSPs) to find solutions to reduce bundle breakage. In FY 2015, the Postal Service completed a Lean Six Sigma (LSS) project to determine the best method to minimize bundle breakage.<sup>95</sup> The Postal Service now identifies broken bundles when three or more Intelligent Mail barcodes (IMbs) for pieces in a bundle are scanned on Postal Service bundle sorting equipment. *See* Responses to CHIR No. 4, question 18. In addition, the Postal Service is evaluating DMM requirements to determine if revisions to bundle preparation are required to mitigate bundle breakage. *Id.* The Postal Service has neither quantified any cost savings associated with its bundle breakage operational initiative, nor explained its failure to quantify such savings.

(i) Newspaper Kaizens and Standard Mail Outgoing Mixed States

In FY 2015, the Postal Service added Newspaper Kaizens and Standard Mail Outgoing Mixed States as new steps to make processing Standard Mail Flats more efficient. FY 2015 ACR at 27-28. The Postal Service explains that Newspaper Kaizens are being used to identify root causes of bottlenecks and determine the lead time of the process. *Id.* at 28. One primary outcome of the Kaizen events is the development of a standard workflow for Periodicals. *See* February 17, 2016, Responses to CHIR No. 12, question 2. The Postal Service has not yet finalized the standard workflow, but will release it at a later date to replace the current standard operating procedure. *Id.*

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<sup>93</sup> Personnel visually track real-time performance and take appropriate actions to ensure operational goals are met. *Id.*

<sup>94</sup> *See* February 18, 2016, Response to CHIR No. 12, question 11; February 8, 2016, Responses to CHIR No. 7, question 7.

<sup>95</sup> The Postal Service completed the LSS project in June 2015. *See* Responses to CHIR No. 4, question 18.

The Postal Service also identifies Standard Mail Outgoing Mixed States as an initiative meant to ensure that the mixed states processing facilities are aligned with NDC network facilities. This initiative has led the Postal Service to correct labeling lists to ensure that processing facilities are aligned with NDC networks. *See* February 17, 2016, Responses to CHIR No. 12, question 7. The Postal Service has not quantified any projected cost savings from these operational initiatives.

(j) Flat Recognition Improvement Program

The FY 2015 ACR no longer lists the Flat Recognition Improvement Program (FRIP), which was an operational initiative described by the Postal Service in its FY 2014 ACR that was intended to reduce flats cost.<sup>96</sup> The goal of the FRIP was to increase address recognition and reduce error rates thereby improving customer service and reducing hours spent on keying. *Id.* The Postal Service claims the FRIP initiative decreased annual workhours by 350,000 through improved Optical Character Reader (OCR) finalization and depth-of-sort rates. *See* February 17, 2016, Responses to CHIR No. 12, question 13. Improved recognition and reduced error rates saved the Postal Service 34,000 annual workhours.<sup>97</sup> *Id.*

Each of the operational initiatives discussed above was intended to reduce Standard Mail Flats costs. Although the FY 2010 ACD directive requires the Postal Service to provide an estimate of the financial effect of its operational initiatives, the Postal Service has not done so. While the Postal Service developed a projected cost savings before implementation of the program, it did not verify its projections or compare to actual results. Instead, it states that it “is unable to provide an estimate of the financial impacts of these operational initiatives at this time.” FY 2015 ACR at 19.

(2) Costing Methodology Changes in FY 2015

The Postal Service identifies three costing methodology changes that affected Standard Mail Flats costs in FY 2015: Docket No. RM2015-7, Proposal Thirteen (Updating City Carrier Street Time Cost Model); Docket No. RM2015-19, Proposal Ten (merging cost Segment 4 with Cost Segment 3); and Docket No. RM206-3, Proposal Twelve (change in methodology for City Carrier Letter Route Vehicle Use Costs). *Id.* at 29. It asserts that these methodology changes accounted for a 0.99 cent increase, or 2.1 percent increase, in the unit attributable cost for Standard Mail Flats in FY 2015. *Id.*

(3) Historical and Current Fiscal Year Subsidies

The Postal Service provides the historical and current fiscal year subsidy of the Standard Mail Flats product. *Id.* at 30. However, it does not provide a timeline for phasing out the subsidy, and asserts that it is difficult to predict when the shortfall for the product will be phased out. *Id.* It also states that it is unlikely that the shortfall will be eliminated by the end

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<sup>96</sup> *See* Docket No. ACR2014, Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015, Attachment A at 8-9.

<sup>97</sup> The Postal Service tested “150,000 flat mail images collected from machines nationwide to represent the nation’s flat mail base” to estimate FRIP performance. *See* Responses of the United States Postal Service to Questions 1-4 of Chairman’s Information Request No. 16, February 29, 2016 (Responses to CHIR No. 16, question 1).

of 2016, when the Commission commences its review of the rate system, and that “[t]he prospects for eliminating the shortfall thereafter will depend not only on pricing and cost saving initiatives, but also on any changes made to applicable regulations by the Commission.” *Id.* The Postal Service notes that the FY 2015 Standard Mail Flats shortfall is less than what it was when the shortfall peaked in FY 2011. *Id.*

d. Comments on Standard Mail Flats

The Commission received comments from the American Catalog Mailer Association (ACMA),<sup>98</sup> Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. (Valpak),<sup>99</sup> Association for Postal Commerce (PostCom),<sup>100</sup> and the Public Representative regarding the financial performance of Standard Mail Flats in FY 2015. The Postal Service, ACMA, Valpak, and PostCom filed Reply Comments.<sup>101</sup> The comments generally address Standard Mail pricing, Standard Mail Flats cost, and compliance with the Commission’s Standard Mail Flats FY 2010 ACD directive.

(1) Standard Mail Pricing

PostCom states that FSS-related price structure changes made in Docket No. R2015-4 have caused the migration of Carrier Route flats to Standard Mail Flats and the increase in total negative contribution for FY 2015. PostCom asserts that the price structure changes introduced in FY 2015 were established in a vacuum without regard to achieving the lowest combined cost for the Postal Service and mailers. PostCom Comments at 8. Similarly, Valpak asserts that FSS pricing has failed to improve cost coverages. Valpak Comments at 13-14.

In response to these claims, the Postal Service contends that its pricing strategy is an efficient one because any cost advantages of Carrier Route Flats disappear for pieces destined for FSS Zones and there is limited value in having mail sorted to Carrier Route in FSS zones. USPS Reply Comments at 8.

Valpak highlights that the exigent surcharge will likely be removed in FY 2016, which will reduce unit revenues and cause the Standard Mail Flats cost coverage to decline further. Valpak Comments at 11. Valpak estimates that the Standard Mail Flats cost coverage would have dropped to 77.0 percent if exigent surcharge revenue was eliminated from the FY 2015 Standard Mail Flats cost coverage calculation. *Id.* at 13.

ACMA critiques Valpak’s analysis by noting that Valpak did not take into account the fact that the FY 2015 price adjustment was only in effect for 4 months, and that there will likely

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<sup>98</sup> Initial Comments of the American Catalog Mailers Association, February 2, 2016 (ACMA Comments).

<sup>99</sup> Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. Initial Comments on the United States Postal Service FY 2015 Annual Compliance Report, February 2, 2016 (Valpak Comments).

<sup>100</sup> Initial Comments of the Association for Postal Commerce, February 2, 2016 (PostCom Comments).

<sup>101</sup> Reply Comments of the American Catalog Mailers Association, February 12, 2016 (ACMA Reply Comments); Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. Reply Comments on the United States Postal Service FY 2015 Annual Compliance Report, February 12, 2016 (Valpak Reply Comments); Reply Comments of the Association for Postal Commerce, February 12, 2016 (PostCom Reply Comments).

be an increase in volume if the exigent surcharge is removed. ACMA Reply Comments at 5. ACMA also estimates that if the commercial portions of Carrier Route and Standard Mail Flats were combined, the resulting cost coverage would have been 108.9 percent. ACMA Initial Comments at 3.

Valpak urges the Postal Service to improve its cost accuracy in order to develop economically efficient price signals. Valpak Comments at 24. Valpak asserts that pricing should not be detached from costing and encourages the Commission to ensure that the Postal Service does not ignore costs when setting prices. *Id.* at 25. Valpak contends that at present, the Postal Service is sending inefficient pricing signals. It also claims that Standard Mail pricing violates 39 U.S.C. § 101(d), which requires postal rates “apportion the costs of all postal operations to all users of the mail on a fair and equitable basis.” It highlights that the contribution gap between Standard Mail Flats and all other profitable Standard Mail products has widened since FY 2013. Valpak Comments at 17-19.

Valpak argues further that the Postal Service should be directed to adopt elasticity based marginal cost pricing for all Standard Mail products, which would result in contribution losing products receiving substantial price increases, while products with high elasticities and high contribution would receive minimal price adjustments. *Id.* at 35-36. It urges the Commission to reconsider evaluating Postal Service’s pricing based on the model it initially proposed in Docket No. ACR2013. *Id.* at 37. It asserts that the model can develop many contribution increasing alternatives, including the maximum contribution obtainable with a given price cap. *Id.*

The Postal Service criticizes the Valpak model because it does not assume autonomous decline of Standard Mail Flats volume. USPS Reply Comments at 5. The Postal Service believes the Christensen Contribution Model is a more reasonable contribution maximizing model because it does take into account the autonomous decline of Standard Mail Flats volume.<sup>102</sup> *Id.*

The Postal Service states that it has considered the effects of its pricing policies on total contribution, in both the long run and the short run. USPS Reply Comments at 2-4. The Postal Service states that in a price cap environment, there are many tradeoffs that it must consider when pricing its products. *Id.* It maintains that Valpak’s suggested remedy of a dramatic increase for Standard Mail Flats risks harmful long run contribution impacts and rate shock for Flats mailers. *Id.* at 6.

## (2) Standard Mail Flats Cost

Valpak notes that Standard Mail Flats unit cost increased in FY 2015 and suggests that another unit cost increase in FY 2016 is a distinct possibility. Valpak Comments at 6. In their reply comments, both the Postal Service and ACMA argue that the main drivers of the

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<sup>102</sup> In Docket No. ACR2012 the Postal Service provided Christensen Associates Scenario Analysis for Standard Mail Contribution, Library Reference USPS-FY12-43, December 12, 2012. The Postal Service asserts this model shows that there are pricing paths which may be contribution-maximizing in the short run that may not be contribution-maximizing in the long run in a price cap environment. USPS Reply Comments at 3.

cost increases in FY 2015 were cost methodology changes. USPS Reply Comments at 12-13; ACMA Reply Comments at 3.

Valpak expresses concern over the transfer of profitable Carrier Route pieces to Standard Mail Flats and the introduction of FSS discounts, which were initially touted as cost saving measures but have not improved Standard Mail Flats' cost coverage. Valpak Comments at 13-14. ACMA contends that before the rates for Standard Mail Flats are increased, a better understanding is needed of why the transfer of Carrier Route pieces to Standard Mail Flats has worsened cost coverage and whether the FSS will reach its true potential. ACMA Comments at 9.

In addressing claims that the FSS does not reduce delivery cost, the Postal Service asserts that delivery cost is lower in FSS zones, compared to non-FSS Zones. USPS Reply Comments at 13. In its February 8, 2016, Responses to CHIR No.7, question 7, the Postal Service estimates that the City In-Office unit cost for Standard Mail Flats in FSS zones is 4.4 cents, while the City In-Office unit cost for Standard Mail Flats in non-FSS zones is 11.8 cents. The Postal Service does not provide a cost savings estimate for the FSS that encompasses both delivery and mail processing cost.

PostCom also raises several concerns related to costs. PostCom Comments at 2-11. First, it asserts that bundle breakage is increasing flat-shaped mail processing costs, because bundles are being handled on parcel sorting equipment. *Id.* at 3. Second, it reiterates that the Postal Service's cost reduction strategies do not reduce overall cost.<sup>103</sup> *Id.* at 4-7. Third, it expresses concern over the volatility of unit attributable costs of multiple products across multiple cost segments. *Id.* at 7-9. Fourth, it is troubled by large changes in avoided cost estimates that impact workshare discounts. *Id.* at 9-11. Fifth, PostCom requests "the PRC [to] commence a dialogue to ensure that incumbent costing methodologies are not being used solely to prop up and support an infrastructure and costs that may no longer be justified." *Id.* at 11.<sup>104</sup>

The Postal Service responds to PostCom's concerns by asserting that cost volatility is primarily a result of cost methodology changes and statistical variation due to relatively small unit costs. USPS Reply Comments at 11-13. The Postal Service also explains that pricing incentives have been instituted to encourage mail to bypass bundle operations in an effort to reduce bundle cost. *Id.* at 10. PostCom argues that the Postal Service should develop tools to replace In-Office Cost System (IOCS) sampling data with IMb data, which would likely reduce year-to-year variability in costs. PostCom Reply Comments at 8.

PostCom also asserts that FSS Scheme pallets, which have a minimum 250 pound weight requirement, create inefficiencies. PostCom Comments at 3. It claims that pallets are most-effective when fully utilized. *Id.* The Postal Service replies that increased pallet weight

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<sup>103</sup> See Docket No. ACR2014, Initial Comments of the Association of Postal Commerce, February 2, 2015, at 2.

<sup>104</sup> Should PostCom wish to pursue this suggestion, it may petition the Commission to consider such issues in an appropriate proceeding, such as a rulemaking docket.

would cause an increase in bundle sortations, which would further increase cost. USPS Reply Comments at 9-10. The Postal Service also notes that FSS Scheme pallets provide mailers with multiple benefits, including the opportunity to dropship to a DFSS site and to take advantage of later critical entry times (CET). *Id.*

(3) Compliance with the Commission's Standard Mail Flats  
FY 2010 ACD Directive

Valpak argues that the same factors used in FY 2010 to find Standard Mail Flats out of compliance still exist today. Valpak Comments at 3. It asserts that because improvements in costs have not been made, the Commission should consider issuing an order requiring a dramatic price increase for Standard Mail Flats. *Id.* at 23.

The Public Representative also states that he cannot conclude that the Postal Service followed the Commission's FY 2010 directive, because it has not been able to quantify the financial impact of its cost savings initiatives. PR Comments at 33. Similarly, PostCom contends that the Postal Service's cost reduction strategies need additional reporting and oversight. PostCom Comments at 4.

(4) Other Issues

ACMA contends that, with the possible exception of Saturation Flats, Standard Mail commercial flats are already overpriced because they are already at, or above, the "stand-alone constraint."<sup>105</sup> ACMA asserts that, but for the mailbox rule and what ACMA characterizes as the limited constraint of the Private Express Statutes, a private delivery company would deliver commercial flat pieces because Postal Service's prices are already above stand-alone cost. *Id.* at 6. In response to ACMA's analysis, Valpak asserts that the scenario where the mailbox rule is relaxed is not based in reality. Valpak Reply Comments at 4-5.

e. Commission Analysis

The cost coverage for Standard Mail Flats was 80.3 percent in FY 2015, down from 83.2 percent in FY 2014. The FY 2015 cost coverage is only 0.8 percentage points higher than the lowest recorded cost coverage for Standard Mail Flats (79.5 percent in FY 2011). As shown in Table III-9, the rise of unit cost and the decline in unit revenue reduced unit contribution to an all-time low of -9.9 cents in FY 2015.

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<sup>105</sup> "Stand-alone constraint" is a term used by ACMA to refer to the constraint that the stand-alone costs of a competitor's service would arguably place on Postal Service prices thereby protecting mailers from overpricing and the subsidization of other mail products. See ACMA Initial Comments at 5-6. To support its position, ACMA cites the testimony of Mr. William J. Baumol on behalf of the Postal Service in Docket No. R87-1. *Id.*

**Table III-9  
Standard Mail Flats Unit Contribution, FY 2008–FY 2015**

<b>Fiscal Year</b>	<b>Unit Revenue (cents)</b>	<b>Unit Cost (cents)</b>	<b>Unit Contribution (cents)</b>
FY 2008	36.7	38.9	-2.2
FY 2009	36.9	44.8	-7.9
FY 2010	36.6	44.8	-8.2
FY 2011	36.8	46.3	-9.5
FY 2012	37.6	46.5	-8.9
FY 2013	38.4	45.2	-6.8
FY 2014	40.4	48.5	-8.1
FY 2015	40.2	50.1	-9.9

Source: Library Reference PRC–LR–ACR2015/4.

The Commission recognizes that a portion of the unit cost increases between FY 2014 and FY 2015 are a result of recent cost methodology changes. Had these methodology changes been in effect in prior years, unit cost for Standard Mail Flats would have been higher in those years and cost coverages would have been lower than reported. This would have, in turn, raised further questions regarding the adequacy of the cost reduction strategies employed by the Postal Service since FY 2011. Looking forward, it appears that unless the Postal Service aggressively cuts costs in FY 2016, sizeable contribution shortfalls are likely to continue.

During FY 2015, the Postal Service took several steps to address this continuing and growing cost coverage shortfall. Those steps included above-CPI price increases in the most recent Market Dominant price adjustment proceeding and operational initiatives to reduce costs. Nevertheless, the cumulative shortfall in contribution from FY 2008 through FY 2015 has grown to \$3.9 billion.<sup>106</sup>

In FY 2015, the Commission approved a 2.549 percent price adjustment for Standard Mail Flats, which was 0.623 percentage points higher than the 1.926 percent price cap. This price adjustment exceeded the minimum of CPI x 1.05 that the Postal Service proposed in response to the FY 2010 ACD directive. As part of this price adjustment, the Postal Service implemented a new FSS price structure for Standard Mail Flats to encourage the preparation of more Flats mail for FSS processing.<sup>107</sup> Unlike FY 2015, this new price structure will be in effect for all of FY 2016, which should allow the Postal Service and the Commission to assess the Postal Service's ability to reduce mail processing cost with the

<sup>106</sup> In FY 2015, unit revenues decreased less than 1 percent, despite an influx of lower priced FSS pieces. Unit revenues remain above FY 2013 levels partially due to the exigent surcharge. However, in FY 2015 unit cost increased despite operational initiatives designed to reduce costs, and a greater percentage of lower cost FSS mail volume.

<sup>107</sup> Docket No. R2015-4, United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015, at 14-15, 22-23 (Docket No. R2015-4 Notice).

new pricing structure. However, it is important to note that in FY 2016 the exigent surcharge will likely be removed, reducing revenue for the Standard Mail Flats product, and likely reducing the overall cost coverage.

*The Commission finds that minimal progress is being made toward addressing the issues it raised in the FY 2010 ACD. The Postal Service did not fully comply with the FY 2010 directive in FY 2015. The Commission requires further necessary action by the Postal Service to quantify its efforts in Chapter 6 of this Report. However, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by proposing above average price increases for Standard Mail Flats, striving to reduce Standard Mail Flats cost, and providing the required documentation of those efforts in future Annual Compliance Reports.*

Furthermore, although the Postal Service described new and ongoing operational initiatives employed during FY 2015 to make processing Standard Mail Flats more efficient, it was not able to quantify the financial effects of these initiatives. Cost savings programs or initiatives generally target one or more specific activities to produce cost savings. As the Commission has stated in previous ACDs, the Postal Service's cost saving initiatives should have specific and measurable targets by which the benefits of the program can be evaluated. See FY 2012 ACD at 116, FY 2013 ACD at 54, and FY 2014 ACD at 48. The Commission remains concerned that the Postal Service has not quantified the cost savings from operational changes designed to reduce Standard Mail Flats cost.

Through issuance of several CHIRs, the Commission sought details on the operational initiatives implemented by the Postal Service to reduce flats' cost. The Commission also explored available data that could better identify, and potentially solve, costing issues related to flats.<sup>108</sup> The Postal Service has responded with some data that could provide increased transparency into issues surrounding flats. For example, in its February 19, 2016, Responses to CHIR No. 12, question 12, the Postal Service explains that it has the capability to track flat-shaped mailpieces with the Intelligent Mail Accuracy and Performance System (IMAPS). It also stated that the Mail History Tracking System (MHTS) can be used to validate that the cost avoidance model reflects the predominant flows for flats. The Postal Service is considering replacing mail flow data in the cost avoidance models with data from IMAPS and MHTS. However, the Postal Service is concerned about the accuracy and completeness of IMAPS and MHTS data, along with other potential limitations of the data. *Id.* Leveraging this data to ensure cost avoidance models are accurate could lead to more accurate costing information for setting workshare discounts, which could lead to improved cost coverage for the product.

*Chapter 6 of this Report discusses the noncompensatory cost coverage for flats products. In that chapter, the Commission further explains its concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce cost for flats. In Chapter 6, the Commission recommends the Postal Service take further action by preparing a report on flats.*

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<sup>108</sup> See e.g., CHIR No. 2, questions 21-25; CHIR No. 4, questions 1, 3, and 13-18; CHIR No. 7, questions 7-14; CHIR No. 11, questions 1-10; and CHIR No. 12, questions 1-14.

All the recommendations pertaining to reducing flats cost in Chapter 6 apply to Standard Mail Flats.

### 3. Standard Mail Parcels

In FY 2015, Standard Mail Parcels had a cost coverage of 73.4 percent, up 3.2 percentage points from FY 2014.<sup>109</sup> In FY 2015, volumes for Standard Mail Parcels decreased by 8.2 percent. Additionally, unit revenue decreased by 0.7 percent and unit attributable cost decreased by 5.0 percent compared with FY 2014. This resulted in a 7.0 cent increase in unit contribution in FY 2015 compared with FY 2014.

The Postal Service explains that it has proposed above-average price increases for Standard Mail Parcels in recent Market Dominant price adjustments. FY 2015 ACR at 16. However, it states that the realignment and reclassification of Parcels in the Standard Mail class since FY 2012 has resulted in the remaining Standard Mail Parcels product retaining a significantly higher proportion of nonprofit Parcels, thereby driving down the product's cost coverage.<sup>110</sup> *Id.*

Table III-10 displays the unit revenue, unit attributable cost, unit contribution, cost coverage, and volume for Standard Mail Parcels from FY 2012 to FY 2015. It shows that while unit revenue and unit attributable cost decreased from FY 2014 to FY 2015, there have been overall large increases since FY 2012.

**Table III-10**  
**Standard Mail Parcels Financial Comparison, FY 2012–FY 2015**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2012 to FY 2015 Change	FY 2014 to FY 2015 Change
Unit Revenue	\$0.952	\$1.034	\$1.094	\$1.086	14.2%	-0.7%
Unit Attributable Cost	\$1.113	\$1.524	\$1.557	\$1.480	32.9%	-5.0%
Unit Contribution	-\$0.161	-\$0.489	-\$0.464	-\$0.393	-143.9%	15.2%
Cost Coverage	85.5%	67.9%	70.2%	73.4%	-14.1%	4.5%
Volume	303,558,642	71,966,232	65,845,949	60,420,263	-80.1%	-8.2%

Source: Library Reference PRC–LR–ACR2015/4.

<sup>109</sup> The Commission's calculated cost coverage differs from the Postal Service's because the Commission includes fees in the revenue for each product and the Postal Service does not.

<sup>110</sup> On January 22, 2012, a large portion of the Standard Mail Parcels product was transferred to the competitive product list. See Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011 (Order No. 689); Docket No. CP2012-2, Order Approving Changes in Rates of General Applicability for Competitive Products, December 21, 2011 (Order No. 1062). Simultaneously, a portion of the remaining Parcels product became Marketing Parcels with different mailing standards. See Docket No. R2012-3, United States Postal Service Notice of Market-Dominant Price Adjustment, October 18, 2011, at 19-22.

Table III-11 displays the distribution of commercial and nonprofit volume for Standard Mail Parcels from FY 2012 and FY 2015. The proportion of nonprofit mail is 4.5 times greater in FY 2015 than FY 2012.

**Table III-11**  
**Standard Mail Parcels Commercial to Nonprofit Volume Distributions, FY 2012 and FY 2015**

	FY 2012	FY 2012 Distribution	FY 2015	FY 2015 Distribution
Commercial Volume	285,925,057	94.2%	44,660,805	73.9%
Nonprofit Volume	17,633,585	5.8%	15,759,458	26.1%
<b>Total Volume</b>	<b>303,558,642</b>	<b>100.0%</b>	<b>60,420,263</b>	<b>100.0%</b>

Source: Library Reference PRC-LR-ACR2015/4.

Table III-12 demonstrates the unit costs for commercial and nonprofit Standard Mail Parcels. It shows unit costs of nonprofit mail are much higher than commercial (\$2.11 compared to \$1.26). Therefore, a higher proportion of nonprofit pieces leads to higher costs and lower revenue for the Standard Mail Parcels product.

**Table III-12**  
**Standard Mail Parcels Commercial to Nonprofit FY 2015 Unit Cost Estimates**

	FY 2015 Volume	FY 2015 Cost	FY 2015 Unit Cost
Commercial Parcels	44,660,805	56,128,392	\$1.26
Nonprofit Parcels	15,759,458	33,274,091	\$2.11
<b>Parcels</b>	<b>60,240,263</b>	<b>89,402,483</b>	<b>\$1.48</b>

Source: Library Reference PRC-LR-ACR2015/4.

Together, these tables illustrate the effect of Parcels realignment and reclassification on the financial performance of Standard Mail Parcels since FY 2012.

To improve Standard Mail Parcels' cost coverage, the Postal Service states that it will continue proposing above-average price increases. FY 2015 ACR at 17. Most recently, in Docket No. R2015-4, the Commission approved a price increase for Standard Mail Parcels of 9.3 percent, more than 7 percentage points higher than the average price increase for Standard Mail. *See* Order No. 2472 at 33.

The Public Representative affirms that the Postal Service has proposed above average price increases for Standard Mail Parcels in an effort to improve the product's cost coverage. PR Comments at 30. However, he suggests that the Commission require the Postal Service to improve the productivity of Standard Mail Parcels as well. *Id.*

*The Commission finds that FY 2015 revenue for Standard Mail Parcels was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage*

*through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Standard Mail Parcels.*

#### 4. Media Mail/Library Mail

In FY 2015, Media Mail/Library Mail had a cost coverage of 76.23 percent, a 17.77 percentage point decrease compared with FY 2014.<sup>111</sup> Unit contribution decreased 90.4 cents per piece from FY 2014 to FY 2015. *Id.* FY 2015 was the ninth consecutive year that Media Mail/Library Mail did not generate sufficient revenues to cover attributable costs. The Postal Service pursued a policy of above-average price increases for Media Mail/Library Mail and stated its intent to continue that policy. FY 2015 ACR at 47. Table III-13 shows the history of price increases for Media Mail/Library Mail under the PAEA.

**Table III-13**  
**Media Mail/Library Mail**  
**Price Adjustment vs. Price Adjustment Authority**

Docket No.	Price Adjustment	Price Adjustment Authority (Price Cap)
R2008-1	4.538%	2.900%
R2009-2	7.468%	3.800%
R2011-2	1.964%	1.741%
R2012-3	2.581%	2.133%
R2013-1	3.469%	2.570%
R2013-10	2.061%	1.696%
R2015-4	2.197%	1.966%

Source: Library Reference PRC-LR-ACR2015/6.

The Public Representative notes that Media Mail/Library Mail has not covered its attributable cost for nine consecutive years, and notes the substantial decrease in the product's cost coverage in FY 2015 compared with FY 2014. PR Comments at 39. Furthermore, he points out that the Postal Service credited the increase in unit cost to a large change in certain cost factors. He believes that the Postal Service should provide a comprehensive costing analysis of Media Mail/Library Mail and develop a plan to minimize impact on cost coverage. *Id.* at 39-40. He supports the Postal Service's intent to continue improving the cost coverage over time through above average price increases. *Id.* at 40.

Media Mail/Library Mail did not cover its attributable cost or make a contribution to institutional cost in FY 2015. While these results are not consistent with cost coverage requirements in 39 U.S.C. § 3622(c)(2), the Commission must also consider the 9 objectives and 14 factors in their totality, such as the pricing factor outlined in 39 U.S.C. § 3622(c)(11). This factor, which is especially relevant to Media Mail/Library Mail, requires the Commission to consider the ECSI value to the recipient of the mail matter.

<sup>111</sup> See Library Reference PRC-LR-ACR2015/1, Excel file "Summary\_LR1\_FSS Adj."

Moreover, the Postal Service used its pricing flexibility, including in the most recent Market Dominant price adjustment, to implement above-inflation price increases for Media Mail/Library Mail for the purpose of bringing its revenues closer to 100 percent cost coverage. Docket No. R2015-4 Notice at 29.

*The Commission finds that FY 2015 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail.*

## 5. Stamp Fulfillment Services

The Stamp Fulfillment Services (SFS) product provides for the fulfillment of stamp orders placed by mail, phone, fax, or online to the Stamp Fulfillment Services Center in Kansas City, Missouri. It was added to the *Mail Classification Schedule* as a Market Dominant product in FY 2010. Cost has exceeded revenue and cost coverage has been below 100 percent each year since its introduction. However, cost coverage improved substantially since FY 2012, showing increases each year. See Table III-14.

**Table III-14**  
**Stamp Fulfillment Services Cost Coverage, FY 2010–FY 2015**

Fiscal Year	Revenue	Attributable Cost	Cost Coverage
FY 2010	\$3,069,349	\$5,778,908	53.1%
FY 2011	\$3,126,445	\$5,238,523	59.7%
FY 2012	\$3,298,493	\$5,566,808	59.3%
FY 2013	\$4,088,070	\$5,059,104	80.8%
FY 2014	\$3,501,067	\$4,253,758	82.3%
FY 2015	\$3,910,286	\$4,595,697	85.1%

Source: Library Reference PRC–LR–ACR2015/7.

The cost coverage for FY 2015 was the highest cost coverage for SFS since its introduction.<sup>112</sup> The Postal Service states that it continues to agree with the FY 2012 ACD which stated that SFS “promotes the objectives of reducing costs and increasing efficiency.” FY 2015 ACR at 53.

*The Commission finds that FY 2015 revenue for SFS were not sufficient to cover attributable cost. However, the financial performance of SFS does not entirely capture the value that the Services Center adds to the Postal Service and to other Postal Service products. Although SFS*

<sup>112</sup> Although the Postal Service originally stated that cost coverage was 59.1 percent in 2015, it corrected this figure to 85 percent in its January 15, 2016, Responses to CHIR No. 2, question 1.

*does not cover its attributable cost, the Services Center promotes the objectives of reducing cost and increasing efficiency. See 39 U.S.C. §§ 3622(b)(1) and (c)(12).*

## 6. Inbound Letter Post

The Inbound Letter Post product consists of international mail that originates in foreign countries and is delivered in the United States.<sup>113</sup> Foreign postal operators reimburse the Postal Service for delivering Inbound Letter Post items at prices, called terminal dues, which are set by the Universal Postal Union (UPU).<sup>114</sup> *Id.* at § 1130.6. The Postal Service also enters into bilateral and multilateral agreements with foreign postal operators for the entry of Letter Post at negotiated rates.

### a. Inbound Letter Post

In FY 2015, revenue for the Inbound Letter Post product improved, but still did not cover attributable cost. In FY 2015, cost coverage was 71.9 percent, whereas cost coverage in FY 2014 was 70 percent. Notwithstanding this improvement in cost coverage, the negative contribution from this product increased from \$74.8 million in FY 2014 to \$97.9 million in FY 2015. FY 2015 ACR at 8.

The changes in cost coverage and contribution from FY 2014 through FY 2015 reflected a 9.1 percent increase in total unit revenue and a 6.2 percent increase in total unit cost. The Postal Service states that although inbound revenue from target system countries<sup>115</sup> at UPU rates increased 12 percent, unit cost increased 7 percent.<sup>116</sup> Response to CHIR No. 4, question 19.

The Postal Service explains that the “failure of Inbound Letter Post to cover its attributable costs stems from the product’s unique pricing regime.” FY 2015 ACR at 9. Prices are set according to a UPU terminal dues formula, which is based upon a percentage of the 1-ounce retail Single-Piece First-Class Mail price for most mail. *Id.* For the remainder of the mail, prices are based on a set rate per kilogram instead of actual Postal Service costs.<sup>117</sup> *Id.* Thus, the Postal Service maintains that it does not “independently determine the prices [paid by foreign postal operators] for delivering foreign origin mail” in the United States. *Id.* The Postal Service further observes that a decline in the exchange rate is the source of the majority of the additional loss year-over-year. The U.S. Dollar – Special Drawing Right (SDR) exchange rate declined 7.5 percent in FY 2015. Response to CHIR No. 4, question 19.

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<sup>113</sup> *Mail Classification Schedule*, Section 1130.1a. “Letter Post” refers to international mail that is not classified as Parcel Post or Express Mail. It consists of mail items similar to domestic First-Class Mail, Periodicals, Standard Mail, BPM, and Media Mail/Library Mail, weighing up to 4.4 pounds (2 kilograms).

<sup>114</sup> The UPU is a United Nations technical agency comprising 192 member countries, including the United States. Member countries negotiate international agreements governing the exchange of international mail, including applicable rates for the delivery of international mail. Terminal dues are also referred to as default UPU rates, because they apply in the absence of an agreement between or among postal operators establishing other rates.

<sup>115</sup> Target system countries are mainly industrialized countries.

<sup>116</sup> Factors such as exchange rate fluctuations, increases in inbound volume, and the growth of small package volume from transition system countries may also increase cost.

<sup>117</sup> The formula is renegotiated at a UPU Congress every 4 years.

The Commission recognizes that the pricing regime for the Inbound Letter Post product, based upon the current UPU formula, resulted in noncompensatory terminal dues. As a result, domestic mailers continue to subsidize the entry of Inbound Letter Post by foreign mailers who use the same postal infrastructure but bear none of the burden of contributing to its institutional cost. Because UPU terminal dues rates are not equivalent to domestic postage rates in the destination country, the Commission considers them discriminatory. Copenhagen Economics recently quantified the impact of noncompensatory terminal dues in a report in 2015.<sup>118</sup>

The United States has played an active role in UPU terminal dues negotiations to address the issue of noncompensatory terminal dues. In 2012, this led to the adoption of a more compensatory terminal dues formula which established an annual 13 percent increase in the Postal Service's terminal dues revenue from target system countries. This formula was effective January 1, 2014, and will continue through calendar year (CY) 2017. Continued terminal dues increases, if accompanied by cost control, should have a positive effect on Inbound Letter Post revenue and cost coverage during this period.

*The Commission finds that FY 2015 revenue for Inbound Letter Post was not sufficient to cover attributable cost. Under current circumstances, the Commission does not recommend any remedial action. However, it does recommend continued efforts to develop a more compensatory UPU terminal dues formula for the next rate cycle (CY 2018 through CY 2021). The Commission also recommends that the Postal Service continue to pursue bilateral agreements that result in an improved financial position for the Postal Service relative to default UPU rates.*

b. Quality of Service Link to UPU Terminal Dues

Despite improved cost coverage for Inbound Letter Post in FY 2015, the Postal Service did not maximize the product's revenue. This is because under the UPU's Quality Link Measurement System, terminal dues can be adjusted downward if service performance does not achieve the UPU-established annual quality-of-service performance target. In FY 2015, the Postal Service did not achieve the quality-of-service performance target. February 8, 2016, Response to CHIR No. 7, question 25.

Preliminary on-time service performance monthly scores from January through September FY 2015 declined compared with the final monthly scores for the same period in FY 2014. *Id.* Consequently, the Postal Service had to forego revenue in FY 2015, resulting in a larger loss in Inbound Letter Post revenue for FY 2015 than there otherwise would have been.

In the FY 2014 ACD, the Commission directed the Postal Service to report on its plans to improve service performance for Inbound Letter Post. FY 2014 ACD at 55. In its Response to the Commission's Request for Additional Information, the Postal Service identified systemic problems preventing it from achieving the UPU quality-of-service target and its

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<sup>118</sup> See The Economics of Terminal Dues, Final Report, September 30, 2015.

plans to address these problems.<sup>119</sup> The Postal Service identified four systemic problems: insufficient time to process sacked letters, increasing percentages of test mail arriving in sacks, ground handler backlog, and timing issues related to transporting mail between the Morgan Processing & Distribution Center, and the JFK International Service Center due to traffic. *Id.*

The Postal Service noted that mail arriving in sacks is far more difficult to process than mail arriving in trays, and is therefore unable to meet the current Critical Entry Time (CET) of 1700. *Id.* It also noted that the percentage of letters and flats arriving in sacks has grown over time. *Id.* at 2-3. The Postal Service stated that it plans to work with the UPU to propose changes to CETs to account for operational practice. *Id.* at 3. It also intended to propose amendments to the Letter Post Regulations to require posts to use proper receptacles when sending mail and to adjust service standards for sacked mail. *Id.* In addition, the Postal Service represented that it plans to change its transportation schedules from JFK International Service Center to better account for traffic and to work with ground handlers to improve handling performance at the JFK International Service Center. *Id.*

In response to a CHIR in this ACR proceeding, the Postal Service states that it has initiated a Lean Six Sigma (LSS) Black Belt project to improve service performance scores. Responses to CHIR No. 14, question 9. It also states that it has taken steps to improve mail processing at the JFK International Service Center, such as hourly sweeps of letter post mail, installation of additional Radio Frequency Identification Devices, and enhanced process and dispatch communication between the JFK International Service Center and the Morgan Processing and Distribution Center. *Id.* In addition, it states that it has worked with the UPU to change the CET, which was approved in October 2015. *Id.*

The Commission understands that significant growth in mail arriving in sacks can affect service performance. If effectively implemented, the operational improvements discussed should yield improved service performance, and therefore additional revenue, for Inbound Letter Post.

However, it is clear that the progress the Postal Service made with these plans to date has not significantly improved service performance results. The results continue to suggest that the Postal Service has not yet successfully resolved the systemic factors that prevent it from achieving the UPU quality-of-service target on a monthly or calendar year basis. This conclusion is further bolstered by the fact that the Postal Service's final service performance scores have met the UPU quality-of-service target in only one calendar year since enactment of the PAEA.

The Commission concludes that the 2015 preliminary on-time service performance scores indicate that systemic problems continue to prevent the Postal Service from receiving the maximum revenue possible under the UPU terminal dues system. The Postal Service's

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<sup>119</sup> Docket No. ACR2014, Responses of the United States Postal Service to Commission Requests for Additional Information in the FY 2014 Annual Compliance Determination, June 25, 2015, at 2.

inability to meet service performance standards exacerbates the poor financial performance of this product.

*The Commission directs the Postal Service to report within 90 days of issuance of this ACD on further progress in its plans to improve on-time service performance scores for Inbound Letter Post. The Postal Service shall specifically address its progress in improving sacks processing, in negotiating at the UPU for adjustments to the sacked mail service performance standard, and the Lean Six Sigma Black Belt project.*

c. Market Dominant International Products Consisting of NSAs

As an alternative to default UPU rates, the Postal Service may enter into bilateral NSAs with foreign postal operators that include negotiated rates for some or all of their Inbound Letter Post items. These negotiated rates are designed to improve the overall cost coverage for Letter Post items compared with the cost coverage at default UPU rates.

The Postal Service reports financial results for two inbound international products that consist of NSAs: Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 and Inbound Market Dominant Express Service Agreement 1. Both are included on the Market Dominant product list. In addition, the Postal Service reports financial results for Global Direct Entry with Foreign Postal Administrations (Global Direct Entry). The two inbound international products and Global Direct Entry govern the entry of Inbound Letter Post pursuant to negotiated agreements with foreign postal operators.

The Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product comprises eight bilateral agreements with seven foreign postal operators: the Australian Postal Corporation, Canada Post Corporation, the China Post Group, Hongkong Post, Korea Post, Royal PostNL,<sup>120</sup> and Singapore Post. For FY 2015, the Postal Service reports that these NSAs, collectively, generated sufficient revenue to cover attributable cost. Response to CHIR No. 4, question 20.b.

Although revenue exceeded attributable cost for the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product as a whole, the Postal Service reports that revenue for three NSAs in the product did not cover attributable cost.

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

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<sup>120</sup> This agreement is with the postal operator for the Netherlands.

In response to a CHIR, the Postal Service provided financial results for each NSA based upon default UPU rates. Responses to CHIR No. 4, question 20. For the three NSAs that did not cover cost, cost coverage at the negotiated rates exceeded cost coverage at default UPU rates. These results indicate that the NSAs improved the Postal Service's net financial position.

Inbound Letter Post at UPU terminal dues tendered as Exprès and displaying the common logo of the Exprès service is authorized under Inbound Market Dominant Exprès Service Agreement 1. This product is based on the Exprès Service Agreement, a multilateral agreement with the designated postal operators of 24 UPU member countries. For FY 2015, Inbound Letter Post entered pursuant to the Inbound Market Dominant Exprès Service Agreement 1 product generated sufficient revenue to cover cost.

The FY 2015 financial results for the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product appear to validate the Postal Service's strategy, discussed in previous ACRs, of negotiating bilateral NSAs with some of the larger foreign postal operators that exchange Letter Post items with the Postal Service.<sup>121</sup> The Postal Service notes that some of the recent steps it has taken to improve cost coverage include the renegotiation of the China Post Group and the Canada Post Corporation NSAs in FY 2016. Responses to CHIR No. 4, question 20.b. Over time, continued pursuit of this strategy should improve cost coverage for Letter Post mail as a whole, including both Inbound Letter Post at default UPU rates and Letter Post within NSAs.

In addition, within domestic First-Class Mail, a handling charge of \$0.01 per piece applies to foreign-origin, inbound direct entry of Single-Piece First-Class Mail (excluding Single-Piece Double Cards) tendered by foreign postal operators, subject to the terms of an authorization arrangement.<sup>122</sup> The Postal Service has authorization arrangements in effect with eight foreign postal operators. These arrangements predate the PAEA, and are not classified as a product on the Market Dominant product list. The Postal Service presents financial results for the inbound direct entry of First-Class Mail in the International Cost and Revenue Analysis (ICRA) report. For FY 2015, the inbound direct entry of Single-Piece First-Class Mail generated sufficient revenues to cover costs.

*The Commission finds that the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 and Inbound Market Dominant Exprès Service Agreement 1 products satisfy 39 U.S.C. § 3622.*

## **C. Domestic Market Dominant NSAs**

Domestic Market Dominant NSAs must comply with 39 U.S.C. § 3622(c)(10). That section requires that such agreements either "improve the Postal Service's net financial position"

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<sup>121</sup> Docket No. ACR2012, United States Postal Service FY 2012 *Annual Compliance Report*, December 28, 2012, at 9 (FY 2012 ACR).

<sup>122</sup> *Mail Classification Schedule*, Section 1105.5, n.3.

or “enhance the performance of mail preparation, processing, transportation, or other functions” and that they “not cause unreasonable harm to the marketplace.” *Id.*

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

For domestic Market Dominant NSAs, the current accepted analytical principle for estimating volume changes due to the Postal Service’s pricing incentive programs uses price elasticity to estimate the new volume generated by pricing incentive programs.<sup>123</sup> This principle provides for consideration of “the financial impact of price incentives to increase mail volume or to shift mail volume between products should be based on the Postal Service’s best estimate of the price elasticity of the discounted product.” *Id.* at 3.

In FY 2015, two domestic Market Dominant NSAs were in effect: PHI Acquisitions, Inc. (PHI) NSA and Valassis Direct Mail, Inc. (Valassis) NSA.<sup>124</sup> The Commission evaluates these NSAs based on their performance during the following contract years:

- PHI NSA: Contract Year 1 (July 1, 2014 through June 30, 2015)
- Valassis NSA: Contract Year 3 (August 23, 2014 through August 22, 2015)

## 1. PHI NSA

The Postal Service implemented the PHI NSA on July 1, 2014.<sup>125</sup> Contract Year 1 ended on June 30, 2015. PHI qualified for \$2,090,204 in discounts in Contract Year 1. Using the elasticity-based accepted analytical principle, the Postal Service estimates that the PHI NSA resulted in a net increase in contribution of \$112,000.<sup>126</sup> February 17, 2016, Responses to CHIR No 12, question 15. It concludes that the PHI NSA complies with 39 U.S.C. § 3622(c)(10)(A) and the Commission’s rules. FY 2015 ACR at 54-55.

*The Commission finds that the PHI NSA met the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 1 and is encouraged by the positive results of the PHI NSA. By incentivizing new volumes that generate more contribution than the discounts awarded, the Agreement improved the net financial position of the Postal Service in FY 2015.*

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<sup>123</sup> Docket No. RM2010-9, Order Terminating Proceeding, May 27, 2011, at 1 (Order No. 738).

<sup>124</sup> FY 2015 ACR at 53. International Market Dominant NSAs are discussed in section B. 6. c., *supra*.

<sup>125</sup> Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Implementation Date for PHI Acquisitions, Inc. Negotiated Service Agreement, July 30, 2014, at 1. *See also* Docket Nos. MC2014-21 and R2014-6, Order Adding PHI Acquisitions, Inc. Negotiated Service Agreement to the Market Dominant Product List, June 19, 2014 (Order No. 2097).

<sup>126</sup> The Postal Service provided PHI with \$2.090 million in discounts in Contract Year 1. The discounts encourage PHI to increase volume, and thus contribution from PHI increased by \$2.202 million. The increase in contribution, minus the discounts, generated a net contribution increase of \$0.112 million.

## 2. Valassis NSA

The Commission approved the Valassis NSA on August 23, 2012.<sup>127</sup> The contract required Valassis to begin sending Contract Pieces (*i.e.*, mailpieces eligible for contract prices) within 90 days after the effective date.<sup>128</sup> If Valassis did not enter Contract Pieces within 90 days, the contract required Valassis to mail at least 1 million Contract Pieces during the ensuing 12-month period. *Id.* The contract included a requirement that Valassis pay the Postal Service a \$100,000 “transaction fee” if mail volume did not reach this threshold during that period. *Id.*

Valassis did not meet the 1 million Contract Pieces threshold for any contract year. FY 2015 ACR at 53-54. The Valassis NSA is currently not operating in any market and there are no plans to initiate mailing Contract Pieces. *Id.* The Postal Service collected the \$100,000 transaction fee on September 21, 2015. *Id.* at 54.

*The Valassis NSA has completed its final contract year; therefore, no action is necessary.*

## D. Nonpostal Services

In FY 2015, Market Dominant nonpostal services<sup>129</sup> generated \$75 million in revenue and incurred \$13 million in expenses, which resulted in a net revenue of \$62 million. FY 2015 ACR at 71. This figure represents a 13 percent increase compared to FY 2014.

## E. Other Issues

### 1. Metered Letter Prices

Several commenters address the price differential between Stamped and Metered Letters and the Metered Letters price in general. As in previous years, Pitney Bowes Inc. (Pitney Bowes), the National Association of Presort Mailers (NAPM), and Stamps.com<sup>130</sup> assert that the introduction of a separate price for Metered Letters has been a success. Pitney Bowes Comments at 6-7; NAPM Comments at 3; Stamps.com Reply Comments at 1-4. They support the differential between Stamped and Metered Letters and support increasing the differential in the future. *Id.*

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<sup>127</sup> Docket Nos. MC2012-14 and R2012-8, Order Approving Addition of Valassis Direct Mail, Inc. Negotiated Service Agreement to the Market Dominant Product List, August 23, 2012 (Order No. 1448).

<sup>128</sup> Docket Nos. MC2012-14 and R2012-8, Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add Valassis Direct Mail, Inc. Negotiated Service Agreement to the Market Dominant Product List, April 30, 2012, Attachment B, at 3 (Valassis NSA Notice).

<sup>129</sup> The two Market Dominant products are Alliances with the Private Sector to Defray Cost of Key Postal Functions and Philatelic Sales. Docket No. MC2010-24, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11, 2012, at 4 (Order 1575).

<sup>130</sup> Comments of Pitney Bowes Inc., February 2, 2016 (Pitney Bowes Comments); Comments of the National Association of Presort Mailers, February 2, 2016 (NAPM Comments); Reply Comments of Stamps.com, February 12, 2016 (Stamps.com Reply Comments).

## 2. First-Class Mail Product Cost Coverage Disparity

As in previous ACR proceedings, Pitney Bowes, the National Postal Policy Council (NPPC),<sup>131</sup> and NAPM express concern about the high cost coverage of First-Class Presorted Letters/Postcards. These commenters contend that the relative cost coverage and unit contribution of First-Class Presorted Letters/Postcards is too high when compared with Single-Piece Letters/Postcards. Pitney Bowes Comments at 6-9; NPPC Comments at 6-9; NAPM Comments at 2-3. NPPC suggests an alternative pricing approach. NPPC Comments at 9. NAPM argues that the Postal Service should reduce prices on Presort letters because Presort letters are more profitable and price sensitive than Single-Piece letters. NAPM Comments at 2-3. Pitney Bowes contends that lowering prices on Presort letters “would increase the volume of Presort letters, which would improve the Postal Service’s financial position, and create a more equitable price schedule.” Pitney Bowes Comments at 2.

The Postal Service defends its pricing of First-Class Mail products by providing a rationale for its pricing approach. USPS Reply Comments at 15-16. In support of the Postal Service, the Greeting Card Association (GCA) notes that the Commission has addressed this issue in past ACDs and that the commenters raising this issue have not shown a change in circumstances that would cause the cost coverage differences between First-Class Mail products to be considered a compliance issue.<sup>132</sup>

*The Commission has previously noted that one objective of the PAEA is to allow the Postal Service pricing flexibility, subject to the inflation-based cap and that this flexibility can be used to apply non-uniform price adjustments within a class. See FY 2012 ACD at 82; FY 2013 ACD at 70; FY 2014 ACD at 68; see also 39 U.S.C. § 3622(b)(8). The Commission continues to encourage the Postal Service to balance its own needs with those of its customers.*

## 3. Discount for Automation 5-Digit Letters

Pitney Bowes, NPPC, and NAPM contend that the passthrough of avoided cost for Automation 5-Digit Letters penalizes users because it is too low and sends inefficient pricing signals. They urge the Commission to require the Postal Service to set passthroughs at, or as close as practicable to, 100 percent of the cost avoided. Pitney Bowes Comments at 3-6, Pitney Bowes Reply Comments at 1-4, NPPC Comments at 4-6, NAPM Comments at 2-3. “Doing so would promote efficiency, lower the total combined costs for mailers, and encourage the retention and growth of its most profitable products.” Pitney Bowes Reply Comments at 3.

*The worksharing requirements of Title 39 impose a ceiling but not a floor on passthroughs. See 39 U.S.C. § 3622(e)(2). The Commission notes that passthroughs below 100 percent send inefficient price signals to mailers. Therefore, it encourages the Postal Service to adjust discounts to bring passthroughs closer to 100 percent. The Commission, however, recognizes*

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<sup>131</sup> Comments of the National Postal Policy Council, February 2, 2016 (NPPC Comments).

<sup>132</sup> Reply Comments of the Greeting Card Association, February 12, 2016, at 3 (GCA Reply Comments).

*that the PAEA gives the Postal Service pricing flexibility and encourages it to balance its own needs with those of its customers.*

#### 4. Commercial and Nonprofit Products

ACMA asserts that the inclusion of nonprofit mail in the Standard Mail Flats product decreases the overall cost coverage. ACMA Reply Comments at 6. ACMA argues that Standard Mail Flats and Carrier Route should be viewed as one product and that nonprofit components of the combined product should be removed before setting prices and assessing compliance. *Id* at 13.

*The ACD is not the proper forum for the Commission to consider costing methodology and product list issues. Should ACMA wish to pursue its inquiry further with a fully supported proposal, it may petition the Commission to consider such issues in another proceeding.*

# CHAPTER 4: COMPETITIVE PRODUCTS

## A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2015 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 cost: 39 U.S.C. § 3633(a)(3)

The principal FY 2015 findings for Competitive products are:

- Revenues, as a whole, exceeded incremental costs. Thus, Competitive products were not subsidized by Market Dominant products during FY 2015, thereby satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for six Competitive products did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2). The Competitive products that did not cover attributable costs are: Priority Mail Contract 135; Parcel Return Service Contract 8; International Money Transfer Service (IMTS)—Inbound; IMTS—Outbound; Inbound Parcel Post (at UPU rates); and Inbound Air Parcel Post (at non-UPU rates). The Commission orders the Postal Service to take corrective action.
- Collectively, Competitive products satisfied the Commission's 5.5 percent minimum contribution regulatory requirement. *See* 39 C.F.R. § 3015.7(c). As a result, Competitive products satisfied 39 U.S.C. § 3633(a)(3) during FY 2015.

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

In Docket No. RM2010-4, the Postal Service proposed using an incremental cost<sup>133</sup> model to test whether Market Dominant products subsidize Competitive products.<sup>134</sup> Under this model, the Postal Service estimates incremental costs for Competitive domestic products at

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<sup>133</sup> Incremental costs are the additional costs incurred by a firm for providing a specific product or set of products.

<sup>134</sup> Docket No. RM2010-4, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Twenty-two – Twenty-five), Proposal Twenty-two, October 23, 2009 (RM2010-4 Petition).

the cost component level and adds these estimated costs to determine the system-level incremental costs.<sup>135</sup>

The Postal Service considered the incremental cost model to be an improvement over the then-current method of aggregating the attributable costs of Competitive products as a group. *See* Order No. 399 at 2; *see also* RM2010-4 Petition, Proposal Twenty-two at 1. Under its proposed methodology, the Postal Service aggregated three cost categories: incremental costs for Competitive domestic products, attributable costs for Competitive international products,<sup>136</sup> and Competitive group-specific costs. FY 2015 ACR at 64. The Commission approved this hybrid incremental cost methodology. Order No. 399 at 3-5, 14.

In its order approving the methodology, the Commission noted that if marginal costs decline continuously, incremental costs will be greater than attributable costs. *Id.* at 3-4. Postal Service operations exhibit such declining marginal cost curves, especially in delivery. Because incremental costs are greater than attributable costs, using incremental costs raises the Competitive product cost floor when testing for cross-subsidies. Therefore, the incremental cost model provides a more rigorous test for determining compliance with 39 U.S.C. § 3633(a)(1) than the attributable cost coverage requirement of 39 U.S.C. § 3633(a)(2).

In FY 2015, the hybrid incremental costs of Competitive products was \$12.2 billion and the total revenues of Competitive products was \$16.4 billion. FY 2015 ACR at 65. Accordingly, in FY 2015, revenues from Competitive products exceeded the hybrid incremental costs.<sup>137</sup> *The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2015.*

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

Section 3633(a)(2) of Title 39 of the U.S.C. requires the revenue for each Competitive product to cover attributable cost. Below, the Commission discusses the FY 2015 financial performance for five separate Competitive product groupings:

- Competitive domestic products with rates of general applicability
- Competitive domestic products consisting of negotiated service agreements (NSAs)<sup>138</sup>

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<sup>135</sup> Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two through Twenty-Five), January 27, 2010, at 2 (Order No. 399).

<sup>136</sup> Order No. 399 established that international Competitive mail would use attributable costs instead of incremental costs because the latter are not available for international products. Order No. 399 at 3.

<sup>137</sup> The Public Representative also concludes that revenues from Competitive products exceed the FY 2015 hybrid incremental costs. PR Comments at 52-53.

<sup>138</sup> As discussed in Chapter 3, an NSA is a written contract between the Postal Service and a mailer, to be in effect for a defined period, which provides for customer-specific rates or fees and/or terms of service in accordance with the terms and conditions of the contract. *See* 39 C.F.R. § 3001.5(r).

- Competitive international products with rates of general applicability
- Competitive international products consisting of NSAs
- Competitive non-postal services

## 1. Competitive Domestic Products with Rates of General Applicability

In FY 2015, 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; Standard Post; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services; Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

*In FY 2015, every Competitive domestic product with rates of general applicability covered its attributable cost and thereby satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2).*

## 2. Competitive Domestic Products Consisting of Negotiated Service Agreements

As shown in Table IV-1, in FY 2015, there were 200 Competitive domestic products consisting of NSAs.

**Table IV-1**  
**Competitive Domestic NSA Products in Effect During FY 2015**

Competitive Domestic NSA Product Groupings	Number of Products <sup>a</sup>
First-Class Package Service Contracts	34
Parcel Return Service Contracts	8
Parcel Select & Parcel Return Service Contracts	2
Parcel Select Contracts	9
Priority Mail—Non-Published Rates <sup>b</sup> Contracts	1
Priority Mail & First-Class Package Service Contracts	7
Priority Mail Contracts	106
Priority Mail Express & Priority Mail Contracts	12
Priority Mail Express Contracts	17
Priority Mail Express, Priority Mail & First-Class Package Service Contracts	4
<b>Total</b>	<b>200</b>

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

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

\* The Postal Service did not provide contract specific volume, revenue, and cost data for specific Competitive domestic NSAs in effect in FY 2015. The Postal Service did not provide contract specific data for 31 First-Class Package Service NSAs, where the NSA partner paid published rates, and 31 Competitive domestic NSAs, where there was no mail volume. Chairman’s Information Request No. 4, January 15, 2016, question 23 (CHIR No. 4); Responses of the United States Postal Service to Questions 1-23 of Chairman’s Information Request No. 4, January 22, 2016, question 23 (Responses to CHIR No. 4). The Competitive domestic NSAs for which there were no mail volume include: a First-Class Package Service contract; two Parcel Return Service contracts; a Parcel Select contract; 21 Priority Mail contracts; two Priority Mail Express & Priority Mail contracts; three Priority Mail Express contracts; and a Priority Mail Express, Priority Mail & First-Class Package Service contract. *Id.*

Source: Library Reference USPS–FY15–NP27, December 29, 2015; Notice of the United States Postal Service of Filing of Revised Version of USPS–FY15–NP27 -- Errata, February 8, 2016; Responses to CHIR No. 4, question 23.

### a. Attributable Cost Coverage

Section 3633(a)(2) of Title 39 of the U.S.C. requires each Competitive domestic NSA product to cover its attributable cost. The Commission finds that all but two Competitive domestic NSAs covered their attributable costs and complied with this statutory requirement. The Competitive domestic NSAs that did not cover their attributable costs were Priority Mail Contract 135<sup>139</sup> and Parcel Return Service Contract 8.

In response to CHIR No. 7, the Postal Service reports that it evaluated these contracts and is in discussions with its contract partner to determine whether Priority Mail Contract 135 should be terminated. February 8, 2016, Responses to CHIR No. 7, question 29. Additionally, the Postal Service reports that there may be a shift in the characteristics of the parcels shipped under Parcel Return Service Contract 8 and that, based on those changes, the contract started to cover its cost based on recent Quarter 1 FY 2016 data. *Id.*

<sup>139</sup> FY 2015 ACR at 66. In the FY 2015 ACR, the Postal Service incorrectly states that “Priority Mail Contract 35 (Docket No. CP2015-109)” failed to cover attributable costs. *Id.* In its response to CHIR No. 7, the Postal Service states that the correct reference is to Priority Mail Contract 135 (Docket No. CP2015-109), not Priority Mail Contract 35, as it originally stated. See Responses of the United States Postal Service to Questions 1-15, 17-29 of Chairman’s Information Request No. 7, February 8, 2016, question 29 (February 8, 2016, Responses to CHIR No. 7).

*The Commission finds that Priority Mail Contract 135 and Parcel Return Service Contract 8 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Postal Service stated that it will either amend or terminate the contracts as appropriate. The Commission directs the Postal Service to report within 30 days of issuance of this ACD on the result of the Postal Service's evaluation and the corrective action the Postal Service intends to take.*

b. Postal Service's Use of Assumptions in its Costing Models

In determining whether Competitive domestic NSAs are in compliance with 39 U.S.C. § 3633(a)(2), the Commission reviews the costing models the Postal Service uses to determine these products' attributable costs. For the Commission to conduct that review, it is essential that the Postal Service accurately note, describe, and source the assumptions it uses. In response to two Chairman's Information Requests (CHIRs), the Postal Service provides additional explanation regarding various assumptions that it used to determine attributable costs for specific Competitive domestic NSAs.<sup>140</sup> This additional explanation provides the Commission with a better understanding regarding the nature of the assumptions, the sources of the assumptions, and the decision-making process that led to the assumptions used.

*In FY 2015, based on its review of the Postal Service's CHIR responses, the Commission finds the various assumptions employed by the Postal Service to be reasonable and justified estimates. Where the Commission has identified potential sensitivities, the Postal Service has provided sufficient explanation to support its use of specific assumptions. In the future, the Postal Service should strive to develop actual data for use in NSA cost models.*

c. Postal Service's Use of Partial Year Data in its Costing Models

The Postal Service's reliance on partial year data for costing models can potentially result in a mis-estimation of cost. To determine whether Competitive domestic NSAs were in compliance with 39 U.S.C. § 3633(a)(2), the Commission reviews the costing models that contain the calculation of these products' attributable costs. Because the accuracy and completeness of the cost models are key to compliance determinations, it is essential that the cost models reflect operations. When possible, cost should reflect the entire contract year to avoid any bias resulting from the use of incomplete or inaccurate data. In its responses to CHIRs, the Postal Service explains its use of partial year data for specific Competitive domestic NSAs.<sup>141</sup> Its explanations contain additional information regarding the decision-making process for the use of partial year data.

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<sup>140</sup> See Responses of the United States Postal Service to Questions 5-7, 9-10, 12, and 17-28 of Chairman's Information Request No. 6, January 29, 2016, questions 22-28 (January 29, 2016, Responses to CHIR No. 6); and Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 8, February 10, 2016, question 3 (Responses to CHIR No. 8).

<sup>141</sup> January 29, 2016, Responses to CHIR No. 6, question 22; Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 10, February 12, 2016, question 3 (Responses to CHIR No. 10); and Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 16, February 29, 2016, question 3.

*Although a complete year of data is preferred, based on its review of the Postal Service's CHIR responses, the Commission finds the Postal Service's use of partial year data in FY 2015 to be acceptable. Where the Commission has identified potential sensitivities, the Postal Service has provided sufficient explanation to support its use of partial year data. To improve the quality, accuracy, or completeness of the Postal Service's costing data, the Commission directs the Postal Service to pursue measures to provide one full year of data to estimate costs in the future.*

d. Incomplete Negotiated Service Agreement Financial Data

Commission regulations require the Postal Service to file data that allow the Commission to evaluate each Competitive domestic NSA for compliance with 39 U.S.C. § 3633(a)(2). *See* 39 C.F.R. § 3050.21(g)(2). However, the Postal Service did not provide total volume, revenue, and cost data for all Competitive domestic NSAs that were in effect during FY 2015.<sup>142</sup>

The Postal Service notes that 31 First-Class Package Service contracts in effect during FY 2015 paid published, not discounted, prices and that the sole purpose of the contracts was to allow partners to use the PC Postage payment method during a time when it was not authorized for First-Class Package Service rates.<sup>143</sup> The Postal Service further explains that, as of January 27, 2013, PC Postage became an authorized payment method for First-Class Package Service and, therefore, these types of First-Class Package Service contracts are no longer required. Responses to CHIR No. 4, question 23. The Postal Service states that for these reasons, it did not track 31 First-Class Package Service NSA products. *Id.* The Postal Service explains that because the mail was entered at published rates, data entered by mailers for these products are included with all other First-Class Package Service data. *Id.*

*The Commission recognizes the unique status of these First-Class Package Service NSA products and accepts the Postal Service's rationale for reporting its financial data with the First-Class Package Service product in this limited instance. However, the Commission is required to review each NSA product to determine compliance with 39 U.S.C. § 3633(a)(2). Therefore, for those Competitive domestic NSAs that are not active or are paying published rates, the Postal Service should file a notice of termination to remove the agreement from the competitive product list.<sup>144</sup> Furthermore, the Commission directs the Postal Service to identify each NSA product that had no mailpieces shipped under the respective contracts when it files future ACRs.*

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<sup>142</sup> CHIR No. 4, question 23; *see* Responses to CHIR No. 4, question 23.

<sup>143</sup> Responses to CHIR No. 4, question 23. The Postal Service also notes that 31 Competitive domestic NSAs had no mailpieces shipped under the respective contracts in FY 2015. *Id.* It further notes that the revenue, volume, weight, and attributable costs data for contracts of five products were included in a subsequent contract with the same customer. *Id.* Additionally, the Postal Service states that a product's revenue, volume, weight, and attributable cost data were reported under a nearly identical contract with the same partner. *Id.* Consequently, for those six products, the Postal Service provided the financial data with the corresponding contract with the same mailer that was in effect in FY 2015. The Postal Service notes that the revenue, volume, weight, and attributable cost data for one product were reported under a contract with a different customer, the result of a typographical error when the Postal Service entered the contract into a tracking workbook. *Id.* On February 8, 2016, the Postal Service filed a corrected list of Competitive domestic NSAs. February 8, 2016, Responses to CHIR No. 7, question 28.

<sup>144</sup> *See, e.g.,* Docket No. CP2014-29, Notice of the United States Postal Service of Termination of Global Reseller Expedited Package Contracts 1 Negotiated Service Agreement, September 30, 2014. The Commission notes that the 31 First-Class Package Service NSAs where the Postal Service reports that the NSA partner paid published rates expired in FY 2015 or in Quarter 1 of FY 2016.

### 3. Competitive International Products with Rates of General Applicability

Ten Competitive international mail products have rates and fees of general applicability:

- Outbound International Expedited Services
- Outbound Priority Mail International
- Inbound Parcel Post (at UPU rates)
- Outbound Single-Piece First-Class Package International Service
- International Surface Airlift
- International Priority Airmail
- International Direct Sacks—M-Bags
- IMTS—Outbound
- IMTS—Inbound<sup>145</sup>
- International Ancillary Services<sup>146</sup>

The Commission finds that all but the following products satisfied 39 U.S.C. § 3633(a)(2): IMTS—Outbound; IMTS—Inbound; Inbound Parcel Post (at UPU rates); and the Outbound Competitive International Registered Mail component of the International Ancillary Services product.

#### a. International Money Transfer Service

Revenues for both the IMTS—Outbound and IMTS—Inbound products were less than attributable costs in FY 2015. The Postal Service notes issues with both costs and revenues for these products in FY 2015.<sup>147</sup> The Postal Service previously observed that the products “[have] a long history of challenges associated with determining [their] attributable costs with confidence.”<sup>148</sup> The Postal Service reports that only seven In-Office Cost System (IOCS) tallies were recorded for both IMTS products combined.<sup>149</sup> The Postal Service data systems produce a 95-percent confidence interval range of 27 percent to 195 percent for FY 2015 cost coverage.<sup>150</sup>

<sup>145</sup> IMTS—Inbound consists of a series of bilateral and multilateral agreements with foreign postal operators.

<sup>146</sup> The Competitive International Ancillary Services product consists of the following Special Services: International Certificate of Mailing, Outbound Competitive International Registered Mail, International Return Receipt, International Insurance, and Customs Clearance and Delivery Fee. *Mail Classification Schedule* § 2615.

<sup>147</sup> See FY 2015 ACR at 67-68.

<sup>148</sup> Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2, 3a-b, 3d, 4, 6, 7a-e, 8-9, and 11-21 of Chairman’s Information Request No. 1, January 16, 2015, question 4.

<sup>149</sup> The IOCS collects data on the proportion of time spent by an employee performing various functions on different mail products or services. These proportions of time are used to estimate the costs of such products or services (e.g., the time city carriers spend in a delivery post office sorting mail). “Tally takers” collect the time data, so “tallies” are used as the source of the data.

<sup>150</sup> Responses of the United States Postal Service to Questions 1-14 of Chairman’s Information Request No. 2, January 15, 2016, question 10.a (January 15, 2016, Responses to CHIR No. 2).

Concerning the revenues for the IMTS products, the Postal Service further explains that there was a large adjustment for IMTS—Inbound that boosted revenue in FY 2014, with no corresponding FY 2015 adjustment. *Id.* question 10.b. Additionally, the Postal Service states that there was a material decrease in the volume of money orders from the largest source country, leading to a further decrease in revenue. *Id.* The Postal Service also states that rates for IMTS—Outbound increased on January 17, 2016, which should help to address the product’s cost coverage. FY 2015 ACR at 68.

In the FY 2014 ACD, the Commission directed the Postal Service to report on developing attributable costs for IMTS products based on alternatives to IOCS methodology.<sup>151</sup> The Postal Service responded with a proposed change in the methodology for developing volumes and attributable costs.<sup>152</sup> The Commission approved this proposal, with minor changes, in Docket No. RM2015-13.<sup>153</sup> In response to CHIR No. 2, question 10.c, the Postal Service provided a spreadsheet for the methodology, updated for FY 2015. January 15, 2016, Responses to CHIR No. 2, question 10.c. The Commission expects the Postal Service to provide this spreadsheet annually.

The Public Representative observes that these products failed to cover costs, but acknowledges that the Postal Service responded positively to the Commission’s FY 2014 ACD directives. PR Comments at 53-54. The Public Representative also notes that the Postal Service has increased IMTS—Outbound prices, and believes this increase may help improve cost coverage in FY 2016. *Id.* at 54. In its reply comments, the Postal Service asserts that the recent price increase for competitive services, effective January 17, 2016, satisfactorily addresses the below-cost situation for IMTS—Outbound.<sup>154</sup> USPS Reply Comments at 19.

Pricing solutions are not immediately available for IMTS—Inbound because it comprises several bilateral agreements and is unlikely to cover cost given current revenue and cost.

*The Commission finds that the IMTS—Outbound and IMTS—Inbound products were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the obstacles to exiting or renegotiating the agreements that comprise the IMTS—Inbound product. The Postal Service must discuss the impact of the FY 2016 price change for cost coverage of IMTS—Outbound in the FY 2016 ACR.*

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<sup>151</sup> Docket No. ACR2014, Annual Compliance Determination Report for Fiscal Year 2014, March 27, 2015, at 76 (FY 2014 ACD).

<sup>152</sup> Docket No. ACR2014, Responses of the United States Postal Service to Commission Requests for Additional Information Regarding IMTS and EPG in the FY 2014 Annual Compliance Determination, June 30, 2015, at 2-7.

<sup>153</sup> Docket No. RM2015-13, Order No. 2825, Order Approving Analytical Principles Used In Periodic Reporting (Proposal Five), November 19, 2015.

<sup>154</sup> Reply Comments of the United States Postal Service, February 12, 2016, at 19 (USPS Reply Comments).

b. Inbound Parcel Post (at UPU rates)

Inbound Parcel Post is a combination of two former products: Market Dominant Inbound Surface Parcel Post, which was transferred to the competitive product list in FY 2014,<sup>155</sup> and Competitive Inbound Air Parcel Post. Inbound Parcel Post (at UPU rates), like its predecessor products, has rates (known as inward land rates) set by the UPU.

Inbound Parcel Post (at UPU rates) did not cover its cost in FY 2015. The Postal Service explains that it cannot change the rates set by the UPU unilaterally but is negotiating with postal operators to eliminate the need to secure signatures upon delivery, thereby removing costs and improving cost coverage. FY 2015 ACR at 67. The Postal Service also states that unexpected non-transportation cost increases associated with parcels from transition system countries<sup>156</sup> contributed to decreasing cost coverage. Responses to CHIR No. 4, question 21.c.

Inward land rates also provide bonuses for meeting certain required service features. The Postal Service confirms it met all required service features and therefore did not forfeit any revenue for Inbound Parcel Post (at UPU rates) in FY 2015. January 15, 2016, Responses to CHIR No. 2, question 12.

The Public Representative notes that the two predecessor products (Inbound Surface Parcel Post and Inbound Air Parcel Post) both covered their costs in FY 2013 and FY 2014. PR Comments at 54-55. The Public Representative also notes that the Commission has approved previous changes in rates for Inbound Parcel Post (at UPU rates). *Id.* at 55. The Public Representative concludes that this product requires special attention by the Postal Service and close monitoring by the Commission. *Id.*

In its reply comments, the Postal Service states that it cannot change Inbound Parcel Post rates unilaterally and, absent other incentives to negotiate rate increases for this service, is constrained in negotiations with other postal operators by the fact that other posts can insist on resorting to default UPU rates. USPS Reply Comments at 20. Additionally, the Postal Service states that it is continuing to work on cost reduction efforts. *Id.*

The Postal Service also notes that there are a low number of IOCS tallies for Inbound Parcel Post. FY 2015 ACR at 67. In response to a CHIR, the Postal Service clarifies that there were 201 IOCS tallies for Inbound Parcel Post in FY 2015, and that the 95 percent confidence interval of cost coverage ranged from 90 percent to 104 percent. Responses to CHIR No. 4, question 21.a. Based on the CRA cost data, the Commission determines that this product did not cover its cost.

*The Commission finds that the Inbound Parcel Post (at UPU rates) product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Commission directs the Postal Service*

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<sup>155</sup> Docket No. MC2014-28, Order No. 2160, Order Approving Product List Transfer, August 19, 2014, at 8.

<sup>156</sup> Transition system countries are mainly developing countries.

*to report within 90 days of issuance of this ACD on the status of its negotiations to remove the need to secure signatures upon delivery. The Commission also recommends that the Postal Service enter into bilateral agreements with foreign postal operators with rates that are above default UPU rates to improve the net financial position of the Postal Service.*

c. International Ancillary Services

In FY 2015, the International Ancillary Services product covered its cost.<sup>157</sup> One of its components, Outbound Competitive International Registered Mail, did not cover its cost.<sup>158</sup> The Postal Service states that this is the result of correcting an error in the IOCS calculation of previous years. FY 2015 ACR at 68. The Postal Service also states that it is examining whether pricing solutions would solve this matter. *Id.*

The Postal Service confirms in a response to a CHIR that it is required to provide a Registered Mail service for outbound items, so it cannot stop offering this service. Responses to CHIR No. 4, question 22.

Like Inbound Parcel Post, (at UPU rates) there are few IOCS tallies for Outbound Competitive International Registered Mail. In response to a CHIR, the Postal Service clarifies that there were 27 IOCS tallies for Outbound Competitive International Registered Mail in FY 2015. February 8, 2016, Responses to CHIR No. 7, question 26. Based on the CRA costing data, the Commission determines that this component of International Ancillary Services did not cover its cost.

*The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the results of its examination of pricing solutions for Outbound Competitive International Registered Mail and what steps it plans to take to improve cost coverage.*

#### 4. Competitive International Products Consisting of Negotiated Service Agreements

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

In general, each international NSA is classified as a separate Competitive product.<sup>159</sup> The Commission must evaluate each international NSA for compliance with 39 U.S.C. § 3633(a)(2), which requires that the revenue for each product cover attributable cost.

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<sup>157</sup> In the FY 2015 ACR, the Postal Service reports that this product did not cover cost because of Outbound Competitive International Registered Mail. FY 2015 ACR at 68. The Postal Service later clarified that it under-reported revenue for this component. Correcting this error increased this component's cost coverage and raised the cost coverage of International Ancillary Services above 100 percent. February 8, 2016, Responses to CHIR No. 7, question 26.

<sup>158</sup> The Public Representative's comments on this product and component were addressed by the Postal Service's revised filing.

<sup>159</sup> Docket No. RM2007-1, Order No. 43, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, ¶¶ 2177 and 3001.

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. Such grouping of functionally equivalent NSAs was permitted with the express understanding that each NSA within a product must cover its attributable cost.<sup>160</sup> Such functionally equivalent international NSAs are also collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

The Postal Service reports volume, revenue, and cost data on each Competitive international NSA. For FY 2015, it provides such data on 269 international NSAs, of which 250 include negotiated rates for outbound mail and 19 include negotiated rates for inbound mail. The financial results for Competitive outbound and inbound international products consisting of NSAs are discussed below.

a. Competitive Outbound International Products Consisting of Negotiated Service Agreements

Competitive outbound international products with negotiated rates are classified on the competitive product list. Table IV-2 shows the FY 2015 category for each of these products for which the Postal Service reported FY 2015 financial results.<sup>161</sup>

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<sup>160</sup> See, e.g., Docket Nos. CP2011-34, CP2011-35, CP2011-36, CP2011-37, CP2011-38, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

<sup>161</sup> The Postal Service does not report FY 2015 financial results for the following Competitive outbound international products: Global Direct Contracts 1, Global Bulk Economy Contracts, GREPS 3, GEPS—NPR 2, GEPS—NPR 3, Priority Mail International Regional Rate Boxes—NPR, and Priority Mail International Regional Rate Boxes—NPR. These products had no activity in FY 2015 and in many instances have been superseded by products of a similar nature. The Postal Service should remove products that will not be used in the future from the product lists.

**Table IV-2**  
**Competitive Outbound International Products by Category (FY 2015)<sup>162</sup>**

Category	Name
Global Expedited Package Services (GEPS) Contracts	GEPS 3
Global Expedited Package Services—NPR	GEPS—NPR 4
	GEPS—NPR 4.2
	GEPS—NPR 5
	GEPS—NPR 6
	GEPS—NPR 7
Global Plus Contracts	Global Plus 1C
	Global Plus 2C
Global Reseller Expedited Package Contracts	Global Reseller Expedited Package Service (GREPS) 1
	GREPS 2
	GREPS 4

Source: Library Reference PRC–LR–ACR2015/NP2.

*In FY 2015, the Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable costs for each.*

The Postal Service also reports financial results for each outbound international NSA within these products. For FY 2015, these results show that each of the 250 outbound international NSAs generated sufficient revenue to cover their attributable cost.

b. Competitive Inbound International Products Consisting of  
 Negotiated Service Agreements

As with Competitive outbound international products, Competitive inbound international products with negotiated rates are classified on the competitive product list. Table IV-3 shows the Competitive inbound international products for which the Postal Service reported FY 2015 financial results.<sup>163</sup>

<sup>162</sup> This table presents the outbound international products by product category. In some cases, the product name is the same name as the product category.

<sup>163</sup> The Postal Service does not report FY 2015 financial results for four Competitive inbound international products: International Business Reply Service Competitive Contract 1, Inbound Direct Entry Contracts with Customers, Inbound Direct Entry Contracts with Foreign Postal Administrations, and Inbound Direct Entry Contracts with Foreign Postal Administrations 1. These products had no activity in FY 2015 and in many instances have been superseded by products of a similar nature. The Postal Service should remove products that will not be used in the future from the product lists.

**Table IV-3**  
**Competitive Inbound International Products by Category (FY 2015)<sup>164</sup>**

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

Source: Library Reference PRC-LR-ACR2015/NP2.

The Postal Service also reports financial results for each NSA within the Competitive inbound international products. Of the 19 NSAs, seven were included in the International Business Reply Service Competitive Contracts 3 product, two in the Inbound EMS 2 product, one in the Inbound Air Parcel Post (at non-UPU rates) product, and nine in the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product. Negotiated rates for each of the 19 NSAs generated sufficient revenue to cover their attributable cost in FY 2015. With the exception of Inbound Air Parcel Post (at non-UPU rates), the Commission concludes that Competitive Inbound International Products Consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable costs for each.

c. Inbound Air Parcel Post (at non-UPU rates)

For Inbound Air Parcel Post (at non-UPU rates), the Postal Service separately reports financial results for parcels from Royal Mail and collectively from several other European postal operators that are parties to the Agreement for the Delivery of Day-Certain Cross-Border Parcels (E-Parcel Group (EPG) Agreement). Inbound air parcels from Royal Mail are entered pursuant to the Royal Mail Group Inbound Air Parcel Post Agreement, which is classified as a product on the competitive product list.<sup>165</sup> Bilateral agreements for the entry of inbound air parcels from postal operators in the EPG-member countries of Belgium, Denmark, Finland, Slovakia, Slovenia, Sweden, and Switzerland were executed prior to the PAEA.<sup>166</sup> Therefore, they are not included on the competitive product list because the rates for inbound air parcels tendered by EPG-member countries have not changed. *Id.*

For FY 2015, the Postal Service reports that revenue for Inbound Air Parcel Post (at non-UPU rates) did not cover attributable cost. FY 2015 ACR at 66. Revenue from inbound air parcels entered pursuant to the bilateral agreement with Royal Mail exceeded cost.

<sup>164</sup> As with Competitive outbound international products, in some instances the Competitive inbound international product has the same name as the product category.

<sup>165</sup> See Docket Nos. MC2009-24 and CP2009-28, Order No. 218, Order Concerning Royal Mail Inbound Air Parcel Post Negotiated Service Agreement, May 29, 2009, at 10, 12.

<sup>166</sup> Docket No. ACR2013, United States Postal Service FY 2013 Annual Compliance Report, December 27, 2013, at 49.

Therefore, the loss is fully attributable to the financial results for inbound air parcels from EPG-member countries.

Financial penalties for the late delivery of EPG parcels, as well as late transmission of delivery data and missing delivery information, explain a large part of the FY 2015 loss. January 15, 2016, Responses to CHIR No. 2, question 9.b. In FY 2015, as in FY 2014, the Postal Service implemented an EPG continuous improvement plan to make operational improvements to decrease financial penalties and increase revenue. This plan improved quarterly on-time service performance and reduced penalties compared with FY 2014. The Postal Service explains that factors such as a focus on parcel scanning and a growth in First-Class Mail International parcels over capacity impacted financial penalties. *Id.*

In the FY 2014 ACD, the Commission recommended the Postal Service “pursue additional improvements in on-time service performance through implementation of the EPG continuous improvement plan to improve the financial results for Inbound Air Parcel Post (at non-UPU rates) during FY 2015.” FY 2014 ACD at 81. The Commission also directed the Postal Service to “negotiate compensatory rates within the EPG Agreement or extricate itself from the Agreement.” *Id.*

In its response to this directive, the Postal Service states that it will exit the EPG Agreement according to its terms on June 30, 2016. FY 2015 ACR at 67.

The Public Representative observes that from FY 2012 through FY 2014, the Inbound Air Parcel Post (at non-UPU rates) product failed to cover cost, and therefore, did not comply with 39 U.S.C. §§ 407(a)(2) and 3633(a)(2). *See* PR Comments at 56. He states that even though inbound air parcels entered pursuant to the Royal Mail agreement covered cost in FY 2015, Inbound Air Parcel Post (at non-UPU rates) as a whole was noncompliant because inbound air parcels from EPG-member countries failed to generate sufficient revenue to cover cost, but also notes that the Postal Service is in the process of exiting the EPG Agreement. *Id.* The Public Representative, therefore, “agrees that the proposed measure is reasonable.” *Id.* In its reply comments, the Postal Service reiterates that it will exit the EPG Agreement on June 30, 2016. USPS Reply Comments at 20-21.

As noted above, current rates applicable to inbound air parcels from EPG-member countries have not changed and, in FY 2015, revenue again did not cover cost. Because current rates for inbound air parcels do not cover attributable cost, the rates are inconsistent with federal policy to “promote and encourage unrestricted and undistorted competition in the provision of international postal services and other international delivery services....” 39 U.S.C. § 407(a)(2). The rates at issue distort competition. Exiting the EPG Agreement, however, will remove the distortion in the marketplace.

*The Commission concludes that the entry of inbound air parcels from EPG-member countries was inconsistent with 39 U.S.C. § 407(a)(2). The Commission directs the Postal Service to inform the Commission when it has formally exited the EPG Agreement. By July 31, 2016, the*

*Postal Service must inform the Commission of the date it formally exited the EPG Agreement or must explain why it has not exited the EPG Agreement.*

d. Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1

The Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product consists of nine bilateral NSAs with foreign postal operators for the entry of Inbound EMS, inbound air and surface parcel post. For FY 2015, the Postal Service reports that revenue for each of these NSAs covered their attributable cost. The Commission concludes that Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable costs for each.

## 5. Competitive Nonpostal Services

In FY 2015, competitive nonpostal services<sup>167</sup> generated \$106 million in revenue and incurred \$17 million in expenses, which resulted in a net revenue of \$89 million.<sup>168</sup> This figure represents a 4 percent increase compared to FY 2014.

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

Section 3633(a)(3) of Title 39 of the U.S.C. requires the Commission to ensure that all Competitive products collectively cover an appropriate share of the Postal Service's institutional cost. In implementing this section, the Commission determined that if Competitive products contribute at least 5.5 percent toward the Postal Service's total institutional costs, then, as a whole, they will cover an appropriate share of the Postal Service's total institutional cost. *See* 39 C.F.R. § 3015.7(c).<sup>169</sup>

In FY 2015, the Postal Service reports that total institutional cost was \$33.8 billion. FY 2015 ACR at 69. Therefore, in order to comply with 39 U.S.C. § 3633(a)(3) for FY 2015, Competitive products must contribute at least \$1.9 billion toward the Postal Service's institutional cost. *Id.* In FY 2015, the total Competitive products contribution was \$4.5 billion (13.3 percent), which exceeds the minimum contribution requirement. *Id.* The Public Representative concludes that the Postal Service complied with 39 U.S.C. § 3633(a)(3) in FY 2015. PR Comments at 52.

<sup>167</sup> The nine competitive products are: 1) Advertising; 2) Licensing of Intellectual Property Other Than Officially Licensed Retail Products; 3) Mail Services Promotion; 4) Officially Licensed Retail Products (OLRP); 5) Passport Photo Service; 6) Photocopying Service; 7) Rental, Leasing, Licensing or Other Non-Sale Disposition of Tangible Property; 8) Training Facilities and Related Services; and 9) USPS Electronic Postmark Service (EPM) Program. Docket No. MC2010-24, Order No. 1575, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11, 2012, at 4.

<sup>168</sup> USPS-FY15-NP27, Preface.

<sup>169</sup> In Order No. 1449, the Commission reaffirmed that the appropriate share of institutional costs to be borne by Competitive products is 5.5 percent, subject to future revision, if necessary. *See* Docket No. RM2012-3, Order Reviewing Competitive Products' Appropriate Share Contribution to Institutional Costs, August 23, 2012, at 24-25 (Order No. 1449).

*The Commission finds that in FY 2015 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional cost.*

## **E. Other Issues Raised by Commenters**

The American Consumer Institute Center for Citizen Research (ACI) asserts that the Postal Service subsidizes its Competitive products with its “monopoly dollars,” in violation of 39 U.S.C. § 3633(a)(1).<sup>170</sup> ACI also argues that the Postal Service circumvents the requirement that Competitive products cover their attributable costs by attributing only a limited portion of costs to Competitive products and labeling the remainder as fixed or institutional costs. ACI Comments at 3. ACI argues that these issues would be corrected if the Postal Service accurately and completely allocated all of its costs. *Id.* at 4. ACI urges the Commission to open a rulemaking proceeding to promulgate rules for a fully distributed cost model. *Id.* at 5.

In its reply comments, Amazon Fulfillment Services, Inc. (Amazon) argues that ACI's comments are outside the scope of the ACD.<sup>171</sup> Amazon states that the Commission's ACD is limited to an examination of whether the rates in effect during the fiscal year were in compliance with “applicable provisions of this chapter...or regulations promulgated thereunder.” Amazon Reply Comments at 1; *see* 39 U.S.C. § 3653. Amazon asserts that there is nothing in 39 U.S.C. chapter 36 or the Commission's implementing regulations that supports ACI's suggestion that the Commission require the Postal Service to fully allocate its institutional cost to individual products and classes or for the Commission to require that postal rates cover such fully allocated costs. Amazon Reply Comments at 1.

The scope of the Commission's ACR review is limited to determining the Postal Service's compliance with rates and services in FY 2015. 39 U.S.C. § 3653(b). Accordingly, the issues raised by ACI relating to the costing methodology and cost attribution for Competitive products are more appropriately addressed in a separate proceeding. The Commission is currently considering two proposals submitted by United Parcel Service, Inc. (UPS) that relate to cost attribution for Competitive products.<sup>172</sup> As a result, the issues raised in ACI's comments do not warrant initiation of an additional proceeding to investigate the methodology the Postal Service uses to attribute total postal cost.

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<sup>170</sup> Comments of the American Consumer Institute Center for Citizen Research, February 2, 2016, at 2 (ACI Comments).

<sup>171</sup> Reply Comments of Amazon Fulfillment Services, Inc., February 12, 2016, at 1 (Amazon Reply Comments).

<sup>172</sup> *See* Docket No. RM2016-2, Order No. 2793, Notice of Proposed Rulemaking on United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), October 29, 2015.

# CHAPTER 5: SERVICE PERFORMANCE

## A. Service Performance Results by Class

### 1. Introduction

Section 3652 (a)(2)(B)(i) of Title 39 of the U.S.C. requires the Postal Service to report on each Market Dominant product's "level of service (described in terms of speed of delivery and reliability)." Section 3055.2(h) of Title 39 of the C.F.R. requires the Postal Service to report "[f]or each product that does not meet a service standard, an explanation of why the service standard is not met, and a plan describing the steps that have or will be taken to ensure that the product meets or exceeds the service standard in the future." *See also* 39 U.S.C. § 3652(d), (e).

Speed of delivery is evaluated based on the mailpiece reaching its destination within a given service standard; reliability refers to consistency of delivery. The Commission compares the information in the Postal Service's ACR against targets established by the Postal Service to evaluate annual service performance for each Market Dominant product.<sup>173</sup>

The products listed in Table V-1 met or exceeded their annual service performance targets for FY 2015.

**Table V-1**  
**Market Dominant Products that Met Annual Service Performance Targets, FY 2015**

Class	Product
Standard Mail	<ul style="list-style-type: none"> <li>• High Density and Saturation Letters</li> <li>• Parcels</li> </ul>
Package Services	<ul style="list-style-type: none"> <li>• Bound Printed Matter Parcels</li> <li>• Media Mail/Library Mail</li> </ul>
Special Services	<ul style="list-style-type: none"> <li>• Ancillary Services</li> <li>• International Ancillary Services</li> <li>• Address List Services</li> <li>• Money Orders</li> <li>• Stamp Fulfillment Service</li> </ul>

<sup>173</sup> On an annual basis, the Commission compares a product's on-time delivery with the delivery target established by the Postal Service. For Special Services, the Commission evaluates performance data from metrics developed by the Postal Service applicable to each product.

The products listed in Table V-2 did not meet their targets for FY 2015. Significantly, for the first time since the Commission began evaluating the service performance of the Postal Service, no First-Class Mail products met their service performance targets.<sup>174</sup>

**Table V-2**  
**Market Dominant Products that Failed to Meet Annual Service Performance Targets, FY 2015**

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

After a summary of the systems the Postal Service uses to measure service performance, the Commission discusses the Postal Service’s responses to the FY 2014 ACD directives. The Commission then analyzes the Postal Service’s FY 2015 service performance results.

## 2. Measurement Systems

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

Table V-3 identifies each system used to measure those products reported in the Postal Service’s *Annual Service Performance Report*. In Table V-3, and the discussion that follows, the Commission uses the following acronyms and abbreviations: *EXFC* for “External First-

<sup>174</sup> See Library Reference USPS–FY15–29, December 29, 2015.

Class Measurement,” *iMAPS* for “Intelligent Mail Accuracy and Performance System,” *IMb* for “Intelligent Mail barcode,” *IMMS* for “International Mail Measurement System,” *PTS* for “Product Tracking System,” and *SASP* for “Seamless Acceptance and Service Performance.”

**Table V-3**  
**Service Performance Measurement Systems**

Product	Single-Piece			Presort		
	Letters	Flats	Parcels	Letters	Flats	Parcels
First-Class Mail	EXFC	EXFC	PTS	iMAPS	iMAPS*	PTS
Periodicals				iMAPS	iMAPS	
Standard Mail	SASP	SASP		iMAPS	iMAPS	PTS
Package Services		PTS	PTS		iMAPS	PTS
International Mail	IMMS	IMMS				
Special Services	Custom designed internally based measurement systems					

Source: Docket No. PI2008-1, Service Performance Measurement, November 2007, at 6.

\* In FY 2015, presorted First-Class Mail Flats were measured with the iMAPS system for the first time.

a. External First-Class Measurement System (EXFC)

EXFC is a sampling system managed by an independent contractor. Delivery performance is measured from the street collection box to the delivery mailbox.<sup>175</sup> When evaluating delivery performance, test mailers record the time they place First-Class Mail in the collection box. The pieces are deposited before the last collection-time for the collection box. Those test mailpieces are sent to a nationwide panel of receivers who record when each is delivered to their mailboxes. Actual transit time is then compared against First-Class Mail service standards. EXFC provides quarterly service performance measurement scores at the area and district levels.

b. Intelligent Mail Accuracy and Performance System (iMAPS)

iMAPS provides an end-to-end service performance measurement by using documented mail arrival time at a designated postal facility to start a measurement clock and an IMb scan by an external, third-party reporter to stop the clock. The measurement involves two distinct steps. The Postal Service obtains processing times based on IMb scans reported through the SASP system described below. Throughout FY 2015, SASP captured data from all Full-Service Intelligent Mail.<sup>176</sup> This is combined with a “last mile” factor that is developed through scans by third-party reporters upon receipt of the mail. Service

<sup>175</sup> Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 49 (FY 2009 ACD).

<sup>176</sup> Library Reference USPS–FY15–29 at 2. *But see infra* V.A.2.f.

performance is measured by comparing the overall transit time to the service standards to determine the percentage of mail delivered on-time.

c. Product Tracking System (PTS)

PTS is an internal measurement system that measures transit time from the time of mailing until the time of delivery. *Id.* It is only for use with parcels. Measurements are based on over-the-counter and delivery confirmation scans. Actual transit time is compared against service standards for the Market Dominant Parcel products.

d. Seamless Acceptance and Service Performance (SASP)

SASP uses data provided by commercial mailers with Full-Service Intelligent Mail, such as acceptance time, payment, and verification, to enable the Postal Service to monitor service delivery and overall performance.<sup>177</sup> Information collected also helps to determine address accuracy, verify the quality of mail preparation, and track individual pieces as they move through the mail system.

e. International Mail Measurement System (IMMS)

Based on a system similar to EXFC, IMMS measures the domestic leg of transit time for international mail. Library Reference USPS–FY15–29 at 9. It measures the time between the domestic collection point and the outbound international service center for outbound letters, and between the inbound international service center and the domestic delivery point for inbound letters.

f. Intelligent Mail Barcode (IMb)

In Quarter 3 of FY 2011, the Postal Service began using IMb to measure service performance for Standard Mail, Periodicals, Bound Printed Matter (BPM) Flats, and some First-Class Mail products. The Postal Service currently offers two barcode options for mailers: Basic and Full-Service. The Basic option allows mailers to utilize IMbs for their mailpieces without the added benefit of accounting for each unique piece.<sup>178</sup>

The Full-Service feature allows the mailer to identify unique mailpieces throughout the mail stream, receive start-the-clock notifications, discounts, and automated address corrections. *Id.* Only the Full-Service feature provides data needed to measure service performance. Mailers are required to prepare mail with IMbs and submit electronic mailing information listing IMbs used. Mail is verified to ensure it meets mail preparation criteria. Mail that does not meet mail preparation requirements is excluded from service performance measurement. *Id.*

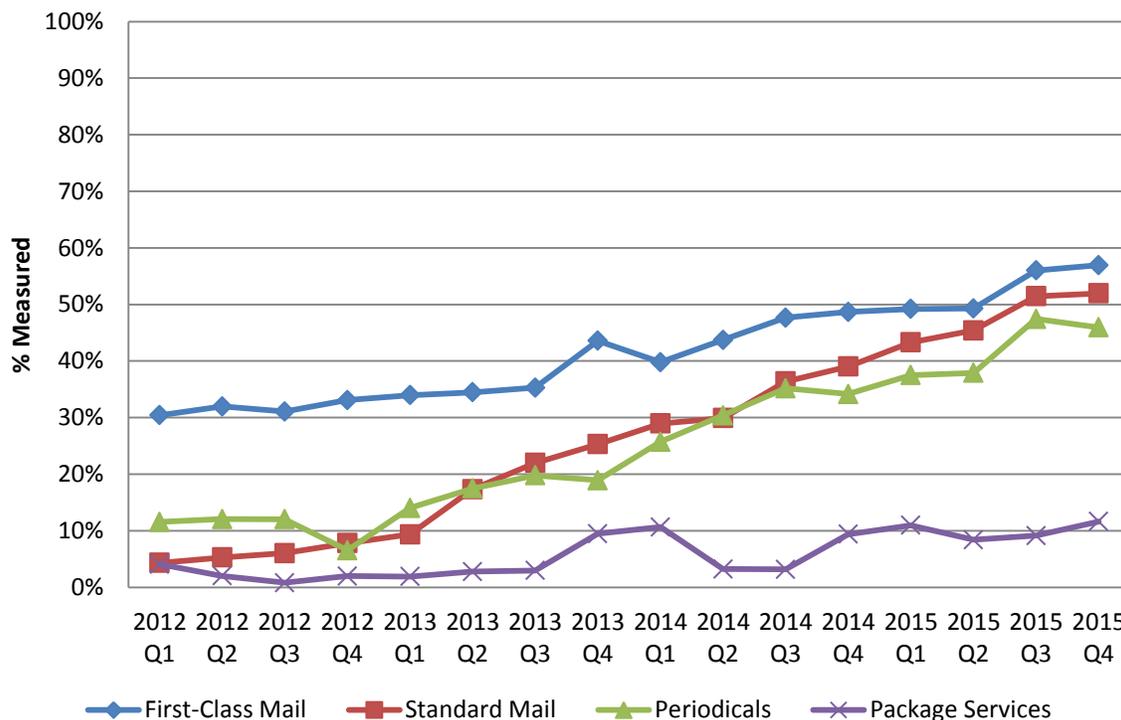
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<sup>177</sup> United States Postal Service, Guide to Seamless Acceptance, Volume 2.1., June 2015; [https://ribbs.usps.gov/intelligentmail\\_guides/documents/tech\\_guides/GuidetoSeamlessAcceptance.pdf](https://ribbs.usps.gov/intelligentmail_guides/documents/tech_guides/GuidetoSeamlessAcceptance.pdf). Accessed on March 8, 2016.

<sup>178</sup> United States Postal Service, Overview to Intelligent Mail Basic Service; [https://ribbs.usps.gov/intelligentmail\\_guides/documents/tech\\_guides/OverviewIntelligentMailBasicService.pdf](https://ribbs.usps.gov/intelligentmail_guides/documents/tech_guides/OverviewIntelligentMailBasicService.pdf). Accessed on March 2, 2016.

Since FY 2012, the number and proportion of mailpieces measured by IMb increased. Figure V-1 illustrates this trend, showing the percent of First-Class Mail, Standard Mail, Periodicals, and Package Services<sup>179</sup> volume measured by IMb since 2012.

**Figure V-1**  
**Percent of Market Dominant Mail Measured by Full-Service IMb, FY 2012–FY 2015<sup>180</sup>**



*District level measurement.* Service performance is measured by the Postal Service at the district level. These data are aggregated to the area level and then aggregated again to report nationwide service performance results.<sup>181</sup> In order to be representative of the nation as a whole, a product’s nationwide service performance results should include data from all districts.

In FY 2011 and FY 2012, the Commission expressed concern regarding representativeness of nationwide data for some products.<sup>182</sup> At that time, the Postal Service was unable to produce reliable service performance results at the product and service standard levels for some districts due, in part, to low levels of Full-Service IMb participation and missing start-the-clock scans. FY 2012 ACD at 51. Results collected from these districts were deemed unreliable due to an insufficient volume of measureable mail and excluded from the

<sup>179</sup> BPM Flats is the only Package Service product measured using IMb. The remaining products are measured using the PTS.

<sup>180</sup> The Postal Service began reporting service performance results for most Market Dominant products beginning in FY 2011, Quarter 3.

<sup>181</sup> See USPS Quarterly Service Performance Reports Quarters 1-4 of FY 2015; <http://www.prc.gov/documents/quarterly-performance>.

<sup>182</sup> FY 2011 ACD at 64-65; FY 2012 ACD at 63-64.

nationwide service performance result. The lack of data from some districts created “coverage gaps” that impacted the representativeness of nationwide performance measurement results.<sup>183</sup>

In FY 2015, the service performance results reported for products and service standard levels included data from most districts. Table V-4 compares the percentage of districts that reported statistically meaningful results in the first quarter of FY 2012 to the percentage of districts that reported statistically meaningful results in the fourth quarter of FY 2015.

**Table V-4**  
**Percent of Districts that Provided Results Disaggregated by Mail Class<sup>184</sup>**

Mail Type	FY 2012 Q1	FY 2015 Q4
First-Class Mail	98.51%	99.50%
Standard Mail	47.30%	88.17%
Package Services	91.79%	100.00%

Sources: USPS *Quarterly Service Performance Report* for First-Class Mail, Quarter 1 of FY 2012, February 16, 2012; FY 2012, Standard Mail, Quarter 1; USPS *Quarterly Service Performance Report* for Package Services, Quarter 1 of FY 2012, February 16, 2012; USPS *Quarterly Performance Report* Quarter 4, FY 2015, November 9, 2015 (FY 2015, Performance, Quarter 4).

*Pieces excluded from measurement.* In FY 2015, significant portions of mail with Full-Service IMb and entered at discounted prices were not included in measurement. Table V-5 shows the percentage of mail in measurement, percentage of Full-Service mail included in measurement, and percentage of Full-Service IMb mail excluded from measurement for Market Dominant products by class.

<sup>183</sup> USPS *Quarterly Service Performance Reports* for Standard Mail, Quarter 1 of FY 2012, February 16, 2012 (FY 2012, Standard Mail, Quarter 1).

<sup>184</sup> Periodicals results are disaggregated to the area level only.

**Table V-5**  
**Percentage of Mail Included and Excluded from Measurement, FY 2015**

Product	Percentage of mail in measurement	Percentage of mail entered at Full-Service IMb prices and included in measurement	Percentage of mail processed as Full-Service IMb but excluded from measurement
<b>First-Class Mail</b>			
Presorted Letters/Postcards	52.74%	60.20%	39.80%
Flats	12.75%	54.17%	45.83%
<b>Standard Mail</b>			
High Density and Saturation Letters	58.78%	Not Available	Not Available
High Density and Saturation Flats/Parcels	21.87%	Not Available	Not Available
Carrier Route Letters	53.80%	Not Available	Not Available
Letters	56.07%	Not Available	Not Available
Flats	45.04%	Not Available	Not Available
Every Door Direct Mail-Retail	27.98%	N/A	N/A
Parcels	30.35%	N/A	N/A
Total Standard Mail	50.29%	65.21%	34.79%
<b>Periodicals</b>			
In-County	N/A	Not Available	Not Available
Outside County	46.70%	Not Available	Not Available
Total Periodicals	42.68%	61.63%	38.37%
<b>Package Services</b>			
Bound Printed Matters Flats	10.09%	38.20%	61.80%

N/A = Not Applicable.

Not Available = The Postal Service does not have this information available.

Source: Responses of the United States Postal Service to Questions 1-4, 8, 11, and 13-16 of Chairman's Information Request No. 6, February 3, 2016, question 16 (February 3, 2016, Responses to CHIR No 6).

As shown in Table V-5, a large percentage of mail entered at Full-Service IMb prices is excluded from service performance measurement. In the Postal Service's February 16, 2016, Responses to CHIR No. 11, question 8, the reasons mail are excluded from measurement can be grouped into four broad categories: issues with the barcode or accompanying electronic documentation (eDoc), invalid data, operational failures, and addressing issues.

*Issues with the barcode or eDoc.* To ensure proper tracking, the Postal Service requires the IMBs affixed on mailpieces, handling units, and containers to be unique for a period of 45 days. Pieces are excluded from measurement if:

- The physical IMb on the mailpiece is not unique.
- The container IMb is found on the placard of more than one container when it is entered at the Postal Service facility.
- When the mailpieces', handling units', or containers' IMBs in the eDoc are not unique across all mailers and mailings for 45 days.
- The entry facility for the container in eDoc does not match the entry facility in the associated Facility Access and Shipment Tracking (FAST) Appointment and both facilities do not reside in the same 3-Digit ZIP Code.
- The entry facility is not a valid Postal Service entry facility.
- The mailpiece is nested to an Orphan Handling Unit (handling unit not on a pallet) which is not entered at a Business Mail Entry Unit.
- The eDoc piece/tray/container nesting does not match the sampled mail preparation.
- The mailer is identified as non-compliant due to inaccuracies in mail preparation or the mailer is in a 6-week monitoring period for new mailers.

*Invalid data.* Invalid data will result in mail being excluded from measurement. Examples of invalid data include:

- An entry point for entry discount of the piece/container in eDoc is not valid for the entry point and destination per the Mail Direction File.
- The final processing scan ZIP Code does not match a valid area or district.
- The 3-Digit (FSS Facility) sorted pallet is entered directly at a DFSS site.
- The 5-Digit ZIP Code of the entry facility does not match a valid area or district.
- Irregularity with the appointment is identified while unloading the containers.
- The start-the-clock date is 120 days or more before the current date.
- The scheduled ship date and time of the container in eDoc is 48+ hours earlier than the postage statement finalization date and time for Postal Service transported containers.
- The number of days to delivery exceeds the specified threshold (30 days for First-Class Mail, 45 days for Standard Mail and Periodicals).
- The mailpiece receives inconsistent scan events when calculating service performance measurement (*e.g.*, container/mailpiece scans are not in chronological order).
- The 11-digit delivery point in the IMb is not a valid Postal Service delivery point.
- No automation scan is observed for the mailpiece.
- There is a lack of a container unload scan or an inability to identify the FAST appointment associated with the container.

*Operational failures.* Operational failures can result in exclusion from measurement because the Postal Service loses visibility of the mailpieces. Operational failures include:

- The container is marked as a "broken pallet" when it arrives at Postal Service entry facility.
- Volume overflows from one tray to another tray that is not nested in the same container.
- The container with First-Class Mail is incorrectly identified as drop-shipped in the eDoc.
- Mail is verified at a Detached Mail Unit (DMU) and then transported by the Postal Service to a mail processing facility in a different district than the DMU.

*Addressing issues.* If there are issues with the address on the mailpiece it will be excluded from measurement. Addressing issues include:

- 3-Digit Entry and/or Delivery ZIP Code is an IRS processing center, federal agency, government, military, or other excluded ZIP.
- The mailing fails a manual or Mail Evaluation Readability Lookup Instrument verification.
- The mailpiece is redirected from the original destination specified in the IMb as a result of a Change Of Address or is Undeliverable as Addressed.

### 3. Analysis of 2014 Directives and Action Plan (Flats)

For several years, service performance results for First-Class Mail Flats, Standard Mail Carrier Route, Standard Mail Flats, Periodicals, and BPM Flats have not met their targets and have not shown significant improvement.<sup>185</sup> In the FY 2014 ACD, the Commission issued directives to the Postal Service for each of these products composed of flats.<sup>186</sup> For each flat product, the Postal Service was directed to improve service performance results in FY 2015 or, if results did not improve, provide an explanation for why its efforts to improve performance were ineffective and detail the changes it plans to make to improve results.

In FY 2015, service performance for many products did not meet existing targets or improve relative to the prior year's results. This was true, in particular, for products composed of flats. Service performance for Market Dominant flats products across all mail classes (First-Class Mail, Standard Mail, Periodicals, and Package Services) have been substantially below targets since FY 2012.

Because the Postal Service failed to supply adequate responses to most of the Commission's FY 2014 directives in its FY 2015 ACR, CHIRs were issued that requested additional information.<sup>187</sup> In general, the Postal Service attributes flats service performance results to: a decrease in flats volume, an increase in parcel volume, distribution deficiencies, and

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<sup>185</sup> For the purposes of this discussion, Standard Mail High Density and Saturation Flats/Parcels are not reviewed with other flats because they are entered, processed, and delivered differently.

<sup>186</sup> FY 2014 ACD at 104, 109, 112, 114.

<sup>187</sup> See Library Reference USPS-FY15-29 at 8, 9, 13, 14, 16, 17.

manual processing. Individual flats products are discussed below and a holistic approach to service performance issues for flats is discussed in Chapter 6.

a. First-Class Mail Flats

The Commission issued the following service performance directive in the FY 2014 ACD:

*This is the fourth consecutive year that First-Class Mail Flats did not meet service performance targets. In addition, service performance has not improved since FY 2011. The Commission directs the Postal Service to improve service for First-Class Mail Flats in FY 2015 or to provide an explanation in the FY 2015 ACR for why efforts to improve service performance results for First-Class Mail Flats have been ineffective and detail what changes it plans to make to improve service performance.<sup>188</sup>*

The Postal Service did not improve service for First-Class Mail Flats in FY 2015. Library Reference USPS–FY15–29 at 4. Figure V-2 illustrates the overall decline in First-Class Mail Flats service performance results since FY 2011.

**Figure V-2  
First-Class Mail Flats  
Service Performance Results, FY 2011–FY 2015**

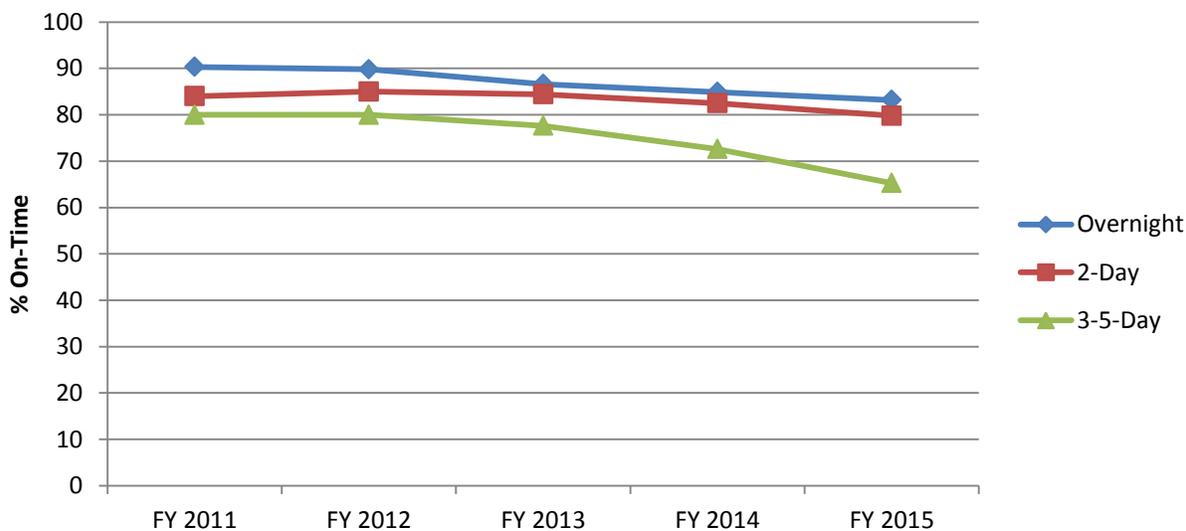


Table V-6 shows service performance targets and results for First-Class Mail Flats over the same period.

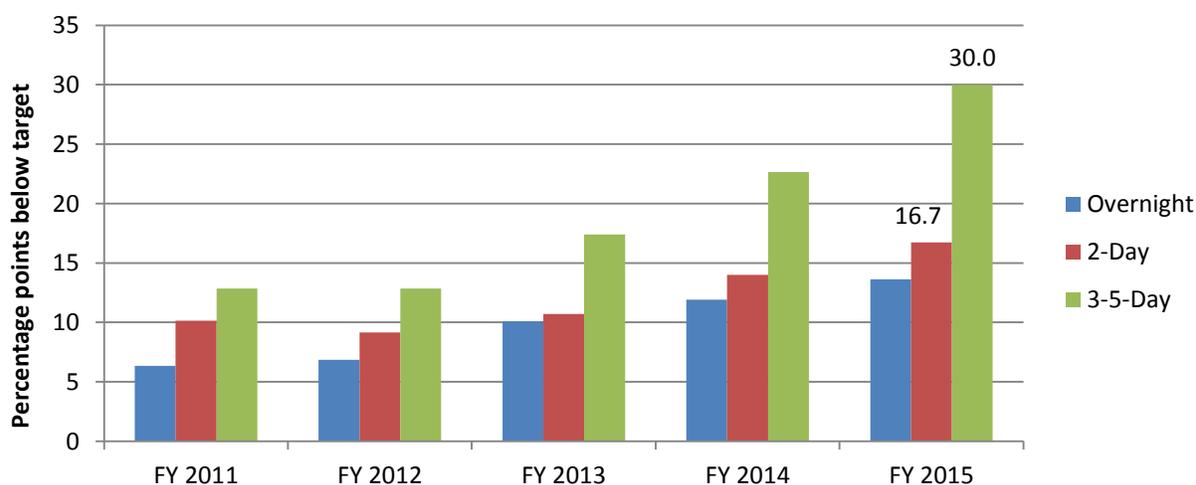
<sup>188</sup> FY 2014 ACD at 104 (emphasis in original).

**Table V-6**  
**First-Class Mail Flats**  
**Service Performance Targets and Results, FY 2011–FY 2015**

	FY 2011		FY 2012		FY 2013		FY 2014		FY 2015	
	Target	Result								
<b>Overnight</b>	96.65	90.3	96.65	89.8	96.70	86.6	96.80	84.9	96.80	83.2
<b>2-Day</b>	94.15	84.0	94.15	85.0	95.10	84.4	96.50	82.5	96.50	79.8
<b>3-5-Day</b>	92.85	80.0	92.85	80.0	95.00	77.6	95.25	72.6	95.25	65.3

Figure V-3 illustrates the widening difference between service performance targets and service performance results since FY 2011.

**Figure V-3**  
**First-Class Mail Flats**  
**Percentage Points Below Target, FY 2011–FY 2015**



The service performance of First-Class Mail Flats with a 2-Day service standard was 16.7 percentage points below target in FY 2015. The service performance of First-Class Mail Flats with a 3-5-Day service standard was 30.0 percentage points below target in FY 2015. Rather than improve in FY 2015, service performance results deteriorated to the worst level since FY 2011.

(1) Postal Service Response to FY 2014 ACD Directive

Because the Postal Service was unable to improve service performance, it was required to provide information regarding past efforts to improve service and future plans to improve service. This aspect of the directive required the Postal Service to do two things. First, the Postal Service was required to provide an explanation for why its efforts to improve First-Class Mail Flats performance were ineffective. Second, the Postal Service was required to detail what changes it plans to make to improve results. In the *Annual Report on Service*

*Performance for Market Dominant Products* filed with its ACR, the Postal Service explains that realigning and retraining employees in new jobs, winter storms, and network constraints were reasons why First-Class Mail Flats performance did not improve in FY 2015.<sup>189</sup> Regarding its plans to improve service, the Postal Service merely states that it “plans to increase emphasis on the processing of First-Class Mail Flats.” *Id.* at 9. Specifically, it states that this “will include standardizing the handling of special sort assignment on the flat sorting equipment.” *Id.*

Several CHIRs were issued to request additional information about the Postal Service’s efforts to improve FY 2015 service performance and the reasons such efforts were ineffective. In response, the Postal Service explains that its efforts to improve service performance for First-Class Mail Flats in FY 2015 included Kaizen events and performing sort plan optimization.<sup>190</sup> It states that Kaizen events entail deploying Headquarters and Field service improvement teams to “highest impact facilities with the goal of identifying processing and network constraints that could potentially impact service performance.” *Id.* Concerning sort plan optimization, it explains that it sought to standardize the handling of special sort assignments, which refer to “mail pieces that cannot be sorted based on mail piece characteristics.” January 19, 2016, Responses to CHIR No. 2, question 20.a. It estimates that 3.2 percent of the First-Class Mail Flats volume was handled by special sort assignments in FY 2015. *Id.* question 20.b.

The Postal Service explains that these efforts to improve service performance for First-Class Mail Flats were ineffective in FY 2015 “mainly because of continued flats volume decline which increase[d] the ratio of allied to productive distribution.” January 19, 2016, Responses to CHIR No. 2, question 15.a. The Postal Service further details that an increase in the ratio of allied to productive distribution suggests a decrease in the productive movement of mailpieces throughout the network.<sup>191</sup>

The Postal Service also notes that its efforts to improve service performance for First-Class Mail Flats were ineffective in FY 2015 because the decline in volume created less dense trays and containers, which “have a higher risk to impact service performance.” January 19, 2016, Responses to CHIR No. 2, question 15.b. This was due to “mail potentially losing its facing and alignment, making destination processing less efficient and more prone to rejects and missorts” and employees mistaking low-density trays as “empty equipment.” February 16, 2016, Responses to CHIR No. 11, question 1.g.

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<sup>189</sup> Library Reference USPS-FY15-29 at 8.

<sup>190</sup> Responses of the United States Postal Service to Questions 15-26 of Chairman’s Information Request No. 2, January 19, 2016, question 15 (January 19, 2016, Responses to CHIR No. 2).

<sup>191</sup> The Postal Service clarifies that a higher ratio of allied to productive distribution does not directly affect service performance; rather, the decline in flats volume negatively affected service performance. The Postal Service states that the decline in flat volume also resulted in an increase in the ratio of allied to productive distribution, but clarifies that it is not necessarily linked to the decline in service performance. Responses of the United States Postal Service to Questions 1-6, 8-10 of Chairman’s Information Request No. 11, February 16, 2016, question 1.f. (February 16, 2016, Responses to CHIR No. 11).

In order to improve service performance, the Postal Service notes that it will continue programs currently in place in FY 2015 to improve service performance in FY 2016. Library Reference USPS–FY15–29 at 9. The Postal Service states it will focus its efforts on proper mail flow, sort plan density optimization, and lean and continuous improvement tools. January 19, 2016, Responses to CHIR No. 2, questions 15.b. Its improvement tools “rely on collaborative team efforts analyzing data to improve performance and systematically remove defects.”<sup>192</sup> The Postal Service states that the combination of these tools and Postal Service analysis should identify root causes, solutions, and corrective action. *Id.*

## (2) Commission Analysis

The Postal Service repeatedly asserts that service performance results are improving because the results in Quarters 3 and 4 have historically been higher than the results in Quarters 1 and 2.<sup>193</sup> The Commission agrees that, in general, service performance is typically higher in Quarters 3 and 4 than in Quarters 1 and 2. However, the Commission does not concur with the Postal Service’s assessment that this pattern indicates an overall improvement in service performance.

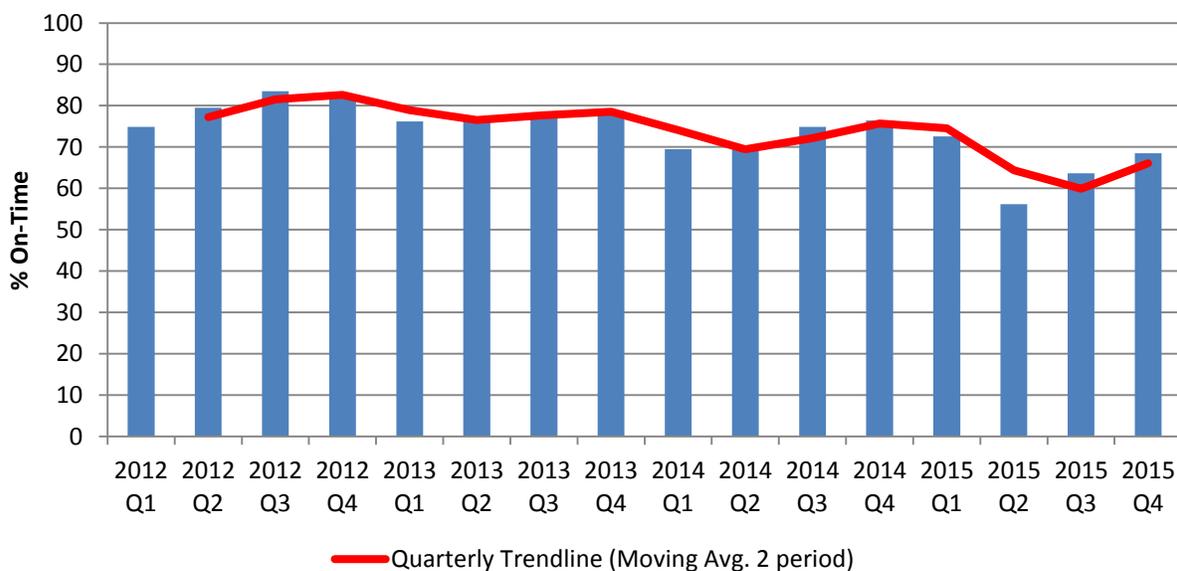
Figure V-4 illustrates that service performance results typically increase within a fiscal year. This was again true in FY 2015, with the lowest quarterly result occurring in Quarter 2 of FY 2015.

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<sup>192</sup> February 16, 2016, Responses to CHIR No. 11, question 1.i. The Postal Service provides several examples including “process flow maps, value stream maps, cause and effect diagrams, pareto charts, process capability analysis, correlation analysis, control charts and gemba walks.” *Id.*

<sup>193</sup> Docket No. ACR2012, Library Reference USPS–FY12–29, December 28, 2012, at 8; Docket No. ACR2013, Library Reference USPS–FY13–29, December 27, 2013, at 8; Docket No. ACR2014, Library Reference USPS–FY14–29, December 29, 2014, at 8-9.

**Figure V-4**  
**First-Class Mail Flats with a 3-5-Day Service Standard**  
**Service Performance Results per Quarter, FY 2012 – FY 2015**



As Figure V-4 illustrates, although service performance results trend upward by quarter during a fiscal year, they are generally declining year-over-year. Improvements during the year do not portend improvement in future years.

The Postal Service highlights its use of lean and continuous improvement tools to improve nationwide service performance. January 19, 2016, Responses to CHIR No. 2, question 15.b. Due to the ongoing decline in service performance results, it appears that the Postal Service's use of its diagnostic tools, or the associated corrective action, has been ineffective in increasing service performance results in areas with pinch points<sup>194</sup> in processing or transportation flows. *See* Docket No. ACR 2012, Library Reference USPS–FY12–29 at 8. The Postal Service has not identified how future use of its diagnostic tools will produce better service performance results than in the past. For further discussion, including discussion of the reasons why diagnostic tools may not have been effective to date, *see* Chapter 6.

Further, as detailed below, eight districts have recurring poor performance for First-Class Mail Flats. The Postal Service states that the purpose of the diagnostic tools is to identify problematic locations so that the Postal Service can develop and implement solutions. *Id.* However, because the same districts demonstrate repeated poor performance, it does not appear that the use of diagnostic tools is leading to improvement.

<sup>194</sup> Pinch points are functions where the Postal Service is not operating at maximum efficiency from a cost or service perspective. For a further discussion of pinch points, *see* Chapter 6.

In FY 2015, the Postal Service deployed Kaizen improvement teams to facilities where processing and network constraints were evident.<sup>195</sup> Table V-7 lists the sites and corresponding service reporting districts where improvement teams were deployed. The table shows that Kaizen teams were sent to some, but not all, of the consistently lowest performing districts.

**Table V-7**  
**First-Class Mail Flats with a 3-5-Day Service Standard**  
**Correlation Between Recurring Poor Performing Districts and Kaizen Deployment**

District	Number of Times in Bottom Quartile FY 2012 - FY 2015 <sup>196</sup>	Kaizen Improvement Team Site Within District
Baltimore	3	
Connecticut Valley	4	Springfield, MA
Greater Boston	4	Boston, MA
Long Island	4	
Louisiana	3	New Orleans, LA
Suncoast	3	
South Florida	4	Miami, FL
Westchester	4	

Another of the Postal Service's efforts to increase service performance for First-Class Mail Flats in FY 2015 was to standardize the handling of special sort assignments on flat sorting equipment (*i.e.*, sort plan optimization). January 19, 2016, Responses to CHIR No. 2, question 20. Special sort assignments refer to mailpieces that cannot be sorted based on mailpiece characteristics. *Id.* However, the Postal Service states that special sort assignments only affect 3.2 percent of current Flats volume. *Id.* The Postal Service notes that this initiative to improve service performance results, the same as all of its FY 2015 efforts to improve service performance results, will continue as part of its plan to improve service performance results in FY 2016. Library Reference USPS-FY15-29 at 9-10.

The Commission's FY 2014 First-Class Mail Flats directive required the Postal Service to provide an explanation for why its efforts to improve First-Class Mail Flats performance were ineffective. Although the Postal Service identifies winter storms, network constraints, and employee training and realignment as three reasons why its efforts to improve were not effective, the Postal Service does not explain how its plans will be effective to overcome

<sup>195</sup> February 16, 2016, Responses to CHIR No. 11, question 1.e. The Postal Service explains that Kaizen events entail deploying Headquarters and Field service improvement teams to "highest impact facilities with the goal of identifying processing and network constraints that could potentially impact service performance." January 19, 2016, Responses to CHIR No. 2, question 15.a.

<sup>196</sup> This column states the number of instances (the maximum number is 4) where a district was among the 15 lowest-performing districts calculated using annual results from FY 2012-FY 2015.

these obstacles in future years. In responses to CHIRs, the Postal Service also points to ongoing volume decline as a contributing factor.<sup>197</sup>

The Postal Service was also required to detail what changes it plans to make to improve results. The Postal Service's response merely stated that it would emphasize the processing of First-Class Mail Flats and increase standardization of the handling of special sort assignments. Library Reference USPS–FY15–29 at 9. Given that special sort assignments make up only 3.2 percent of First-Class Mail Flats volume, this response was inadequate to show that the Postal Service has plans in place to successfully address First-Class Mail Flats' service performance.

The Postal Service's responses to CHIRs did provide more detail but mostly did not differentiate its FY 2016 plan from its ineffective FY 2015 actions. Stating it will largely take the same approach to improving First-Class Mail Flats service in FY 2016, the Postal Service did not adequately explain why these changes will be more effective in FY 2016 after 4 years of not meeting targets. Instead, it proposed a vague network-wide mitigation plan, which substantially overlapped with FY 2015 efforts and did not offer comprehensive insight to its corrective actions by, for example, providing information at the district and facility-levels.

For these reasons, the Commission takes further action in accordance with these findings in Chapter 6.

b. Standard Mail Carrier Route

The Commission issued the following directive in the FY 2014 ACD:

*Standard Mail Carrier Route and Flats continue to fall well short of intended annual performance targets. The Commission directs the Postal Service to improve service for these products in FY 2015 or to explain in the FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve service performance.*<sup>198</sup>

Service performance results for Standard Mail Carrier Route were below target for FY 2015. In addition, the Postal Service did not significantly improve the service performance of Standard Mail Carrier Route in FY 2015.<sup>199</sup> Figure V-5 shows the service performance results for Standard Mail Carrier Route from FY 2012 to FY 2015.

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<sup>197</sup> January 19, 2016, Responses to CHIR No. 2, question 16; February 16, 2016, Responses to CHIR No. 11, question 2.f. The effects of volume decline are discussed in Chapter 6.

<sup>198</sup> FY 2014 ACD at 109 (emphasis in original).

<sup>199</sup> Library Reference USPS–FY15–29 at 11. The service performance results for Standard Mail Carrier Route increased from 81.4 percent in FY 2014 to 82.0 percent in FY 2015. While this represents a slight increase, results remain substantially below target.

**Figure V-5  
Standard Mail Carrier Route  
Service Performance Results, FY 2012–FY 2015**

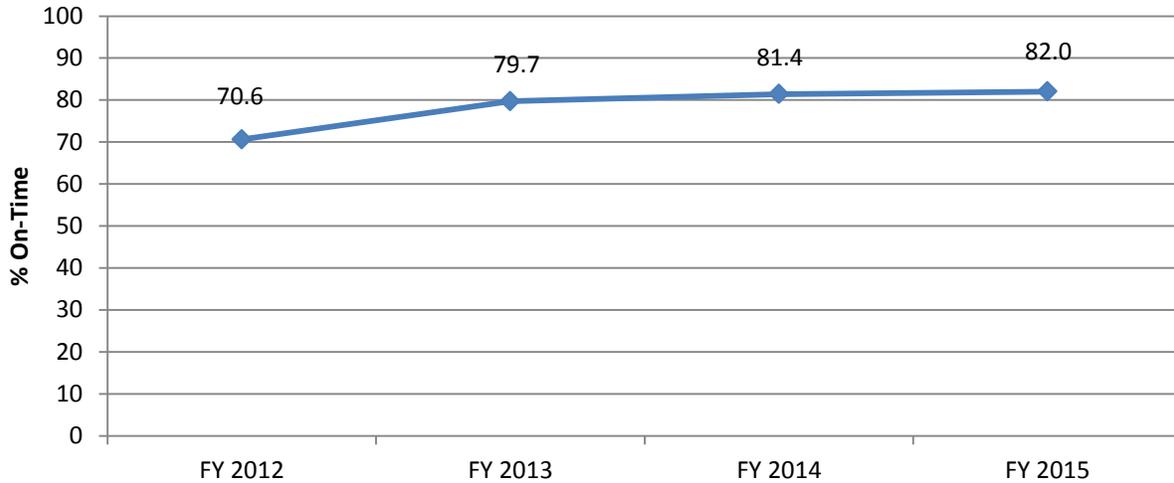
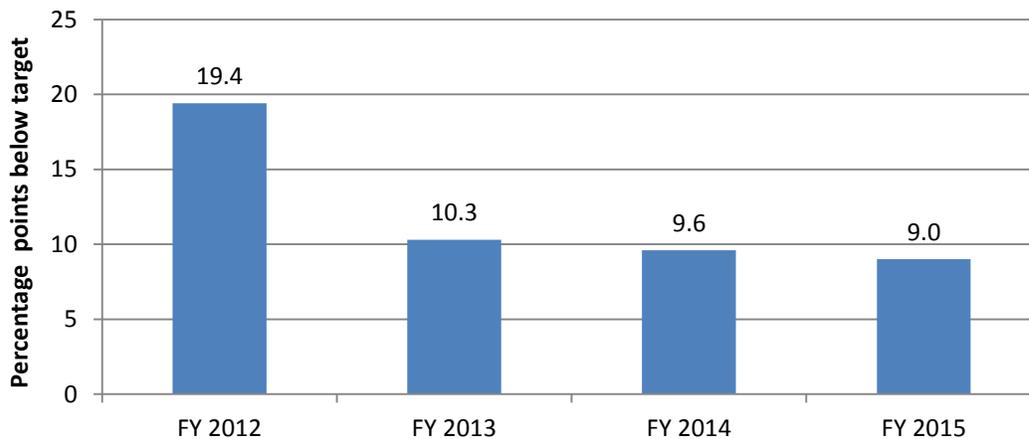


Figure V-6 shows the percentage points below target for Standard Mail Carrier Route Flats from FY 2012 to FY 2015.

**Figure V-6  
Standard Mail Carrier Route  
Service Performance Percentage Points Below Target, FY 2012–FY 2015**



In FY 2014, the Standard Mail Carrier Route service performance result was 9.6 percentage points below target, a result that slightly improved to 9.0 percentage points below target in FY 2015.

(1) Postal Service Response to FY 2014 ACD Directive

As shown in Figure V-5 above, service performance results for Standard Mail Carrier Route did not meet their FY 2015 target. Standard Mail Carrier Route’s service performance results were nearly flat year-over-year, increasing only slightly from 81.4 percent in

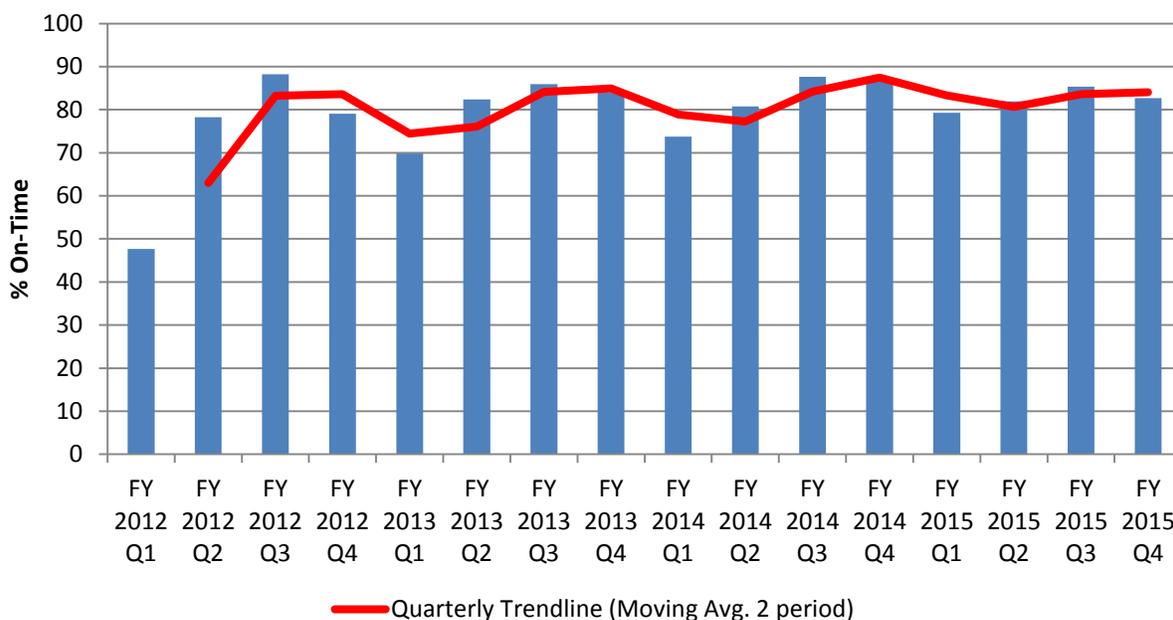
FY 2014 to 82.0 percent in FY 2015. Library Reference USPS–FY15–29 at 11. Because the Postal Service was able to slightly improve its service performance for Standard Mail Carrier Route, it was not required to provide an explanation of why its efforts to improve performance were ineffective and the changes it plans to make to improve results.

(2) Commission Analysis

Although the Postal Service was able to marginally improve service performance results for Standard Mail Carrier Route, results were still 9 percentage points below target in FY 2015. The discussion in this section details the obstacles the Postal Service must address in order to achieve its service performance target. The Commission provides its analysis of Standard Mail Carrier Route quarterly results, worst-performing districts, last mile delivery factor, and the impact of the load leveling initiative. Each of these components is an area in which the Postal Service must improve in FY 2016 in order to meet service performance targets.

First, the quarterly performance information provided by the Postal Service highlights its difficulty sustaining service performance improvement for this product. Figure V-7 contains the on-time percentage for Standard Mail Carrier Route per quarter.

**Figure V-7**  
**Standard Mail Carrier Route**  
**Service Performance Results by Quarter, FY 2012–FY 2015**



In Quarters 2, 3, and 4 of FY 2015, the Postal Service was unable to improve on its FY 2014 results of the same period. Furthermore, in FY 2015, the Postal Service did not have one quarter with on-time performance above 85 percent. In order for the Postal Service to meet its service performance targets for Standard Mail Carrier Route in FY 2016, it must improve its quarterly results compared to results from the same period during the prior year.

Second, Standard Mail Carrier Route's service performance is affected by the Postal Service's inability to leverage its diagnostic tools and resolve issues at the district level.<sup>200</sup> In addition to the Postal Service's inability to meet its targets nationwide, certain districts have results substantially below the national average. By improving service performance in these districts, the overall service performance result for this product would increase.

Similar to First-Class Mail Flats, multiple districts recur on the list of 15 districts with low service performance results from FY 2012 to FY 2015.<sup>201</sup> This trend is depicted in Table V-8 for Standard Mail Carrier Route, which shows districts that have been in the bottom 15 performing districts at least 3 of the last 4 years.

**Table V-8**  
**Standard Mail Carrier Route**  
**Districts with Recurring Poor Performance Results**

Districts (Carrier Route)	# of Times Appeared in Bottom Quartile FY 2012 – FY 2015 <sup>202</sup>
Greater Boston	4
New York	4
South Florida	4
Triboro	4
Westchester	4
Philadelphia Metro	3

As an example, the recurring performance of the New York District illustrates on-going problems with Standard Mail Carrier Route service performance at the district level. In FY 2012, the New York District's on-time percentage for Standard Mail Carrier Route was 59.8 percent.<sup>203</sup> In FY 2015, the New York District's on-time percentage for Standard Mail Carrier Route was 63.1 percent. *Id.* Although the score for this district improved 3.3 percentage points from FY 2012 to FY 2015, it remained nearly 28 percentage points below target.

The service performance result for the New York District was 10.8 percentage points below the national average in FY 2012, and 19 percentage points below the national average in

<sup>200</sup> The Postal Service's efforts here include Kaizen events, deploying Headquarters and Field service improvement teams to "highest impact facilities with the goal of identifying processing and network constraints that could potentially impact service performance." January 19, 2016, Responses to CHIR No. 2, question 15.a.

<sup>201</sup> See Table V-7 First-Class Mail Flats with a 3-5-Day Service Standard Correlation Between Recurring Poor Performing Districts and Kaizen Deployment.

<sup>202</sup> This column states the number of instances where a district was among the 15 lowest-performing districts calculated by annual results from FY 2012- FY 2015.

<sup>203</sup> USPS *Quarterly Performance Reports* for Quarter 4 of Fiscal Year 2012, November 9, 2012 (FY 2012, Performance, Quarter 4), Excel file "Standard Mail-Carrier Route 124 Scores Report.xlsx" tab "SM YTD" cell U43.

FY 2015. Because the Postal Service's targeted efforts to improve its worst performing districts has resulted in districts that remain nearly 28 percentage points below target, the Commission is concerned that the tools currently employed by the Postal Service will be insufficient to meaningfully improve Standard Mail Carrier Route results in future years. The third important issue for improvement of Standard Mail Carrier Route is the last mile factor. The last mile factor represents the time between the last processing operation and the final delivery point of a particular mailpiece.

Because Standard Mail Carrier Route is highly presorted, these pieces go through comparatively fewer operations to process and deliver these flats, which leave fewer opportunities for pinch points to negatively impact service performance.<sup>204</sup> Standard Mail Carrier Route requires only bundle processing before transportation for delivery. As part of its action plan to increase service performance results for Carrier Route bundles, the Postal Service states that it intends to focus on last mile issues, which is one of two pinch points for Standard Mail Carrier Route. January 19, 2016, Responses to CHIR No. 2, question 16.a.

Table V-9 contains quarterly last mile factors for Destination-Entry Carrier Route mailpieces from FY 2012 to FY 2015.<sup>205</sup>

**Table V-9**  
**Standard Mail Carrier Route**  
**Destination-Entry Last Mile Factors, FY 2012–FY 2015**

FY 2012				FY 2013				FY 2014				FY 2015			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-4.3	-4.6	-6.4	-11.8	-17.8	-11	-9	-9.7	-16.8	-14	-9.1	-9.6	-13.7	-11.5	-9.5	-12.5

Source: See USPS Quarterly Service Performance Reports Quarters 1-4 of FY 2012 to FY 2015; <http://www.prc.gov/documents/quarterly-performance>.

The table illustrates that the Postal Service has been unable to consistently improve the last mile factor by quarter or fiscal year. The Postal Service's intent to improve Standard Mail Carrier Route service performance by focusing on delivery operations matches a potential solution with a proximate cause. However, the Postal Service has not outlined a clear plan of how it plans to improve last mile performance for this product.

The fourth issue affecting Standard Mail Carrier Route in FY 2015 was the recent reduction in service standards for specific portions of these products. The Postal Service's mail processing strategy includes a load leveling initiative, which affects all pieces entered at a

<sup>204</sup> For a further discussion of pinch points for flats, see Chapter 6.

<sup>205</sup> The last mile factor "shows the difference in on-time performance based on the final automated processing scan compared with actual delivery." FY 2015, Performance, Quarter 4.

Destination Sectional Center Facility (DSCF) on Fridays and Saturdays.<sup>206</sup> The service standard of this mail was extended from 3 to 4 days in an effort to improve network operations and logistics. February 16, 2016, Responses to CHIR No. 11, question 9.a. Figure V-8 shows that in FY 2015 service performance results for Standard Mail Carrier Route mailpieces were affected by load leveling.

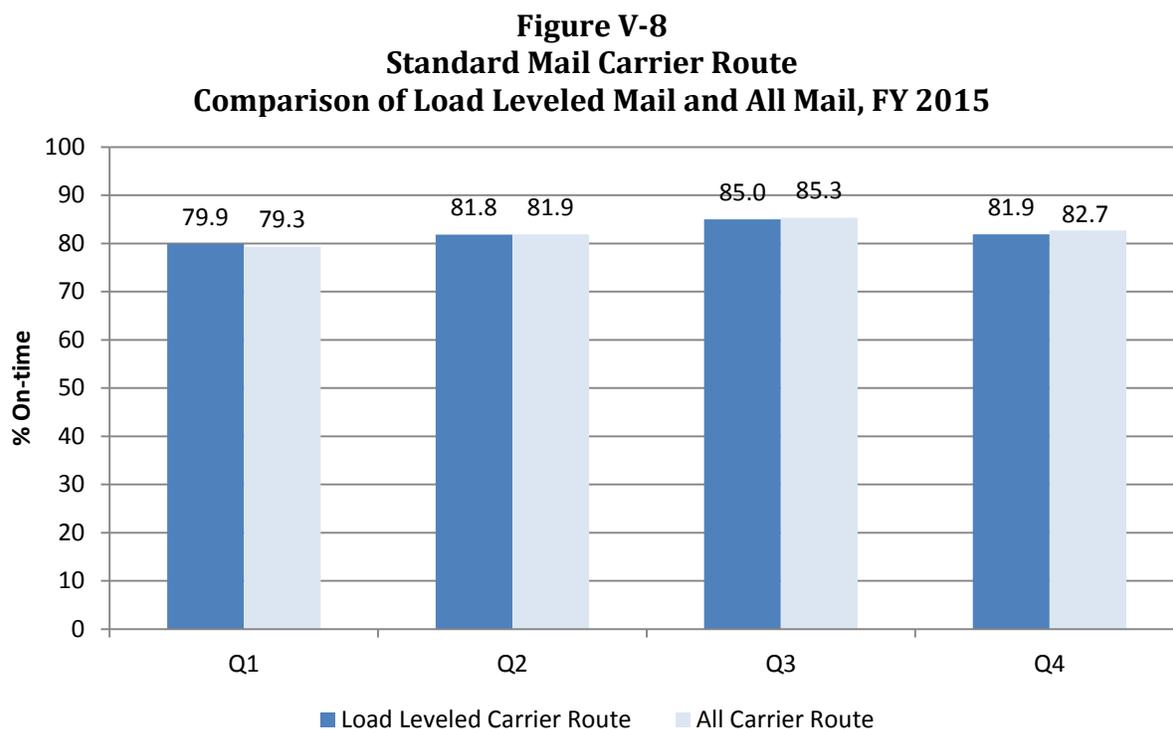


Figure V-8 shows that the service performance results for Standard Mail Carrier Route subject to the load leveling initiative were similar to the overall results for the product. Figure V-8 also shows that mail affected by load leveling was below the Postal Service's service performance target for the year. If the Postal Service is unable to meet the service performance target for the subset of this product that has an additional day in the service window, it follows that the Postal Service faces significant challenges in meeting the target for the product as a whole.

Although the service performance result for Standard Mail Carrier Route improved slightly in FY 2015, it remained 9 percentage points below target. Because the results for Standard Mail Carrier Route remain substantially below target, further action is necessary. Further action for Standard Mail Carrier Route is discussed in Chapter 6.

c. Standard Mail Flats

The Commission issued the following directive in the FY 2014 ACD:

<sup>206</sup> Responses to CHIR No. 11, question 9.a. Effective July 1, 2014, the service standard applicable to DSCF Standard Mail entered after the critical entry time on Thursday until the critical entry time on Saturday was changed to permit load leveling at mail processing plants and delivery units. Docket No. ACR2014, Library Reference USPS-FY14-29 at 13.

*Standard Mail Carrier Route and Flats continue to fall well short of intended annual performance targets. The Commission directs the Postal Service to improve service for these products in FY 2015 or to explain in the FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve service performance.<sup>207</sup>*

The Postal Service did not improve service performance for Standard Mail Flats in FY 2015. Library Reference USPS–FY15–29 at 11. Figure V-9 shows the service performance results for Standard Mail Flats from FY 2012 to FY 2015.

**Figure V-9  
Standard Mail Flats  
Service Performance Results, FY 2012–FY 2015**

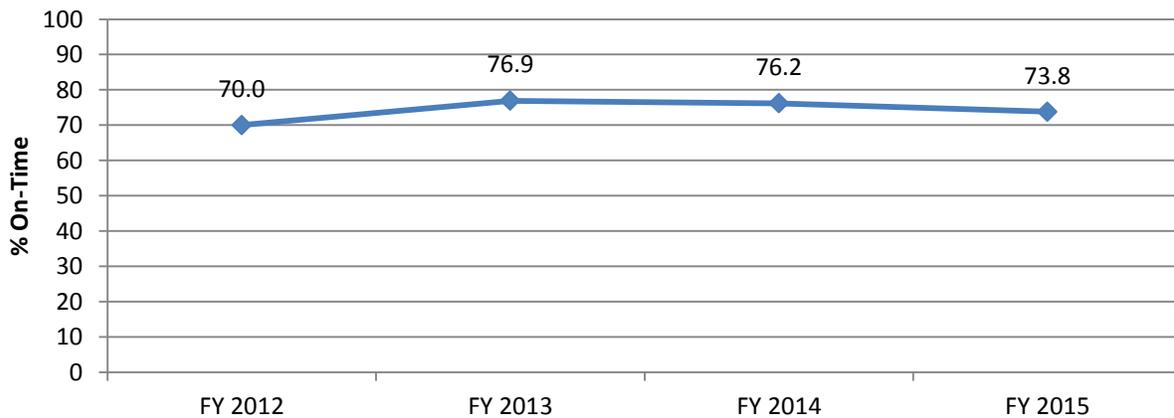


Figure V-10 shows the percentage points below target for Standard Mail Flats from FY 2012 to FY 2015.

<sup>207</sup> FY 2014 ACD at 109 (emphasis in original).

**Figure V-10**  
**Standard Mail Flats**  
**Service Performance Percentage Points Below Target, FY 2012–FY 2015**

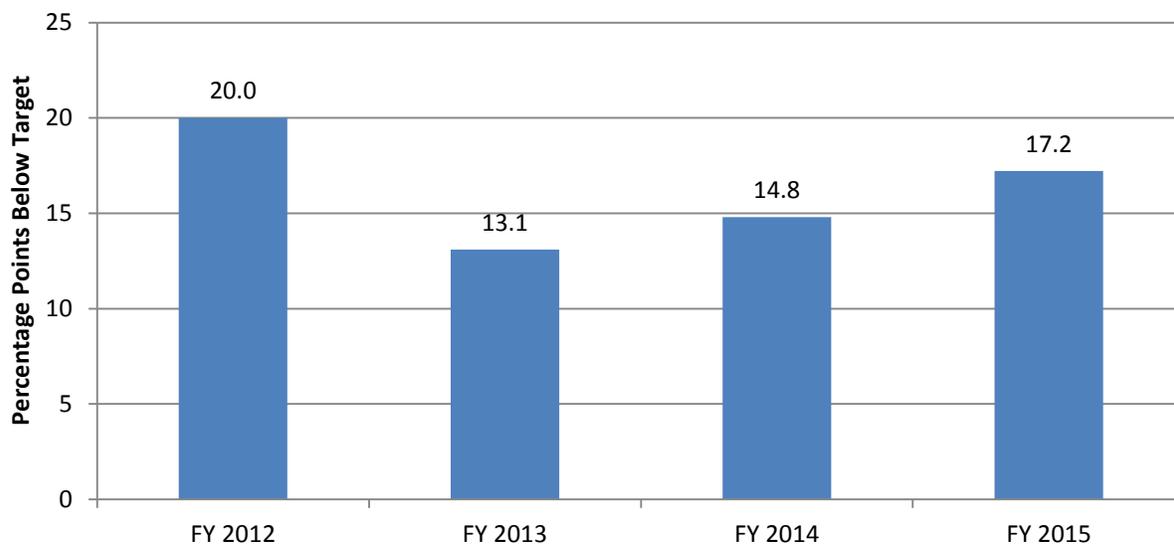


Figure V-9 illustrates that the service performance results have been declining since FY 2013. In FY 2014, Standard Mail Flats service performance results were 14.8 percentage points below target, declining to 17.2 percentage points below target in FY 2015.

(1) Postal Service Response to FY 2014 ACD Directive

As detailed in Figure V-10 above, service performance results for Standard Mail Flats did not meet its FY 2015 target. In addition, Standard Mail Flats service declined in FY 2015. Because the Postal Service was unable to improve its service performance for Standard Mail Flats, it was required to explain why its efforts to improve Standard Mail Flats performance were ineffective and what changes it plans to make to improve results.

In response to the FY 2014 directive, the Postal Service provides a brief discussion in the *Annual Report on Service Performance for Market Dominant Products* filed with its ACR. See Library Reference USPS–FY15–29 at 13-14. It summarizes the service performance results for Standard Mail Flats, stating, “[w]hile Standard Mail [F]lats has not achieved the target yet, the trend has been the same as for letters, continuing to improve through Postal Quarters 3 and 4.” *Id.* at 13.

The Postal Service also provides one general statement regarding why its efforts to improve Flats’ service performance have been ineffective, and three statements concerning its past and future plans for improvement. With respect to why past efforts have not improved service performance, the Postal Service states that “disruption caused by realigning staffing and educating employees in new jobs resulted in slippage of performance.” *Id.*

Regarding its past and future plans for improvement, it states that it will continue “focusing on the improvement of Standard Flat processing by reducing the WIP [Work In Process]

cycle time by decreasing the time between bundle and next handling processing.” *Id.* at 14. The Postal Service also states that it will “utilize the increased depth of distribution that the additional separations on the Automated Parcel and Bundle Sorter [APBS] enable to reduce re-handling and manual sortation.” *Id.* Finally, the Postal Service states that it “continues to apply the same letter strategies on flats operations.” *Id.*

To better understand these statements, several CHIRs were issued. In response to these inquiries, the Postal Service states that, similar to First-Class Mail Flats, its efforts to improve service performance were ineffective in FY 2015 due to “continued volume decline.” January 19, 2016, Responses to CHIR No. 2, question 16.a. The Postal Service further details similar obstacles to improvement for Standard Mail Flats as were provided for First-Class Mail Flats, specifically “mail potentially losing its facing and alignment, making destination processing less efficient and more prone to rejects and missorts” and employees mistaking low-density trays as empty equipment as problems arising from less dense trays. February 16, 2016, Responses to CHIR No. 11, question 2.f. In addition, the Postal Service states that the increase in parcel volume has adversely affected its efforts to improve service performance results because flats compete for “bundle processing machine availability.” January 19, 2016, Responses to CHIR No. 2, question 16.a. The Postal Service states that it considers mailpiece volume when determining the order in which it processes pieces.<sup>208</sup>

As part of its efforts to improve its service performance, the Postal Service notes that it will continue existing programs in FY 2015 to improve service performance in FY 2016. The Postal Service deployed 21 new package sorter machines in an effort “to increase package capacity and eliminate the competing processing window between higher package volume and bundle processing.”<sup>209</sup> It also states that it is working with the mailing industry to create multi-scheme pallets and utilize diagnostic tools to address pallet handling and last mile delivery issues. January 19, 2016, Responses to CHIR No. 2, question 16.b.

The Postal Service states that it plans to “continue focusing on the improvement of Standard Mail Flat processing ... by decreasing the time between bundle and next handling processing.” Library Reference USPS–FY15–29 at 14. It reports that in FY 2015, the average time between bundle and the next handling process was 29 hours, 5 hours greater than the target of 24 hours. January 19, 2016, Responses to CHIR No. 2, question 22.

Regarding the next handling process, the Postal Service represents that the use of the APBS machines reduces re-handling and manual sortation and includes this as part of its mitigation plan. Library Reference USPS–FY15–29 at 14. The percentage of Standard Mail

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<sup>208</sup> To clarify the operations process, the Commission asked for a description of the process used to determine which mail is processed first on bundle processing machines and if there were circumstances that would lead to bundles and packages being processed concurrently. The Postal Service responded that “[o]perating plans, which include the processing sequence, are developed based on projected volumes to align with volume arrival profiles.” It also added that “[t]here are several factors that drive the ability/need to sort these products together” which include “volume, number of separations, downflow requirements, number of machines, and processing windows.” February 16, 2016, Responses to CHIR No. 11, question 2.d.

<sup>209</sup> January 19, 2016, Responses to CHIR No. 2, question 16.b. *See also* February 16, 2016, Responses to CHIR No. 11, questions 2.e., 2.i.

Flats processed on the APBS increased from 43.1 percent in Quarter 1 of FY 2012 to 60.3 percent in Quarter 4 of FY 2015. January 19, 2016, Responses to CHIR No. 2, question 23. However, service performance declined over this period. In response to a CHIR regarding this apparent contradiction, the Postal Service notes that there is no correlation between the usage of the APBS and service performance. February 16, 2016, Responses to CHIR No. 11, question 6.

To combat the general problem of declining flats volume, the Postal Service states it will focus its efforts on proper mail flow, sort plan density optimization, and lean and continuous improvement tools. January 19, 2016, Responses to CHIR No. 2, question 16.b. Its improvement tools “rely on collaborative team efforts analyzing data to improve performance and systematically remove defects.”<sup>210</sup> The Postal Service asserts that the combination of these tools and Postal Service analysis should identify root causes, solutions, and corrective action. February 16, 2016, Responses to CHIR No. 11, question 1.h.

## (2) Commission Analysis

In past ACRs and again in this docket, the Postal Service represents that its service performance results are improving because its service performance results improved in Quarters 3 and 4 compared to Quarters 1 and 2.<sup>211</sup> The Commission notes that, in general, service performance is typically higher in Quarters 3 and 4 than in Quarters 1 and 2. However, with respect to Standard Mail Flats, it appears that this represents a cyclical variation rather than an overall improvement in service performance results.

Figure V-11 contains the on-time percentage for Standard Mail Flats by quarter.

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<sup>210</sup> February 16, 2016, Responses to CHIR No. 11, question 2.h. The Postal Service provides several examples including process flow maps, value stream maps, cause and effect diagrams, pareto charts, process capability analysis, correlation analysis, control charts and gemba walks. *Id.* at question 1.i.

<sup>211</sup> Docket No. ACR2012, Library Reference USPS–FY12–29 at 8; Docket No. ACR2013, Library Reference USPS–FY13–29 at 8; Library Reference USPS–FY15–29 at 13.

**Figure V-11**  
**Standard Mail Flats**  
**Service Performance Results by Quarter, FY 2012–FY 2015**

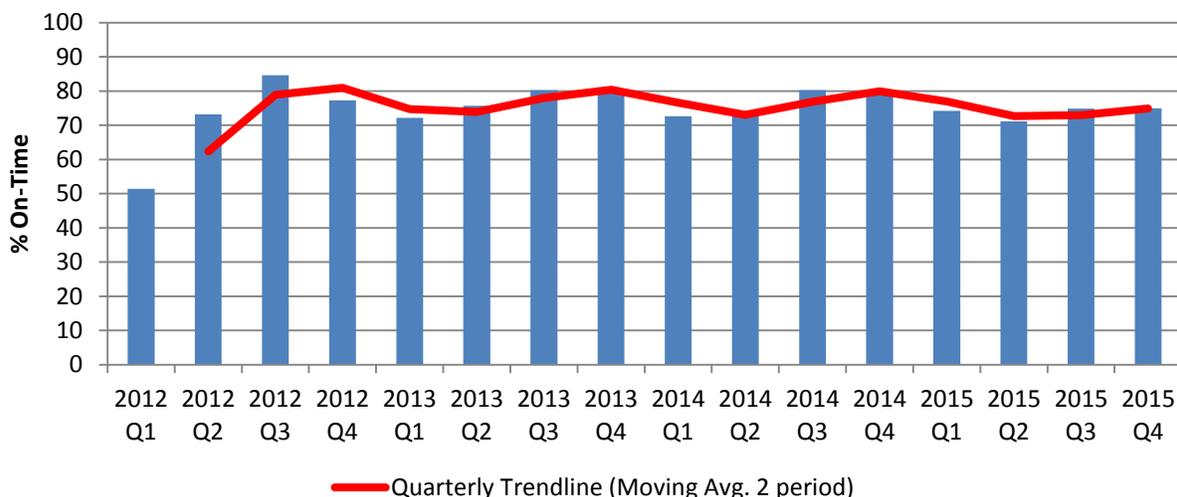


Figure V-11 illustrates that the FY 2015 quarterly on-time percentages for Standard Mail Flats were below the FY 2013 and FY 2014 levels. While the Postal Service has been able to improve service performance results in Quarters 3 and 4, it has not been able to sustain that improvement through to the next fiscal year.

The Postal Service repeatedly mentions that it will perform sort plan optimization to improve service performance for Standard Flats.<sup>212</sup> However, it does not quantify the percentage of Standard Mail Flats that this plan will affect. Given that the Postal Service included this initiative in efforts to improve service in FY 2015, it is unclear to the Commission how this initiative will have a greater impact on service performance in FY 2016 than it did in FY 2015.

Another important issue facing Standard Mail Flats is the Postal Service's inability to leverage its diagnostic tools to resolve issues at the district level.<sup>213</sup> In addition to the Postal Service's inability to meet its targets nationwide, certain districts have results substantially below the national average. By improving service performance in these districts, the overall service performance result for this product would increase.

Similar to Standard Mail Carrier Route, multiple districts recur on the list of 15 districts with low service performance results from FY 2012 to FY 2015.<sup>214</sup> This trend is depicted in

<sup>212</sup> February 16, 2016, Responses to CHIR No. 2, question 16; February 16, 2016, Responses to CHIR No. 11, question 1.

<sup>213</sup> The Postal Service's efforts here include Kaizen events, deploying Headquarters and Field service improvement teams to "highest impact facilities with the goal of identifying processing and network constraints that could potentially impact service performance." January 19, 2016, Responses to CHIR No. 2, question 16.

<sup>214</sup> See Table V-7 First-Class Mail Flats with a 3-5-Day Service Standard Correlation Between Recurring Poor Performing Districts and Kaizen Deployment.

Table V-10 for Standard Mail Flats, which shows districts that have been in the bottom 15 performing districts at least 3 of the last 4 years.

**Table V-10**  
**Standard Mail Flats**  
**Districts with Recurring Poor Flats Performance Results**

Districts (Flats)	# of Times Appeared in Bottom Quartile FY 2012 – FY 2015 <sup>215</sup>
Greater Boston	4
Bay-Valley	3
Central Illinois	3
Chicago	3
Connecticut Valley	3
Honolulu	3
Long Island	3
New York	3
Northern New Jersey	3
Philadelphia Metro	3
South Florida	3
Triboro	3
Westchester	3

The performance of the Long Island District is illustrative of the nationwide problems with Standard Mail Flats service performance. In FY 2012, the Long Island District on-time percentage for Standard Mail Flats was 63.1 percent.<sup>216</sup> In FY 2015, the Long Island District on-time percentage for Standard Mail Flats increased to only 65.6 percent, still more than 25 percentage points below target. *Id.*

The performance of the Long Island District illustrates the problems with Standard Mail Flats service performance. The service performance result for the Long Island District was 6.9 percentage points below the national average in FY 2012, and 8.2 percentage points below the national average in FY 2015. Because the Postal Service's targeted efforts to improve its worst performing districts result in districts that are 8.2 percentage points below target, the Commission is concerned that the tools currently employed by the Postal Service will be insufficient to meaningfully improve Standard Mail Flats results in future years.

<sup>215</sup> This column states the number of instances (the maximum number is 4) where a district was among the 15 lowest-performing districts calculated by annual results from FY 2012-FY 2015.

<sup>216</sup> FY 2012, Performance, Quarter 4, Excel file "Standard Mail-Flats 124 Scores Report.xlsx" tab "SM YTD" cell U42.

In recent years, the Postal Service discussed various initiatives for improving Standard Mail Flats service performance, including the development of diagnostic tools. The purpose of these tools is to identify problem areas. Yet service performance results across the nation continue to decline. This is especially apparent for districts with recurring results away from the target, such as the Long Island District. Because the Postal Service has been unable to resolve service issues in districts with poor performance, it is unclear how its current plans will lead to different and improved results. For further discussion, including discussion of the reasons why diagnostic tools may not have been effective to date, *see* Chapter 6.

Similar to Standard Mail Carrier Route, Standard Mail Flats were also affected by load leveling in FY 2015. As described previously, the load leveling initiative affects all pieces entered at a DSCF on Fridays and Saturdays.<sup>217</sup> The service standard of this mail was extended from 3 to 4 days in an effort to improve network operations and logistics.<sup>218</sup> Figure V-12 shows that in FY 2015, service performance results for Standard Mail Flats mailpieces were affected by load leveling.

**Figure V-12**  
**Standard Mail Flats**  
**Comparison of Load Leveled Mail with All Mail, FY 2015**

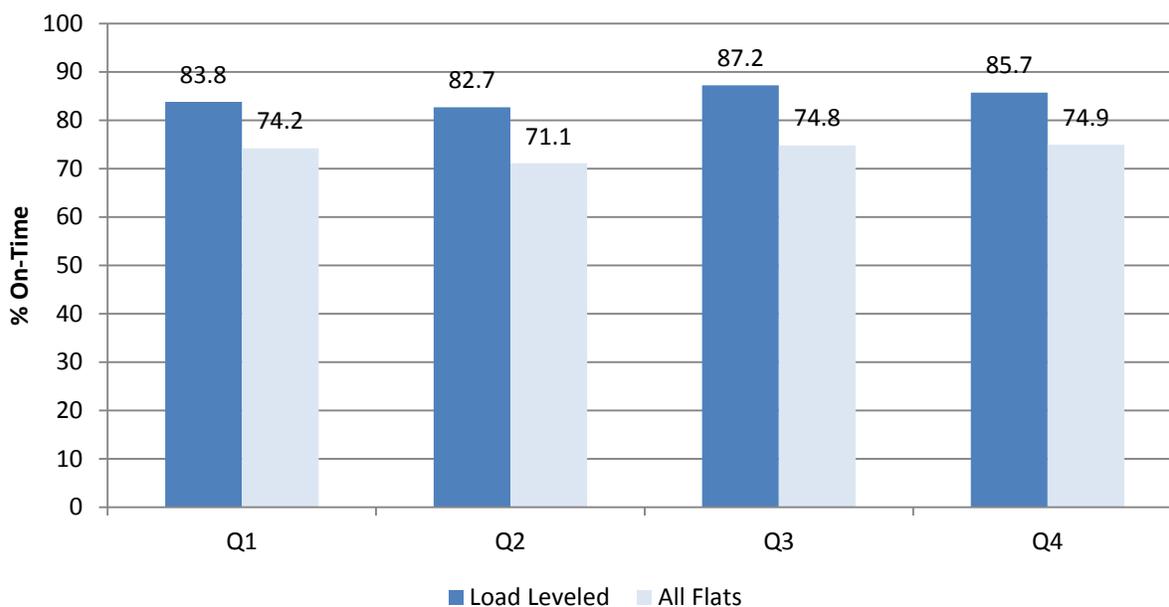


Figure V-12 shows that the service performance results for Standard Mail Flats subject to the load leveling initiative were higher than the overall results for the product. However, Figure V-12 also shows that mail affected by load leveling was below the Postal Service's

<sup>217</sup> February 16, 2016, Responses to CHIR No. 11, question 9.a. Effective July 1, 2014, the service standard applicable to DSCF Standard Mail entered after the critical entry time (CET) on Thursday until the critical entry time on Saturday was changed to permit load leveling at mail processing plants and delivery units. Docket No. ACR2014, Library Reference USPS-FY14-29 at 13.

<sup>218</sup> February 16, 2016, Responses to CHIR No. 11, question 9.a.

service performance target for the year. If the Postal Service is unable to meet the service performance target for the subset of this product that has an additional day in the service window, it follows that the Postal Service faces significant challenges in meeting the target for the product as a whole.

Although the Postal Service discussed some changes it plans to make to improve performance for Standard Mail Flats, the Commission finds the response insufficient to address consecutive years of failure to meet Standard Mail Flats service performance targets. Similar to the response provided to the First-Class Mail Flats directive, the response proposed is a vague network-wide mitigation plan, which does not offer comprehensive insight to planned Postal Service corrective actions at the district- and facility-levels. As further explained in Chapter 6, the Postal Service's current mitigation plans are insufficient and inadequate to repair systemic problems facing flats mailpieces.

Consequently, because service performance did not improve in FY 2015, the Commission finds further action is necessary. For further discussion of these issues and the associated directives, *see* Chapter 6.

d. Periodicals

Service performance results for both Periodicals products, In-County and Outside County, are reported jointly. The performance of all Periodicals is used as a proxy for the performance of In-County.<sup>219</sup> The Postal Service states that the "use of a proxy for In-County Periodicals performance is necessary because of the nature of In-County Periodicals mailers' relatively small size and scope." Library Reference USPS-FY15-29 at 15-16. Because the service performance results are the same for Outside County and In-County, the Commission reviews them together in the ACD. The Commission issued the following directive in the FY 2014 ACD concerning Periodicals:

*The Postal Service again did not meet its delivery performance targets for its Periodicals product. The Commission directs the Postal Service to improve service for Periodicals in FY 2015 or to explain in its FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve performance.*<sup>220</sup>

The Postal Service did not improve service for Periodicals in FY 2015. Library Reference USPS-FY15-29 at 15. Figure V-13 illustrates that service performance results have not improved since FY 2013.

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<sup>219</sup> Nearly all Periodicals pieces measured by iMAPS have information in electronic documentation to distinguish between In-County and Outside County mail. Approximately 1 percent of measured pieces fell into the In-County category; therefore, Periodicals results at the class level serve as a proxy for In-County performance. *See* FY 2015, Performance, Quarter 4.

<sup>220</sup> FY 2014 ACD at 111-112 (emphasis in original).

**Figure V-13  
Periodicals  
Service Performance Results, FY 2012–FY 2015**

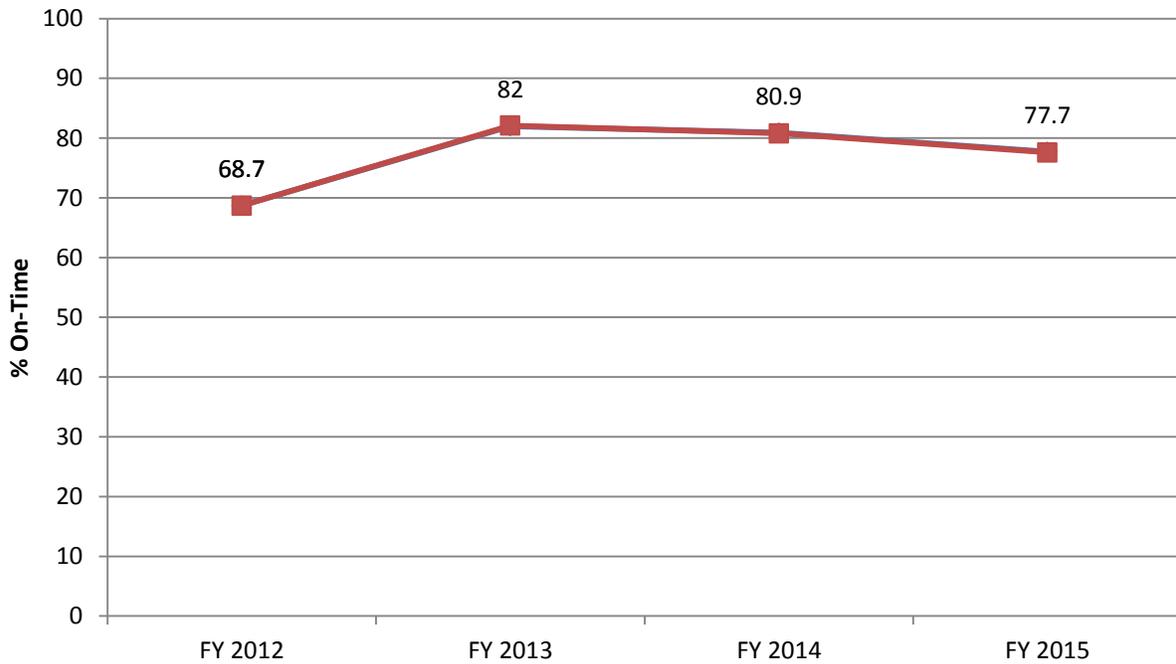
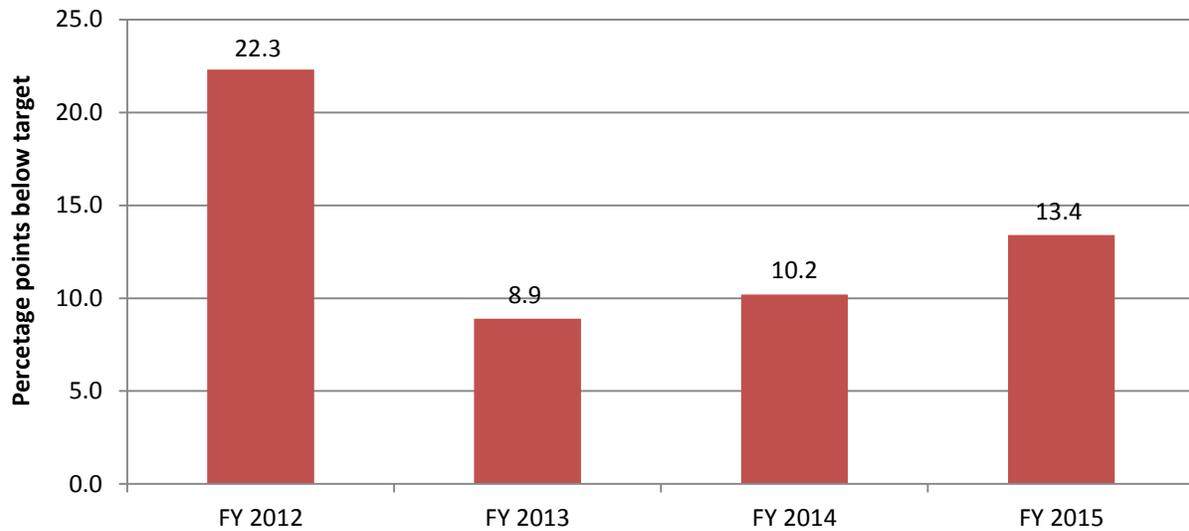


Figure V-14 shows how many percentage points below target service performance results were for Periodicals from FY 2012 to FY 2015.

**Figure V-14  
Periodicals  
Service Performance Percentage Points Below Target, FY 2012–FY 2015**



The service performance result for Periodicals was 13.4 percent below target in FY 2015.

(1) Postal Service Response to FY 2014 ACD Directive

As detailed above in Figure V-13 and Figure V-14, service performance results for Periodicals declined in FY 2015. Because the Postal Service was unable to improve service performance, it was required to explain in its FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve performance. The Commission finds the Postal Service's response to this directive inadequate.

For Periodicals, the Postal Service provides a brief discussion in the *Annual Report on Service Performance for Market Dominant Products* filed with its ACR. See Library Reference USPS-FY15-29 at 16-17. The Postal Service notes that Periodicals service experienced a "slight decline from FY 2014." *Id.* at 16. The Postal Service offers two reasons why its efforts to improve service performance were not successful. One, the Postal Service represents that "[t]he increase in WIP resulted in an increase in the time between bundling and next handling processing." *Id.* Two, the Postal Service notes that "[t]he slight decrease in performance occurred while the Postal Service was aligning efforts to address other product lines that were experiencing greater declines during the year." *Id.*

Regarding changes it plans to make to improve performance, the Postal Service proffers three mitigation plans. One, it is "working to revise the processing procedures of mixed Periodicals to ensure a standard work flow for this mail." *Id.* Two, it notes that a "standard workflow was developed for Periodicals including newspapers," and training for these revised procedures was provided. *Id.* Three, it states that it is "using the WIP cycle time to identify locations and operations where the time between arrival and bundle-to-piece distribution is outside of control." *Id.* at 17.

In responses to several CHIRs, the Postal Service further explains why efforts to improve Periodicals service were unsuccessful, describes efforts it undertook to improve performance in FY 2015, and refines plans to improve service performance for Periodicals.

Regarding why its efforts to improve service were unsuccessful, the Postal Service states that service performance results for Periodicals have been "impacted by continued volume decline." January 19, 2016, Responses to CHIR No. 2, question 17.a. Accordingly, the Postal Service asserts that the decrease in volume produced "less dense trays and containers" which had a greater risk of affecting service performance results. *Id.* question 17.b. Similar to other flats, the Postal Service notes "the increased package volume competes for bundle processing machine availability," contributing to the decline in service in FY 2015. *Id.* question 17.a.

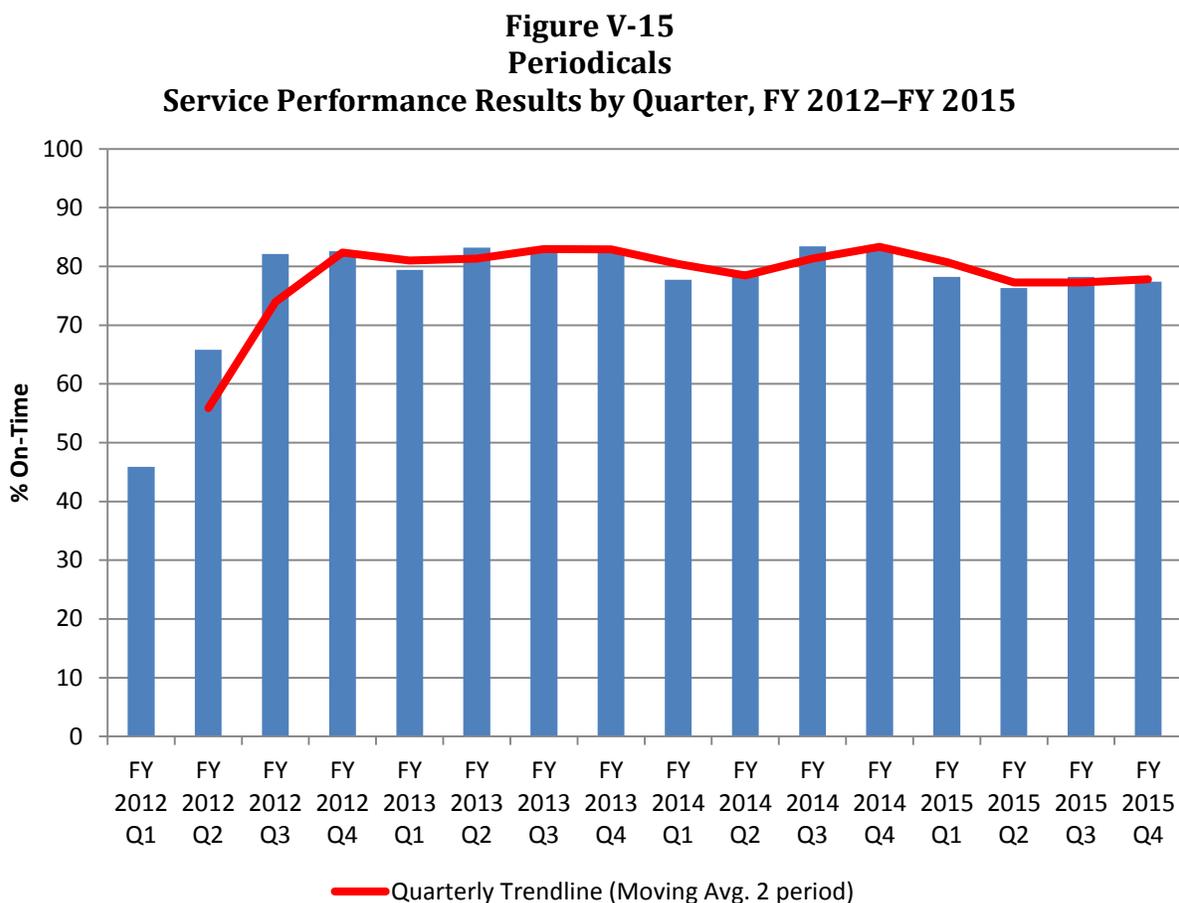
In response to CHIRs, the Postal Service also identifies efforts it undertook to improve service performance in FY 2015. The Postal Service explains that it deployed 21 new package sorter machines and held several Kaizen events in FY 2015. January 19, 2016, Responses to CHIR No. 2, question 17.b. Service improvement teams were deployed to 22 locations, which were identified by the Postal Service as having a higher impact on

nationwide service performance. February 16, 2016, Responses to CHIR No. 11, question 3.g.i.

Regarding additional plans to improve future performance, the Postal Service represents that it is developing multi-scheme pallets, and is focusing on proper mail flow, density optimization, and last mile impact. *Id.* Furthermore, the Postal Service implemented new prices and mail preparation rules for FSS, which it states will encourage entry of mail with faster and more efficient processing of mail in FSS zones. February 16, 2016, Responses to CHIR No. 11, question 3. The Postal Service also notes that it is “reissuing [the] color code policy to ensure all mail is properly identified with the appropriate delivery standard.” February 16, 2016, Responses to CHIR No. 11, question 3.c.

(2) Commission Analysis

Figure V-15 contains the on-time percentage for Periodicals by quarter.



Similar to responses given for other flats products, the Postal Service highlights that service performance results for Periodicals steadily increase throughout the fiscal year.<sup>221</sup> As

<sup>221</sup> Docket No. ACR2012, Library Reference USPS–FY12–29 at 8; Docket No. ACR2013, Library Reference USPS–FY13–29 at 8; Docket No. ACR2014, Library Reference USPS–FY14–29 at 8-9.

Figure V-15 illustrates, although results trend upward by quarter during a fiscal year, annual service performance for Periodicals has declined year-over-year since FY 2013. Improvements during the third and fourth quarters of a year do not portend improvement in a future year for Periodicals.

Although the Postal Service provides a list of actions it undertook to improve service performance for Periodicals in FY 2015, the actions did not achieve improved results. As shown in Figure V-15, service performance declined in FY 2015. Although the Postal Service discusses its mitigation actions generally in the ACR and responses to CHIRs, its explanations do not contain quantitative analysis. Several of the actions the Postal Service describes deserve further scrutiny.

Table V-11 shows that Critical Entry Times (CETs) for some Periodicals moved to earlier times during the second quarter of FY 2015. When the Postal Service moves CETs to earlier in the day it has more time to process and deliver the mail.

**Table V-11**  
**Periodicals**  
**Change in Critical Entry Times and Service Performance by Quarter, FY 2015**

Processing	Container Make-Up	FY 2015	
		Old CET	New CET
FSS	Bundle Sort	0800	<i>1100</i>
	No Bundle Sort	1100	1100
Non-FSS	Bundle Sort Required	1600	<i>1100</i>
	No Bundle Sort Required	1700	<i>1400</i>
	No Bundle Sort – Carrier Route Pallet	1700	1700

	Q1	Q2	Q3	Q4
Overall Periodicals Service Performance FY 2014	77.7	79.2	83.4	83.2
Overall Periodicals Service Performance FY 2015	78.2	76.3	78.2	77.4

As shown in Table V-11, despite having more time to process Periodicals during Quarters 2, 3, and 4 of FY 2015, overall service performance results for Periodicals during those quarters remained below the FY 2014 levels. In fact, the only quarter in which Periodicals

performed better than in FY 2015 was the first quarter, where CET times were the same as in FY 2014.

The Postal Service points to volume declines, which it contends led to less dense trays, as one of the reasons for lower service performance. January 19, 2016, Responses to CHIR No. 2, question 17. However, the Postal Service has not offered sufficient support for this contention. Flats volumes vary throughout the year and throughout the country, and the Postal Service has not demonstrated that performance is worse in areas with less volume or less density. In order to meaningfully assess why its FY 2015 efforts failed to improve performance, this problem must be looked at quantitatively, focusing on areas and times of the year where volumes were lower. The Commission discusses this issue further in Chapter 6.

The Postal Service also discusses several initiatives undertaken during FY 2015 that were designed to improve results in automation processes, such as Kaizen events and improved automation equipment. *Id.* The Postal Service has not linked these facility and area specific events with improvements in these locations. The Postal Service also discusses the WIP tool as part of its diagnostic tools. In order to meaningfully assess why its FY 2015 efforts failed to improve performance, the Postal Service should have leveraged this tool. The Commission discusses these issues further in Chapter 6.

In FY 2015, the Postal Service implemented FSS pricing for Periodicals, which created separate FSS and non-FSS zones.<sup>222</sup> The Postal Service implies that “changes to mail makeup and entry [will] improve mail flow streamline operations” and improve service. January 19, 2016, Responses to CHIR No. 2, question 17.a. The Postal Service further explains that the new pricing scheme allows more volume to be processed earlier and avoid upstream handlings. February 16, 2016, Responses to CHIR No. 11, question 3. The Postal Service’s FSS pricing initiative is a positive step; however, the Postal Service has not quantified how the FSS mail preparation requirements may affect service performance.<sup>223</sup> Quantifying the effects of changes intended to improve service performance is critical to understanding what steps can be taken to meaningfully improve service performance. The effects of FSS are discussed further in Chapter 6.

The Postal Service has not achieved on-time delivery for Periodicals above 82 percent during the PAEA era. This is particularly concerning in light of the fact the Postal Service appears to indicate that Periodicals’ service performance was not a priority in FY 2015, stating that “[t]he slight decline in performance occurred while the Postal Service was aligning [its] efforts to address other product lines that were experiencing greater declines during the year.” Library Reference USPS–FY15–29 at 16. The Commission finds that

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<sup>222</sup> See *supra*, Chapters 2 and Chapter 3.

<sup>223</sup> The Postal Service scores processing for FSS and non-FSS scheme mail. A processing score reflects the percentage of mail for which the measured processing duration does not exceed the expected number of days in transit from Postal Service acceptance to the final processing operation. This score differs from a service performance score because it does not include the last mile component that reflects time in transit from final automated operation to delivery. Responses of the United States Postal Service to Questions 1-4 of Chairman’s Information Request No. 16, question 2.a. (Responses to CHIR No. 16).

service performance for Periodicals must be an area for improvement and focus in future years.

The Commission's FY 2014 Periodicals Directive required the Postal Service to provide an explanation for why its efforts to improve Periodicals performance were ineffective. As described above, the Postal Service provided a high-level explanation of the steps it took to try to improve performance in FY 2015. However, those steps were ineffective, and the Postal Service did not adequately explain why those steps were ineffective in improving Periodicals service performance.

The Postal Service was also required to detail what changes it plans to make to improve results. In the ACR, the Postal Service mentions several plans, including employee training, revising of processing procedures, and utilization of WIP cycle time, but does not provide further detail. *Id.* at 16-17. In responses to CHIRs, the Postal Service discusses several other plans, but for the most part, does not differentiate its FY 2016 plan from its ineffective FY 2015 actions.

Stating it will largely take the same approach to improving Periodicals service in FY 2016, the Postal Service does not adequately explain why these changes would be more effective in FY 2016. Instead, it proposes a vague network-wide mitigation plan, which substantially overlaps with FY 2015 efforts and does not offer insight to its corrective actions by, for example, providing information at the area- and facility-levels. For these reasons, the Commission takes further action in accordance with these findings in Chapter 6.

e. Bound Printed Matter Flats

The Commission issued the following directive in the FY 2014 ACD:

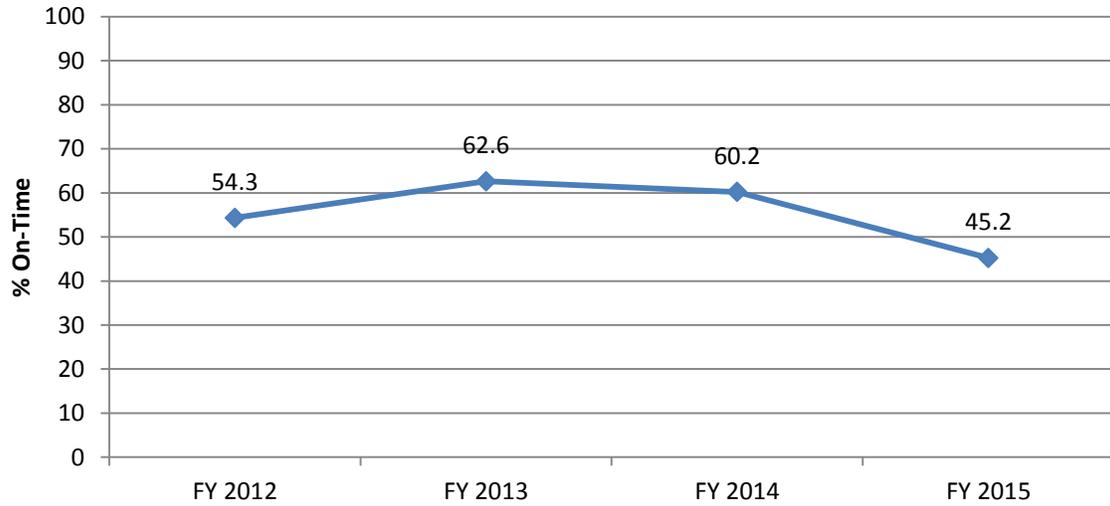
*Results for BPM Flats remain the lowest among Package Service products and have decreased since FY 2013. The Commission views the Postal Service's previous strategies to increase performance results as largely ineffective. It directs the Postal Service to improve performance for BPM Flats in FY 2015 or include a discussion of its FY 2015 strategies to increase results and measurable volume in its FY 2015 ACR.<sup>224</sup>*

The Postal Service did not improve service for BPM Flats in FY 2015. Figure V-16 shows service performance results for BPM Flats from FY 2012 to FY 2015. In FY 2015, the on-time service performance result was 45.2 percent. Figure V-16 shows that service performance for BPM Flats declined since FY 2013.

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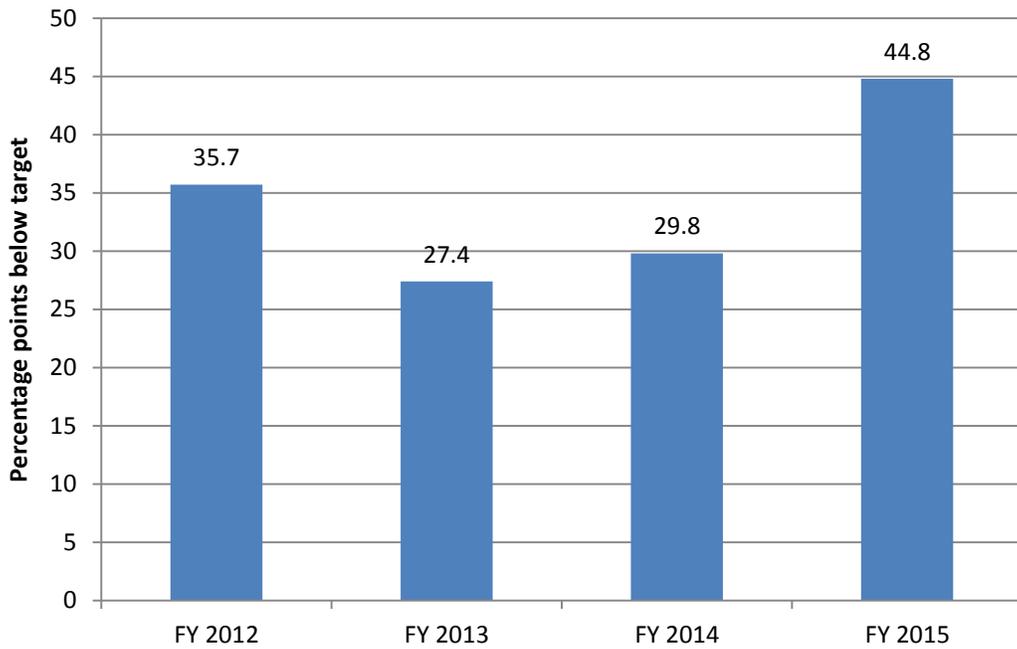
<sup>224</sup> FY 2014 ACD at 114 (emphasis in original).

**Figure V-16**  
**Bound Printed Matter Flats**  
**Service Performance Results, FY 2012–FY 2015**



As shown in Figure V-17, the service performance results for BPM Flats was 44.8 percentage points below the target of 90 percent on-time in FY 2015, 15 percentage points further below the target than in FY 2014.

**Figure V-17**  
**Bound Printer Matter Flats**  
**Service Performance Percentage Points Below Target, FY 2012 - FY 2015**



(1) Postal Service Response to FY 2014 ACD Directive

As detailed above in Figure V-16 and Figure V-17, service performance results for BPM Flats declined in FY 2015. Because the Postal Service was unable to improve service performance, it is required to provide an explanation for why its efforts to improve BPM Flats performance were not effective and explain how it plans to improve service performance results.

The Postal Service provides a brief discussion of BPM Flats in the *Annual Report on Service Performance for Market Dominant Products* filed with its ACR. See Library Reference USPS–FY15–29 at 20-21. The Postal Service has previously noted that due to the relatively low volume of BPM Flats, individual mailers significantly affect service performance results.<sup>225</sup>

The Postal Service provides two reasons why its efforts to improve service performance for BPM Flats were ineffective in FY 2015. First, a large portion of BPM Flats pieces are manually processed because their mail characteristics are “not generally compatible with flat or package sorting equipment.” Library Reference USPS–FY15–29 at 20. Second, current regulations allow automated and non-automated BPM flats to be comingled resulting in “machineable pieces potentially being handled manually.” *Id.* at 21.

Regarding its plans to improve performance, the Postal Service states that it “plans to focus on the improvement of BPM Flats processing by reducing the WIP cycle time for machine compatible pieces by decreasing the time between bundle and next handling processing.” *Id.* The Postal Service states that it will decrease time between bundle and next process by “advancing the processing of Standard Flats to day zero (day of acceptance).” *Id.* In addition, the Postal Service notes that it “is reviewing the make-up and entry requirements for this product to improve its ability to be processed efficiently.” *Id.*

(2) Commission Analysis

The Commission noted in its FY 2012 ACD that the Postal Service should work with mailers to increase measured volume and utilize diagnostics to increase performance results for BPM Flats.<sup>226</sup> In FY 2015, only 10.1 percent of BPM Flats were mailed with Full-Service IMb, enabling service performance tracking. Of this small subset, only 38.2 percent were processed on automation equipment and had service performance actually measured.<sup>227</sup> Thus, less than 4 percent of all BPM Flats were in measurement in FY 2015. Of this 4 percent, less than half were delivered on-time.

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<sup>225</sup> See Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2 and 4 of Chairman’s Information Request No. 6, February 18, 2015, question 4 (February 18, 2015, Responses to CHIR No. 6).

<sup>226</sup> Docket No. ACR2012, USPS–FY12–29 at 20-21; See also Docket No. ACR2013, USPS–FY13–29 at 19; Docket No. ACR2014, USPS–FY14–29 at 22.

<sup>227</sup> Responses of the United States Postal Service to Questions 1-4, 8, 11, and 13-16 of Chairman’s Information Request No. 6, February 3, 2016, question 16 (February 3, 2016, Responses to CHIR No. 6).

The relatively low proportion of BPM Flats measured by IMb lessens the effectiveness of diagnostic tools used to search the network for causes of delay. The Postal Service explains that there are few BPM Flats mailers and that BPM Flats are more likely to be manually processed due to their incompatibility with sorting equipment.<sup>228</sup> The Postal Service states that it plans to overcome challenges specific to BPM Flats by improving processing for Standard Flats. *Id.* at 21.

The Commission acknowledges the unique characteristics of BPM Flats mail and the challenges these characteristics create during processing. The Postal Service's mitigation plan relies heavily on the strategy proposed for other flats and its successful implementation. Nonetheless, the service performance results for BPM Flats did not improve in FY 2015 and was 44.8 percentage points from the target. As a result, the Commission directs further action in Chapter 6.

#### 4. FY 2015 Service Performance Results by Class

##### a. First-Class Mail

##### (1) FY 2015 Results

For the first time since the Postal Service began reporting service performance of all Market Dominant mail products, no First-Class Mail product met or exceeded its service performance targets. *See* Table V-2. Table V-12 shows the on-time percentages and targets for First-Class Mail between FY 2011 to FY 2015.

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<sup>228</sup> Docket No. ACR2012, Library Reference USPS–FY12–29 at 20-21.

**Table V-12  
First-Class Mail  
Service Performance Results, FY 2011–FY 2015**

	FY 2011		FY 2012		FY 2013		FY 2014		FY 2015	
	Target	% On-Time								
<b>Single-Piece Letters/Postcards</b>										
Overnight	96.65	96.7	96.65	97.0	96.70	96.8	96.80	96.7	96.80	95.8
2-Day	94.15	94.2	94.15	95.6	95.10	96.0	96.50	95.7	96.50	94.0
3-5-Day	92.95	91.9	92.85	93.2	95.00	92.5	95.25	88.6	95.25	77.3
<b>Presorted Letters/Postcards</b>										
Overnight	96.65	90.8	96.65	96.9	96.70	97.3	96.80	97.2	96.80	96.0
2-Day	94.15	89.2	94.15	95.9	95.10	97.2	96.50	96.6	96.50	93.8
3-5-Day	92.85	90.7	92.85	95.4	95.00	95.4	95.25	92.5	95.25	88.0
<b>Flats</b>										
Overnight	96.65	90.3	96.65	89.8	96.70	86.6	96.80	84.9	96.80	83.2
2-Day	94.15	84.0	94.15	85.0	95.10	84.4	96.50	82.5	96.50	79.8
3-5-Day	92.85	80.0	92.85	80.0	95.00	77.6	95.25	72.6	95.25	65.3
<b>Parcels</b>										
Overnight	96.65	90.3	96.65	89.8	96.70	89.8	96.80	88.4	96.80	84.8
2-Day	94.15	83.2	94.15	85.8	95.10	89.1	96.50	86.8	96.50	84.2
3-5-Day	92.85	86.6	92.85	88.4	95.00	88.8	95.25	83.8	95.25	73.7
<b>Outbound Single-Piece International</b>										
Overnight		96.1		95.0		94.3		93.0		90.4
2-Day		92.5		92.9		92.7		93.2		92.5
3-5-Day		91.1		90.7		87.5		85.7		82.5
Combined	94.00	91.9	94.00	91.5	94.00	88.9	94.00	87.8	94.00	85.3
<b>Inbound Letter Post</b>										
Overnight		93.4		94.1		92.3		91.8		88.6
2-Day		88.6		91.5		90.7		89.4		83.7
3-5-Day		87.6		89.2		86.5		82.9		71.3
Combined	94.00	91.9	94.00	90.5	94.00	88.0	94.00	85.2	94.00	75.6

Note: Service performance results are reported using one decimal place while targets are reported using two decimal places. This captures the incremental increase in annual service performance targets. Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

(2) Postal Service Explanation for Not Meeting Service Standards

The Postal Service generally attributes its First-Class Mail service performance results to: winter weather and implementation of Network Rationalization, and ties these to problems associated with its transportation network. *See* Library Reference USPS–FY15–29 at 8, 9.

Similar to previous years, the Postal Service attributes lower service performance results, in part, to winter weather. Specifically, it explains that winter storms “interrupted network flows” throughout the First-Class Mail transportation network. *Id.* at 8. The Postal Service had nearly identical reasoning last year when it represented that, due to severe winter weather, it needed to divert First-Class Mail with service standards longer than 2-days to available surface transportation.<sup>229</sup>

The Postal Service explains that Phase 2 of Network Rationalization caused a shift in mail volume between mail processing facilities, which resulted in additional interrupted network flows due to insufficient air carrier capacity in the needed locations.<sup>230</sup> Table V-13 shows the Postal Service’s requested capacity compared to what air carrier integrators produced in Quarters 2, 3, and 4 of FY 2015.<sup>231</sup>

**Table V-13**  
**Air Capacity by Quarter**

<b>FY 2015 Quarter</b>	<b>Air Carrier Capacity Requested</b>	<b>Air Carrier Capacity Received</b>	<b>Air Capacity Gap</b>
2	172,802,712	152,268,168	-20,534,544
3	166,389,873	153,097,529	-13,292,344
4	164,085,103	155,999,285	-8,085,818

Data is calculated using daily cubic feet volume.

Source: January 19, 2016, Responses to CHIR No. 2, question 19.b.

In response to capacity constraints, the Postal Service states that it “onboarded new commercial air carriers, purchased dedicated charters to offset the shortage of capacity and continued to negotiate additional capacity from air network integrators.” January 19, 2016, Responses to CHIR No. 2, question 19.c.

With respect to First-Class Mail products with a 3-5-Day service standard, service performance results have declined in every fiscal year since FY 2012. The Postal Service notes that “3-5-day Single-Piece Mail utilizes our air transportation network which is most

<sup>229</sup> Library Reference USPS–FY15–29 at 8; Docket No. ACR2014, Library Reference USPS–FY14–29 at 8.

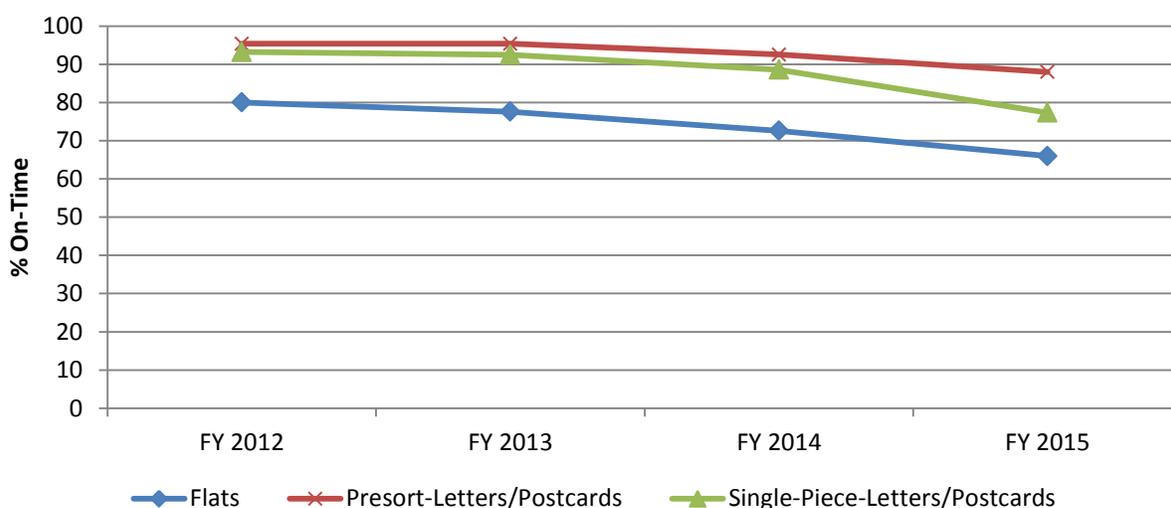
<sup>230</sup> See January 19, 2016, Responses to CHIR No. 2, question 19.a.

<sup>231</sup> Data is not provided for Quarter 1 because Phase 2 of Network Rationalization was implemented on January 5, 2015, at the beginning of FY 2015 Quarter 2.

susceptible to impact from weather.”<sup>232</sup> As discussed above, the Postal Service also experienced air capacity constraints in FY 2015 due in part to Phase 2 of Network Rationalization, which affected service performance for products that utilized air transportation.

Figure V-18 shows the results for First-Class Mail products with a 3-5-Day service standard (e.g., products utilizing the air transportation network) from FY 2012 to FY 2015. The results for all First-Class Mail products with a service standard of 3-5-Days declined in FY 2015.

**Figure V-18**  
**First-Class Mail 3-5-Day**  
**Service Performance Results, FY 2012–FY 2015**



The Postal Service also explains that “the disruption caused by realigning staffing and educating employees in new jobs resulted in slippage of performance.” Library Reference USPS–FY15–29 at 8. New service standards resulting from the Phase 2 implementation of Network Rationalization resulted in a change in operating windows. January 19, 2016, Responses to CHIR No. 2, question 18.a. This change led to “re-bidding of the majority of craft employee’s assignments at mail processing locations” for all 67 service reporting districts. *Id.* questions 18.a., 18.b.

Table V-14 shows that the percentage of Tour 1 employees decreased between Quarters 1 and 3 of FY 2015, while the percentage of employees working Tours 2 and 3 increased during the same period. January 19, 2016, Responses to CHIR No. 2, question 18.d. The Postal Service explains that “churn in the labor pool associated with the overall operational changes, the learning curve associated with employees developing new skill sets, and

<sup>232</sup> Docket No. ACR2013, Library Reference USPS–FY13–29 at 8.

gaining familiarity with new operational work locations created the service disruption.” February 16, 2016, Responses to CHIR No. 11, question 4.c.

**Table V-14**  
**Change in Employee Tours**

<b>Tour</b>	<b>October 2014</b>	<b>May 2015</b>
1	46.0%	30.0%
2	14.3%	26.6%
3	39.7%	44.4%

Source: January 19, 2016, Responses to CHIR No. 2, question 18.d.

### (3) Comments

The Public Representative comments that no First-Class Mail products met their service performance targets for FY 2015. PR Comments at 6. He also notes that the every product’s performance score was less than the corresponding FY 2014 result. *Id.* He observes that the “largest quarterly changes in service performance occurred within the 3-5-Day category of products.” *Id.* at 8. He notes that the “service standards for these products are, in part, affected by long distance transportation issues.” *Id.* Accordingly, he suggests, “[p]riority should be given to improving the 3-5-Day service standard segments of First-Class Mail products.” *Id.* at 11.

The Public Representative also examines quarterly data for domestic First-Class Mail products and concludes that “typically the highest service performance is achieved in the first quarter, and the lowest service performance occurs in the second quarter.” *Id.* at 8. He reasons that this pattern may be due to winter-month transportation issues, but notes that “[w]inter weather is an annual event that the Postal Service must plan and prepare for.” *Id.* at 10. He concludes that winter weather “does not explain the root cause for why First-Class Mail products generally are not compliant with meeting annual service performance targets.” *Id.*

### (4) Commission Analysis

A change in service standards related to Network Rationalization removed the overnight standard in FY 2015 and shifted more mail to the 2-Day and 3-5-Day service standard in FY 2014 and FY 2015. FY 2013 ACD at 105. Despite the longer processing window, service performance dramatically declined for products with a 3-5-Day service standard.

The Postal Service provides two general explanations for how Phase 2 of Network Rationalization affected service performance results: air capacity and employee realignment/education. It provides evidence demonstrating that operational changes and capacity constraints occurred at the same time as adverse service performance results. Specifically, the timing of employee realignment and air transportation availability coincided with a decrease in service performance results.

While the Postal Service is able to identify issues surrounding FY 2015 service performance results, it has been unable to quantify the link between the issues it identifies and the recent rapid and severe service performance degradation, especially with respect to products with a 3-5-Day service standard. Furthermore, the Postal Service does not show a connection between the issues it identifies and how its mitigation plan will lead to service performance targets being met.

The Postal Service repeatedly points to its root diagnostic tool as the primary method for identifying problematic processing facilities and rectifying operational issues. The Commission has not been able to link the tool's use with identifiable Postal Service actions to improve service performance. Furthermore, because the Postal Service's targeted efforts in its worst performing facilities have not yielded results year-after-year, it is not apparent why the same strategy would produce an improvement at any other facility. For example, Table V-15 shows that several districts with relatively high-weighted volumes of Single-Piece First-Class Mail with a 3-5-Day service standard remained the worst performing districts from FY 2012 to FY 2015.

**Table V-15**  
**Single-Piece Letters/Postcards with a 3-5-Day Service Standard**  
**Correlation Between Poor Performing Districts and Weighting**

District	Occurrences on Worst District List <sup>233</sup>	FY 2015 Weighting
Dallas	1	4.10%
Suncoast	2	3.56%
Lakeland	2	3.09%
Central Illinois	2	2.43%
Santa Ana	5	2.28%
Colorado/Wyoming	12	2.13%
Seattle	8	2.08%
South Florida	12	2.01%

There are 67 districts. If all 67 districts were equally weighted, each district would account for 1.49 percent of volume. Thus, any district with a FY 2015 weight of over 1.49 percent accounts for a higher portion of the nationwide service performance results. For example, the Dallas District accounts for 4.10 percent of the weighted volume, therefore its service performance results have a large impact on the nationwide scores.

Furthermore, Table V-16 shows that there were no districts that met service performance targets for 3-5-Day Single-Piece Letters/Postcards in FY 2015.

<sup>233</sup> This column states the number of instances where a district was among the 15 lowest-performing districts calculated by quarter from FY 2012-FY 2015.

**Table V-16**  
**Single-Piece Letters/Postcards**  
**Districts that Met Service Performance Targets by Quarter, FY 2015**

	Q1	Q2	Q3	Q4
Number of Districts that Met Service Performance Targets	0/67	0/67	0/67	0/67
Percentage of Districts that Did Not Meet Target	100%	100%	100%	100%

These data suggest that the Postal Service's targeted efforts to find and fix certain facilities with abnormally deficient results are ineffective because the problem spans all districts.

Tables V-15 and V-16 illustrate the ineffectiveness of the Postal Service's efforts to improve service performance. The data suggest that the problem is widespread and efforts focused on the worst performers have not worked. Given the widespread nature of the problem and the continued decline in service performance, the Commission is concerned that the Postal Service has not provided new plans, platforms, tools, or metrics that tackle and sufficiently address such a widespread problem.

In addition, the Postal Service continues to indicate that severe winter weather is an obstacle to consistently meeting its service performance targets. Because severe winter weather is an annual occurrence, it is critical that the Postal Service prepare adequately for expected, seasonal variations in weather to avoid adverse impacts to service performance. In addition, the quarterly district level service performance reports that the Postal Service provides illustrate that all quarters, not just quarters where severe weather occurs, have reported results less than the target.<sup>234</sup> This demonstrates that the problem is more widespread than one that can be explained by severe winter weather.

*The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2015. The Commission expects service performance to improve in FY 2016.*

*The Commission is particularly concerned with the recent dramatic decline of service performance for First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance.*

<sup>234</sup> See USPS Quarterly Service Performance Reports Quarters 1-4 of FY 2012 to FY 2015; <http://www.prc.gov/documents/quarterly-performance>. See also Figure V-4 First-Class Flats with a 3-5-Day Service Standard Service Performance Results per Quarter, FY 2012-FY2015.

*The Commission directs the Postal Service to improve service for First-Class Mail Single-Piece Letters/Postcards in FY 2016. The Postal Service must provide an explanation in the FY 2016 ACR detailing specific efforts targeted to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2016. Further, it must provide a detailed, comprehensive plan to improve service performance for First-Class Mail Single-Piece Letters/Postcards within 90 days of issuance of this ACD.*

*In addition, the Postal Service must provide the following data, disaggregated by district level and service standard, in conjunction with its plan: percent of First-Class Mail Single-Piece Letters/Postcards that missed collection box pickups; percent of First-Class Mail Single-Piece Letters/Postcards where First Processing Operations (FPO) occurred one day after collection box pickup; percent of First-Class Mail Single-Piece Letters/Postcards that missed processing windows due to ground transportation constraints; percent of First-Class Mail Single-Piece Letters/Postcards that missed processing windows due to air transportation constraints; average WIP cycle time; facilities with above average WIP cycle time; and percent of First-Class Mail Single-Piece Letters/Postcards that have already missed service standard by Last Processing Operation (LPO).*

*Furthermore, First-Class Mail Flats continued to fall substantially short of annual performance targets. The Commission's directive for this product is discussed in Chapter 6.*

b. Standard Mail

(1) FY 2015 Results

Table V-17 shows that service performance results for Standard Mail Parcels and High Density and Saturation Letters exceeded the performance targets set by the Postal Service. Standard Mail High Density and Saturation Letters exceeded the target for the third consecutive year. Standard Mail High Density and Saturation Flats/Parcels were near this year's target of 91 percent on-time delivery.

Service performance for Standard Mail Carrier Route did not meet performance targets, but service performance results for this product improved slightly in FY 2015. FY 2015 results for Standard Mail Letters and Flats did not meet performance targets.

The Postal Service was able to provide service performance results for Every Door Direct Mail—Retail this year for the first time.<sup>235</sup>

Table V-17 below shows service performance results for all Standard Mail products.

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<sup>235</sup> "The service performance measure for Every Door Direct Mail – Retail involves the identification of mailpiece bundles within delivery units. Delivery of these bundles is captured with a scan made by carriers at the delivery unit upon distribution for delivery. Service performance is measured by comparing the total transit time, from start-the-clock to estimated delivery, to the service standard to determine the percent delivered on-time." USPS *Quarterly Performance Reports* for Quarter 1, FY 2015, February 9, 2015, Excel file "Standard Mail – Every Door Direct Mail 151 Scores Report."

**Table V-17**  
**Standard Mail**  
**Service Performance Results, FY 2011–FY 2015**

	FY 2011		FY 2012		FY 2013		FY 2014		FY 2015	
	Target	% On-Time								
<b>High Density and Saturation Letters</b>	90.0	<b>86.9</b>	90.0	<b>87.2</b>	90.0	<b>90.8</b>	91.0	<b>92.3</b>	91.0	<b>91.5</b>
<b>High Density and Saturation Flats/Parcels</b>	90.0	<b>76.6</b>	90.0	<b>90.8</b>	90.0	<b>87.0</b>	91.0	<b>87.2</b>	91.0	<b>87.0</b>
<b>Carrier Route</b>	90.0	<b>50.1</b>	90.0	<b>70.6</b>	90.0	<b>79.7</b>	91.0	<b>81.4</b>	91.0	<b>82.0</b>
<b>Letters</b>	90.0	<b>71.3</b>	90.0	<b>80.7</b>	90.0	<b>85.9</b>	91.0	<b>87.1</b>	91.0	<b>85.8</b>
<b>Flats</b>	90.0	<b>59.9</b>	90.0	<b>70.0</b>	90.0	<b>76.9</b>	91.0	<b>76.2</b>	91.0	<b>73.8</b>
<b>Parcels</b>	90.0	<b>N/A</b>	90.0	<b>N/A</b>	90.0	<b>98.7</b>	91.0	<b>N/A</b>	91.0	<b>98.1</b>
<b>Every Door Direct Mail—Retail</b>									91.0	<b>78.5</b>

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

(2) Postal Service Explanation for Not Meeting Service Standards

In general, the Postal Service states that staff realignment and employee education activities as part of Network Rationalization caused a “slippage” in Quarter 2 service performance. Library Reference USPS–FY15–29 at 13. With respect to products that did not meet service performance targets, the Commission describes the Postal Service’s explanation for Standard Mail Carrier Route and Flats at *supra* section V.A.3.

The Postal Service explains that because of its focus on “WIP cycle time and reduction of processing delays, [it] has been able to achieve Standard letters target since April 2015.” *Id.* It identifies these two reasons as the primary causes of the relatively higher service performance results for Standard Mail Letters, compared to Standard flats (High-Density and Saturation Flats/Parcels, Carrier Route, and Flats). *Id.* Consequently, the Postal Service plans to apply the same strategy to flats to improve its service performance. *Id.*

Service performance results for Standard Mail products with a 6-10-Day service standard, measured End-to-End, remain relatively low compared to all Destination Entry mail and other End-to-End service standards. Table V-18 shows service performance results for each End-to-End product's 6-10-Day service standard from FY 2012 to FY 2015.

**Table V-18**  
**Standard Mail Products with a 6-10-Day Service Standard<sup>236</sup>**  
**Service Performance Results, FY 2012–FY 2015**

	FY 2012	FY 2013	FY 2014	FY 2015
<b>High Density and Saturation Letters</b>	82.3	57.9	56.5	57.4
<b>High Density and Saturation Flats/Parcels</b>	N/A	N/A	72.7	54.4
<b>Carrier Route</b>	74.3	64.5	60.2	60.6
<b>Flats</b>	59.8	53.1	52.9	45.1
<b>Letters</b>	55.7	59.8	56.7	48.6

In FY 2015, nearly all service performance results for Standard Mail products with a 6-10-Day service standard were below 60 percent on-time delivery. Furthermore, the results in Table V-18 show a significant downward decline from FY 2012 to FY 2015 for all Standard Mail products with 6-10-Day service standards.

The Postal Service states that “[t]he extended surface network transportation through the NDC network is the highest challenge to this category.” January 29, 2016, Responses to CHIR No. 6, question 20.b. The Postal Service also explains that “[l]ow volume combined with extra handling and transportation puts this volume at a higher risk to meet service performance.” *Id.*

(3) Comments

PostCom advises that the mailing industry expected a substantial improvement in service performance because of the Postal Service's load leveling initiative, but that FY 2015 service performance results “indicate this improvement has not occurred.” PostCom Comments at 4. PostCom further comments that “there is no way for industry to isolate the data necessary to compare service performance for the specific category of Standard Mail impacted by the Load Leveling change because it is a subset of a larger category reported by the USPS.” *Id.* It suggests that the Postal Service “make available data showing the service performance only for those pieces impacted by the Load Leveling change over the 3-year period starting from before the change to the end of FY 2015.” *Id.* at 5.

<sup>236</sup> No Standard Mail products entered as Destination Entry have a 6-10-Day service standard.

The Public Representative observes that service performance results “appear less severe than in First-Class Mail,” but suggests that “the Commission increase oversight and visibility of the Postal Service’s efforts to improve service performance for the Standard Mail products that are not meeting service performance goals.” PR Comments at 12-13. He also suggests the Commission require the Postal Service to file a “detailed plan within a reasonable timeframe that outlines the steps the Postal Service proposes to take to improve Standard Mail service performance.” *Id.* at 13.

(4) Commission Analysis

The Postal Service did not meet its service performance target for Standard Mail Letters in FY 2015. The service performance result for Standard Mail Letters declined in FY 2015, a reversal from the previous 4-year trend of improving performance. The Postal Service accurately notes that service performance started to improve in April. Although the Postal Service did not meet its target for Standard Mail Letters, it was closer to its target compared with other products.

The 6-10-Day service standard components of Standard Mail were the worst performers in Standard Mail in FY 2015. The Postal Service states these components were particularly troubled because the “volume is handled in multiple NDCs and P&DCs before reaching its destination.” January 29, 2016, Responses to CHIR No. 6, question 20.b. The Postal Service states that it will leverage its diagnostic tools such as the “WIP cycle time” to improve performance of End-to-End Standard Mail. Library Reference USPS–FY15–29 at 13.

The Commission agrees that an increase in WIP cycle time has an adverse effect on service performance results. The tools developed by the Postal Service to improve the performance of Destination Entry Standard Mail are facility specific, and thus the Postal Service needs to leverage a more operationally comprehensive approach to improve the performance of End-to-End Standard Mail.

*The Commission finds the Postal Service continues to meet its service performance target for Standard Mail High Density and Saturation Letters, which exceeded the annual service performance target. The Commission also finds the Postal Service provided its service performance results for Standard Mail Parcels, as directed by the Commission in the FY 2014 ACD, and for those results exceeding the annual service performance target.*

*However, the Commission is concerned with the recent slippage in the service performance of Standard Mail Letters. The Postal Service advises that service performance for Standard Mail Letters has improved since April 2015. The Commission expects this positive improvement in service performance to continue in FY 2016.*

*The Commission is also concerned that the service performance of Every Door Direct Mail—Retail and Standard Mail High Density and Saturation Flats/Parcels were below the intended annual performance target. The Commission expects service performance to improve in FY 2016.*

*Standard Mail Carrier Route and Standard Mail Flats continued to fall substantially short of intended annual performance targets. The Commission's directives with respect to these products are discussed in Chapter 6.*

c. Periodicals

(1) FY 2015 Results

Annual service performance results for Periodicals decreased for the second consecutive year as shown in Table V-19.

**Table V-19**  
**Periodicals**  
**Service Performance Results, FY 2012–FY 2015**

	FY 2012		FY 2013		FY 2014		FY 2015	
	Target	% On-Time						
In-County	91.00	68.7	91.00	82	91.00	80.9	91.00	77.7
Outside County	91.00	68.7	91.00	82.1	91.00	80.8	91.00	77.6

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

(2) Postal Service Explanation for Not Meeting Service Standards

The Postal Service's explanation for not meeting service standards with respect to all Periodicals products (*i.e.*, In-County and Outside County) is described in detail in section V.A.3.d.1. of this Chapter. In summary, the Postal Service attributes service performance problems with Periodicals to an increase in WIP cycle time and a shift in management focus toward other classes. Library Reference USPS–FY15–29 at 16.

(3) Comments

The Public Representative comments that service performance results for Periodicals continue to decline. PR Comments at 14-15. He suggests that the Commission require the Postal Service to “file a detailed plan within a reasonable timeframe that outlines the steps the Postal Service proposes to take to improve Periodicals service performance.” *Id.* at 14.

(4) Commission Analysis

As discussed in section V.A.3.d. of this Chapter, service performance results for Periodicals have not improved since FY 2013 and were 13.4 percentage points below target in FY 2015. The Commission is concerned that the Postal Service has not effectively leveraged its diagnostic tools with respect to WIP cycle time. The Commission's analysis of the service

performance of Periodicals is discussed in detail in section V.A.3.d. of this Chapter and Chapter 6.

*This was the fourth consecutive year that Periodicals did not meet its service performance target. The Commission's directive with respect to Periodicals is discussed in Chapter 6.*

d. Package Services

(1) FY 2015 Results

The Postal Service did not achieve consistent service performance results for Package Services. The service performance for both BPM Parcels and Media Mail/Library Mail exceeded annual targets for the fourth consecutive year. In contrast, service performance results for BPM Flats decreased by 15 percentage points compared to FY 2014.

Table V-20 shows service performance results for Package Services from FY 2012 to FY 2015.

**Table V-20**  
**Package Services**  
**Service Performance Results, FY 2012–FY 2015**

	FY 2012		FY 2013		FY 2014		FY 2015	
	Target	% On-Time						
<b>Parcel Post/Alaska Bypass</b>	90	<b>86.8</b>	90	<b>85</b>	90	N/A*	90	N/A*
<b>Bound Printed Matter Flats</b>	90	<b>54.3</b>	90	<b>62.6</b>	90	<b>60.2</b>	90	<b>45.2</b>
<b>Bound Printed Matter Parcels</b>	90	<b>94.4</b>	90	<b>98.4</b>	90	<b>99.3</b>	90	<b>99.4</b>
<b>Media Mail/Library Mail</b>	90	<b>92.7</b>	90	<b>93.3</b>	90	<b>91.7</b>	90	<b>91.2</b>

\* Alaska Bypass Service, which was created when Single-Piece Parcel Post moved to the Competitive product list, was granted a semi-permanent exception from service performance reporting in FY 2014. Library Reference USPS–FY15–29 at 18.

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

(2) Postal Service Explanation for Not Meeting Service Standards

As shown in Table V-20, BPM Flats is the only Package Services product that did not meet or exceed its FY 2015 service performance target. The Postal Service's explanation for not

meeting the service standard for BPM Flats is described in detail in section V.A.3.e.1. of this Chapter. In summary, the Postal Service attributes BPM Flats' decline to the product's unique mail characteristics, manual processing, and regulations regarding non-automated and automated commingling. Library Reference USPS–FY15–29 at 20-21.

(3) Comments

The Public Representative observes that service performance for BPM Flats declined 15 percent since FY 2014. PR Comments at 15. He suggests that “the Commission ... inquire whether or not the Postal Service believes the Bound Printed Matter Flats service performance standard (and target) is realistic” and possibly adjust it so that “the product's price reflects the value of service actually being provided.” *Id.* at 17.

(4) Commission Analysis

As discussed in section V.A.3.e.2. of this Chapter, service performance results for BPM Flats have not improved since FY 2013 and were 44.8 percentage points below target in FY 2015. While the Commission acknowledges the unique characteristics of BPM Flats mail, the Commission is concerned that the Postal Service's plan for improving the service performance of this product relies heavily on the strategy proposed for other flats and its successful implementation. *See supra* V.A.3.e. of this Chapter and Chapter 6 for the Commission's detailed analysis of these issues.

*Media Mail/Library Mail and Bound Printed Mail Parcels exceeded the Postal Service's annual service performance targets. The service performance of Bound Printed Matter Flats was substantially below other Package Services products for the fourth consecutive year. The Commission's directive with respect to Bound Printed Matter Flats is discussed in Chapter 6.*

e. Special Services

(1) FY 2015 Results

Service performance results exceeded targets for each product within the Special Services class, with the exception of Post Office Box Service. The Post Office Box Service result was 89.7 percent, just under the 90.0 percent target. Table V-21 compares FY 2015 results to previous years and the annual target of 90.0 percent on-time.

**Table V-21**  
**Special Services**  
**Service Performance Results, FY 2011–FY 2015**

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Target
<b>Ancillary Services</b>	93.4	93.4	91.4	92.3	92.1	90.0
<b>International Ancillary Services</b>	99.6	99.6	99.3	99.7	99.7	90.0
<b>Address List Services</b>	93.3	83.3	100	33.3	100	90.0
<b>Money Orders</b>	97.2	99.2	99.2	98.3	99.3	90.0
<b>Post Office Box Service</b>	93.1	92.6	90.9	90.2	89.7	90.0
<b>Stamp Fulfillment Services</b>	--	96.7	99.5	98.4	97.1	90.0

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

(2) Postal Service Explanation for Not Meeting Service Standards

The Postal Service explains that the score for Post Office Box Service was affected by “a change in mail mix and [move] to a non-scheme qualified bid environment.” Library Reference USPS–FY15–29 at 25. As a preemptive strategy to counteract these challenges, the Postal Service “deployed postal technology enhancements for the non-scheme distribution change.” *Id.* It states that this strategy was not completely successful; therefore, it will deploy more enhancements and realign resources to return Post Office Box Service performance to targeted levels. *Id.*

(3) Comments

The Public Representative comments that service performance for Post Office Box Service did not meet its 90.0 percent on-time target. PR Comments at 17. He suggests that the “Commission require the Postal Service to report the actual steps the Postal Service proposes to take to ensure Post Office Box Service does not continue to deteriorate.” *Id.* at 18.

(4) Commission Analysis

Service performance results for Post Office Box Service have declined since FY 2011; however, results have typically been at or near target.

*The Postal Service exceeded service performance results for all special services, except for Post Office Box Service, which was near its service performance target. The Commission expects the service for Post Office Box Service to improve in FY 2016.*

## 5. Other Issues

The Public Representative notes that the Postal Service claimed its Network Rationalization plan impacted service performance results for several categories in

FY 2015. PR Comments at 5. He states he “is not surprised that network rationalization has had an impact on service performance.” *Id.* However, he is “uncertain as to whether the Postal Service’s cost cutting efforts (*i.e.*, network rationalization) are being carried out at the expense of service performance, or whether the Postal Service will be able to both adjust its network and meet service performance targets in the near future.” *Id.*

The Public Representative also observes that “[w]hen costs cannot be easily controlled, operators are sometimes tempted to reduce service as the quickest means of reducing costs.” *Id.* n.4. He states that it would be permissible for the Commission to tie service performance to the price cap under the PAEA. *Id.*

The Public Representative suggests two Commission actions in response to the Postal Service’s FY 2015 service performance results. *Id.* at 19. One, that “the Commission host quarterly public meetings where the Postal Service presents service performance results and explains plans for improvement.” *Id.* Two, that the Commission require the Postal Service “to report average calendar days-to-delivery for each deliverable market dominant mail product.” *Id.*

In response to the Public Representative’s comments regarding poor service performance, the Postal Service reiterates its plans intended to “mitigate ‘adverse impacts’ to service, and by extension, its service performance results.” USPS Reply Comments at 25-27. The Postal Service urges the Commission to reject the Public Representative’s suggestions for “the Commission to exercise extraordinary action unwarranted by present circumstances.” USPS Reply Comments at 26.

Valpak comments that “the Postal Service has not yet established any service performance targets (goals) for reliability of delivery service for any class of mail... [or] provided any statistical measures of the actual reliability of delivery service.” Valpak Reply Comments at 12 (emphasis omitted). Valpak contends that “[i]n a price cap regime, such targets and statistical measures should be seen as essential to keep the Postal Service from degrading service in an effort to save money.” *Id.*

PostCom states that “reliable, predictable, and consistent delivery service, within the parameters of the service standards, is a critical part of ensuring that customers continue to use the Postal Service... .” PostCom Reply Comments at 3. It urges the Commission to continue working with the Postal Service to improve measurement and meet service performance targets. *Id.*

The Commission acknowledges the issues raised by the commenters and notes they may merit consideration. Interested parties may submit petitions to initiate a proceeding if circumstances warrant.

## B. Customer Access

### 1. Introduction

Title 39 of the United States Code (U.S.C.) requires the Postal Service to report “measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including ... the degree of customer satisfaction with the service provided.” 39 U.S.C. § 3652(a)(2)(B)(ii). Measuring customer access to postal services is important in evaluating universal service. Access may also have an impact on customer satisfaction. 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 2015 ACR and Library Reference USPS–FY15–33<sup>237</sup> contain customer access information responsive to the requirements of Title 39 and the Commission’s regulations. The Postal Service provides additional information in responses to CHIRs. It also provides a copy of the Collection Point Management System database and additional data on suspended post offices in Library Reference USPS–FY15–45.<sup>238</sup>

### 2. Retail Facilities

In its FY 2015 ACR, the Postal Service provides data on the number of retail facilities at the beginning and end of FY 2015, as well the number of retail facility closings during FY 2015.<sup>239</sup> This information is disaggregated by type of retail facility. Table V-22 shows the number of retail facilities from FY 2013 to FY 2015. Postal-managed retail facilities consist of post offices, stations and branches, and carrier annexes. Non-postal-managed retail facilities consist of contract postal units, village post offices, and community post offices.

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<sup>237</sup> Library Reference USPS–FY15–33, December 29, 2015. The Postal Service revised this Library Reference when responding to an information request. Notice of the United States Postal Service of Filing of a Revised Version of USPS–FY15–33 -- ERRATA, February 3, 2016. Citations to Library Reference USPS–FY15–33 in this Chapter are to the revised version.

<sup>238</sup> Library Reference USPS–FY15–45, February 3, 2016; February 3, 2016, Responses to CHIR No. 6, questions 1, 2.

<sup>239</sup> Library Reference USPS–FY15–33, Excel file “PostOfficesFY2015.Rev.2.3.16.xlsx,” tab “Post Offices”; see 39 C.F.R. § 3055.91(a)(1)-(3).

**Table V-22  
Retail Facilities**

Facility Type	FY 2013	FY 2014	FY 2015	FY 2015 Change from FY 2014	FY 2015 Change from FY 2013
Post Offices	26,670	26,669	26,615	-54	-55
Classified Stations & Branches and Carrier Annexes	5,032	4,993	4,991	-2	-41
<b>Total Postal-Managed</b>	<b>31,702</b>	<b>31,662</b>	<b>31,606</b>	<b>-56</b>	<b>-96</b>
Contract Postal Units	2,718	2,660	2,504	-156	-214
Village Post Offices	385	759	874	115	489
Community Post Offices	629	560	536	-24	-93
<b>Total Non-Postal-Managed</b>	<b>3,732</b>	<b>3,979</b>	<b>3,914</b>	<b>-65</b>	<b>182</b>
<b>Total Retail Facilities</b>	<b>35,434</b>	<b>35,641</b>	<b>35,520</b>	<b>-121</b>	<b>86</b>

Note: These totals do not include offices under emergency suspension.

Sources: Library Reference USPS–FY15–33; United States Postal Service 2015 *Annual Report to Congress* at 26 (FY 2015 Annual Report to Congress); Library Reference USPS–FY15–17, December 29, 2015.

The total number of retail facilities in FY 2015 was 35,520, 121 less than the FY 2014. Other than Village Post Offices,<sup>240</sup> which increased by 115 in FY 2015 to a total of 874, all facility types decreased from the previous year. The largest decrease was in Contract Postal Units,<sup>241</sup> which decreased by 156.

### 3. POSTPlan

On May 25, 2012, the Postal Service requested an advisory opinion from the Commission on POSTPlan, a proposal to realign the hours of operation at approximately 17,700 of its nearly 32,000 post offices, stations, and branches to more closely reflect the workload at these offices.<sup>242</sup> The Commission issued its advisory opinion on August 23, 2012, which

<sup>240</sup> Village Post Offices are operated by local businesses and offer limited postal services like stamps and flat-rate products.

<sup>241</sup> Contract Postal Units are operated by local businesses and offer the same basic services available at a postal-managed retail facility.

<sup>242</sup> Docket No. N2012-2, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, May 25, 2012, at 1.

stated that if implemented properly, POStPlan should help balance service and cost savings in a manner consistent with Title 39.<sup>243</sup>

Table V-23 compares the number of POStPlan offices as proposed in Docket No. N2012-2 with the number of POStPlan offices at the end of FY 2015.

**Table V-23**  
**POStPlan<sup>244</sup> Status through FY 2015**

Projected Office Level	As Proposed in N2012-2	Status as of End of FY 2015	% Converted
Level 2	1,891	1,837	97.1%
Level 4	6,837	6,668	97.5%
Level 6	4,333	4,289	99.0%
<b>Total</b>	<b>13,061</b>	<b>12,794</b>	<b>98.0%</b>

Source: February 17, 2016, Responses to CHIR No. 12, question 16.

The table demonstrates that 98 percent of the post offices covered by POStPlan have had their hours of operation realigned.

## 4. Suspensions

The Postal Service provides data on the number of post offices under suspension at the end of FY 2015.<sup>245</sup> This number is calculated by adding the number of post offices under suspension at the start of the fiscal year, to the number of post offices suspended during the year, and then subtracting the number of post offices reopened or closed by a Postal Service final determination during the year.<sup>246</sup> Table V-24 shows that the number of post offices under suspension continues to grow.<sup>247</sup>

<sup>243</sup> Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 2.

<sup>244</sup> Under POStPlan, the Postal Service planned to reduce hours of operation at approximately 13,000 post offices to 2 hours per weekday (Level 2), 4 hours per weekday (Level 4), or 6 hours per weekday (Level 6). Some POStPlan offices with higher workload hours were upgraded to executive and administrative schedule (EAS) Level 18 or above, effectively making them full-time offices.

<sup>245</sup> Library Reference USPS-FY15-33, Excel file "PostOfficesFY2015.Rev.2.3.16.xlsx," tab "Suspensions"; see 39 C.F.R. § 3055.91(a)(4)-(6).

<sup>246</sup> It appears from the information provided by the Postal Service that no post office under suspension was closed in FY 2015. See Library Reference USPS-FY15-33, Excel file "PostOfficesFY2015.Rev.2.3.16.xlsx," tab "Suspensions."

<sup>247</sup> The most common reason for suspension is an expired or terminated lease. For more information on suspensions, see Library Reference USPS-FY15-45, Excel File "ChIR.6.Q.1.Suspensions.xlsx." Other reasons include damaged property, health and safety, and lack of qualified staff. *Id.*

**Table V-24**  
**Number of Post Offices Under Suspension at the End of FY 2015**

	Under Suspension at the Start of FY 2015	Suspended During FY 2015	Reopened During FY 2015	Under Suspension at the End of FY 2015
Post Offices	408	94	26	479
Stations/Branches	109	19	7	121
Carrier Annexes	1	0	0	1
<b>Total</b>	<b>518</b>	<b>113</b>	<b>33</b>	<b>598</b>

Source: Library Reference USPS–FY15–33.

The most common reason for suspension is an expired or terminated lease.<sup>248</sup> The Postal Service performed discontinuance studies for some of these offices in connection with prior facility reduction initiatives, but many of these studies are more than 2 years old;<sup>249</sup> they may need to be updated if the Postal Service chooses to pursue discontinuation of these offices. At the end of FY 2012, the number of post offices under suspension was 211.<sup>250</sup> In 3 fiscal years, that number has nearly tripled. The Commission is concerned that the number of post office suspensions continues to increase instead of decrease.

*The Commission previously recommended that the Postal Service proceed expeditiously in either discontinuing offices under suspension or reopening them.<sup>251</sup> It reiterates that recommendation in this proceeding. The Commission expects the Postal Service to reduce the number of facilities under suspension in FY 2016. If it is unable to do so, the Postal Service shall include a detailed explanation of why it was unable to do so in the FY 2016 Annual Compliance Report.*

## 5. Delivery Points

The Postal Service reports information on the number of residential and business delivery points at the beginning and end of FY 2015.<sup>252</sup> The total number of delivery points in FY 2015 was 154,951,828, an increase of 1,059,852 from FY 2014. FY 2015 *Annual Report to Congress* at 26. This growth was due entirely to the large increase in residential delivery

<sup>248</sup> For more information on suspensions, see Library Reference USPS–FY15–45, Excel File “ChIR.6.Q.1.Suspensions.xlsx.” Other reasons include damaged property, health and safety, and lack of qualified staff. *Id.*

<sup>249</sup> As detailed in Library Reference USPS–FY15–45, Excel File “ChIR.6.Q.1.Suspensions.xlsx,” over 300 of the 598 facilities under suspension have been under suspension since January 1, 2014.

<sup>250</sup> FY 2012 ACD at 65.

<sup>251</sup> See FY 2014 ACD at 121.

<sup>252</sup> Library Reference USPS–FY15–33, Excel file “DeliveryPointsFY2015.xlsx”; see 39 C.F.R. § 3055.91(b). The Postal Service provided additional delivery point information in its responses to a CHIR. Responses of the United States Postal Service to Questions 1-10 of Chairman’s Information Request No. 15, March 2, 2016, question 4, Excel file “ChIR15.Q4.DeliveryPointsFY2015.xlsx.”

points, which outpaced the decline in business delivery points.<sup>253</sup> Table V-25 shows the trend in average number of mailpieces per delivery point from FY 2009 to FY 2015.

**Table V-25**  
**Average Number of Mail Pieces per Delivery Point**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Number of Pieces (Millions)	176,744	170,859	168,297	159,859	158,384	155,375	154,157
Number of Pieces per Delivery Point	1177	1133	1111	1051	1036	1010	995

Source: Commission calculation based on FY 2015 *Annual Report to Congress* at 24, 26.

## 6. Collection Boxes

The Postal Service provides data on the number of collection boxes at the beginning and end of FY 2015.<sup>254</sup> Nationally, there were 153,999 collection boxes at the end of FY 2015, 2,346 fewer than in FY 2014. Additional data on collection boxes appear in Library Reference USPS–FY15–33.

## 7. Wait Time in Line

39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to aspects of customer access including wait time in line. The Postal Service provides the average customer wait time in line for retail service for the beginning of FY 2015 and for each successive fiscal quarter at the Postal Administrative Area and National levels.<sup>255</sup> The Postal Service measures average wait time in line through the Retail Customer Experience (RCE) program and the Point of Sale (POS) survey. It states that the service standard for wait time in line is “Five Minutes or Less.” FY 2015 *Annual Report to Congress* at 32.

The RCE program uses private “mystery shoppers” to conduct mailing transactions at over 8,000 large retail outlets.<sup>256</sup> Table V-26 below shows the national average customer wait time in line results for the RCE program by fiscal quarter for FY 2015.<sup>257</sup>

<sup>253</sup> FY 2015 *Annual Report to Congress* at 26, contains additional details regarding delivery points.

<sup>254</sup> Library Reference USPS–FY15–33, Excel file “CollectionBoxesFY2015.xls”; see 39 C.F.R. § 3055.91(c).

<sup>255</sup> Library Reference USPS–FY15–33, Excel file “WaitTimeInLineFY2015.xlsx”; see 39 C.F.R. § 3055.91(d).

<sup>256</sup> FY 2015 *Annual Report to Congress* at 32. To be an RCE program retail location, a post office has to be a Level 20 or higher office and generate \$500,000 or more in walk-in revenue annually. See Responses of the United States Postal Service to Questions 1-12, 16-18 of Chairman’s Information Request No. 13, February 18, 2016, question 10.d. (February 18, 2016, Responses to CHIR No. 13). The Commission will discuss the RCE program and POS survey in detail in its analysis of the Postal Service’s FY 2015 *Annual Performance Report* and FY 2016 Annual Performance Plan.

<sup>257</sup> Library Reference USPS–FY15–33, “WaitTimeInLineFY2015.xlsx,” tab “Area Avg Wait” contains information on wait time in line for each Postal Administrative Area.

**Table V-26**  
**RCE Program National Average Wait Time in Line**  
**By FY 2015 Quarter**

FY 2015 Quarter	Average Retail Customer Experience Wait Time in Line (minutes:seconds)
Quarter 1	2:33
Quarter 2	2:43
Quarter 3	2:40
Quarter 4	2:36

Source: Library Reference USPS-FY15-33, Excel file "WaitTimeInLineFY2015.xlsx." tab "Quarter Avg Wait Nat."

The POS survey is used for retail customers who conduct transactions at smaller retail locations. The POS retail equipment issues a survey invitation at the bottom of each retail receipt.<sup>258</sup> The Postal Service explains that wait time in line results between the POS survey and RCE program differ “[b]ecause POS surveys measure customer perception and the RCE measures actual wait time in line.”<sup>259</sup> It states that “identical periods of waiting can lead to different results in the POS surveys and the RCE.” *Id.*

Table V-27 below shows the POS survey wait time in line results for both FY 2014 and FY 2015.

<sup>258</sup> See Library Reference USPS-FY15-38, December 29, 2015, file “FY 15-38 Preface.pdf.”

<sup>259</sup> Docket No. ACR2014, Responses to Questions 1-5, 12-14, 26, 27, and 31-33 of Chairman’s Information Request No. 13, March 11, 2015, question 12 (Docket No. ACR2014, March 11, 2015, Responses to CHIR No. 13).

**Table V-27**  
**POS Survey Wait Time in Line, FY 2015**

Wait Time in Line	FY 2014	FY 2015
1-3 minutes	64.9%	60.3%
4-5 minutes	18.6%	20.8%
6-10 minutes	8.8%	10.1%
11-15 minutes	3.4%	3.9%
16 or more minutes	4.3%	4.8%

Sources: Library Reference USPS–FY15–38, Library Reference USPS–FY14–38.

Both the RCE program and POS survey report that customer wait times in line increased in FY 2015. In FY 2014, 9 percent of the RCE program respondents reported wait times of more than 5 minutes.<sup>260</sup> In FY 2015, this number increased to 12.5 percent. February 18, 2016, Responses to CHIR No. 13, question 11. Similarly, for the POS survey, Table V-27 illustrates that a higher percentage of POS customers reported wait times longer than 5 minutes in FY 2015 than in FY 2014. In FY 2014, 16.5 percent of POS survey respondents reported their wait time in line of more than 5 minutes. In FY 2015, this number increased to 18.9 percent.

## 8. Alternative Access

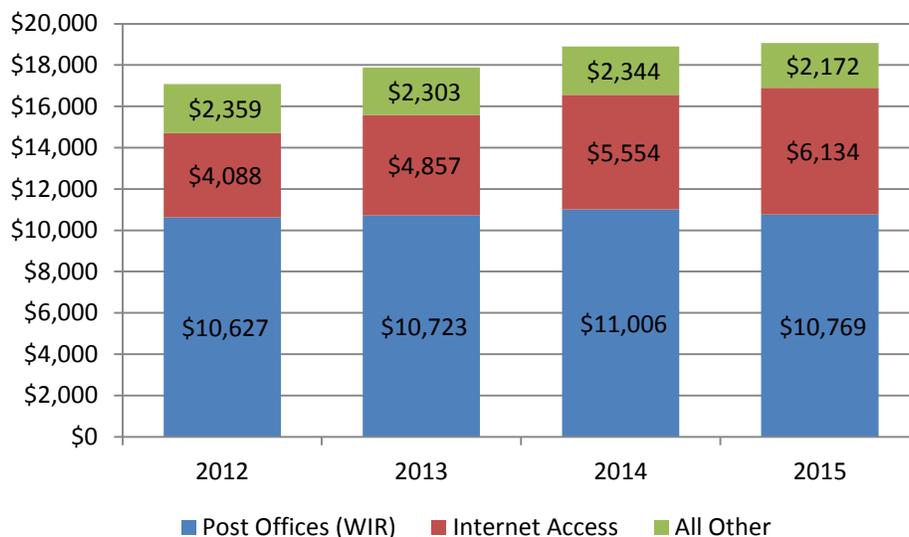
In addition to providing products and services at postal managed retail facilities, the Postal Service has continued to expand postal access through alternate channels. Figure V-19 compares retail revenue by channel from FY 2012 to FY 2015. The channels are:

- Post Offices (walk-in revenue from post offices and contract postal units)
- Internet Access (PC Postage and Click-N-Ship)
- All Other (stamps only sales by retail partners, self-service kiosks, and stamps by mail/phone/fax)<sup>261</sup>

<sup>260</sup> Docket No. ACR2014, United States Postal Service Responses to Questions 8, 11, and 15-19 of Chairman's Information Request No. 13, March 19, 2015, question 11 (Docket No. ACR2014, March 19, 2015, Responses to CHIR No. 13).

<sup>261</sup> "Self Service Kiosks" is the current term for the equipment formerly known as Automated Postal Centers. January 29, 2016, Responses to CHIR No. 6, question 5. There were 2843 operational Self Service Kiosks as of the end of FY 2015, and there are no plans to add additional ones in FY 2016. *Id.*

**Figure V-19**  
**Retail Revenue by Channel**



Source: January 29, 2016, Responses to CHIR No. 6, question 6; FY 2014 ACD at 124.

In FY 2015, more than 43 percent of retail revenue was generated through channels other than postal managed retail facilities.

## C. Customer Satisfaction with Market Dominant Products

### 1. Background

The Postal Service is required to provide measures of the degree of customer satisfaction with the service provided for Market Dominant products. 39 U.S.C. § 3652(a)(2)(B)(ii). In the *Annual Compliance Report*, the Postal Service must provide a copy of each type of customer survey, a description of the type of customer targeted by the survey, the number of surveys initiated and received, and the number of responses received for each question, disaggregated by each possible response. 39 C.F.R. § 3055.92. The Postal Service provides this information in Library Reference USPS–FY15–38.

In FY 2015, the Postal Service measured customer satisfaction with Market Dominant products by surveying three customer groups: residential, small/medium business, and large business customers. Residential customers completed the Delivery (Residential) survey.<sup>262</sup> Small/medium business customers (those with fewer than 250 employees at one site) completed the Delivery (Small/Medium Business) survey.<sup>263</sup> A panel of large business

<sup>262</sup> Library Reference USPS–FY15–38, file “Delivery - USPS FY15 Residential Delivery SURVEY.pdf.”

<sup>263</sup> Library Reference USPS–FY15–38, file “Delivery - USPS FY15 Small Business Delivery SURVEY.pdf.”

customers (those with more than 250 employees at one site) completed the Large Business survey.<sup>264</sup> These surveys are part of the Customer Insights (CI) program, which is intended to provide a comprehensive view of customer experience across the most frequently used customer contact channels. FY 2015 ACR at 57. The Commission examines the CI program and the customer surveys in detail in its analysis of the Postal Service's FY 2015 *Annual Performance Report* and FY 2016 Annual Performance Plan.

Table V-28 contains a comparison of FY 2014 and FY 2015 customer satisfaction results for residential, small/medium business, and large business customers. The Postal Service began surveying large business customers in the last quarter of FY 2015. The Postal Service explains that it elected to conduct the Large Business survey in response to information requests issued in Docket No. ACR2014. *Id.*

**Table V-28**  
**FY 2014 and FY 2015 Comparison of**  
**Customer Satisfaction with Market Dominant Products**

Market Dominant Products (Mailing Services)	Residential % Rated Very/Mostly Satisfied		Small/Medium Business % Rated Very/Mostly Satisfied		Large Business % Rated Very/Mostly Satisfied (Q4 only)	
	2014	2015	2014	2015	2014	2015
First-Class Mail	91.15%	89.22%	87.25%	84.77%	**	83.27%
Single-Piece International	85.58%	85.80%	83.04%	82.31%	**	82.65%
Standard Mail	86.76%	85.11%	83.82%	80.82%	**	79.49%
Periodicals	85.90%	85.50%	83.26%	82.42%	**	77.10%
Single-Piece Standard Post	88.92%	86.66%	84.06%	82.65%	**	77.81%
Media Mail	88.66%	87.17%	86.55%	85.18%	**	78.61%
Bound Printed Matter	--*	--*	81.72%	81.70%	**	76.54%
Library Mail	--*	85.10%	81.79%	85.43%	**	78.66%

\*-- Number of responses received did not meet minimum threshold for 90% level on confidence.

\*\*-- FY 2014 Not Available.

Source: FY 2015 ACR at 59.

## 2. Comments

The Public Representative observes that customer satisfaction for residential and small/medium business customers declined for almost every market dominant product in FY 2015. PR Comments at 24. He asserts that large business customers appear to be less satisfied than residential and small/medium business customers for almost all products. *Id.* at 25. He suggests that “the Commission closely monitor customer satisfaction to ensure

<sup>264</sup> Library Reference USPS–FY15–38, file “LargeBusiness - USPS FY15 LB Panel Survey.pdf.”

that further declines do not occur.” *Id.* He reiterates his concern that the Postal Service may reduce service to save costs while complying with the price cap, which provides no benefit to customers. *Id.*

The Postal Service acknowledges recent declines in customer satisfaction for residential and small/medium business customers, which it attributes to misdelivered mail and gaps in the scanning processes. USPS Reply Comments at 25. The Postal Service states that it will increase customer satisfaction by training employees to maintain high scanning integrity and ensuring that customers understand the meaning of delivery scans. *Id.* It explains that customer care centers are being refined to provide better root cause analysis on “No Delivery – No Attempt” and “Failed First Attempt” scans. *Id.* It notes that Mobile Delivery Devices have upgraded software that will improve scan events and ensure delivery accuracy. *Id.*

### 3. Commission Analysis

#### a. Survey Methodology

The Commission acknowledges that the Postal Service surveyed large business customers in FY 2015.<sup>265</sup> The Postal Service continued its surveys for residential and small/medium business customers in FY 2015. The FY 2015 Large Business survey is designed to collect specific customer experience details by asking large business customers to evaluate consistency, accuracy, tracking, and other features for each Market Dominant product. Surveying large business customers improves the Postal Service’s measurement of customer satisfaction with Market Dominant products because it considers feedback from all three major customer groups that use these products. Surveying large business customers improves measurement of customer satisfaction at the product level.

The FY 2015 surveys were conducted at one part of the fiscal year and the results may therefore be biased based on the time period surveyed. The number of completed surveys can also affect the precision of measurements for less frequently used products such as Library Mail.<sup>266</sup> The Postal Service acknowledges, “[w]ithout conducting additional surveys throughout the year, it is not possible to determine with precision, how representative the FY 2015 Large Business Survey results are of different, specific time periods throughout the year.” Response to CHIR No. 14, question 13.

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<sup>265</sup> The Postal Service states that it “elected to perform a Large Business survey in Quarter 4 of 2015, and reports those results here.” FY 2015 ACR at 59.

<sup>266</sup> For example, in FY 2014, the Postal Service administered the Delivery (Residential) survey from August to September 2014 and received only 145 residential customer satisfaction responses for the Library Mail product during the 2-month survey period. As a result, the FY 2014 Library Mail customer satisfaction result for residential customers did not meet the same level of precision as the FY 2015 Library Mail customer satisfaction result. By contrast, in FY 2015, the Postal Service administered the Delivery (Residential) survey throughout the entire year and received 859 residential customer satisfaction responses for the Library Mail product, which increased the level of precision compared to FY 2014. See February 8, 2016, Responses to CHIR No. 7, questions 20.a., 20.b.; Library Reference USPS–FY15–46, February 8, 2016, Excel file “ChIR7.Q20.Residential\_Library\_FY14.xlsx,” ; Library Reference USPS–FY15–33, Excel file “CI Question Response Counts FY15.xlsx,” “Delivery\_Res” tab.

*The Commission recommends that the Postal Service continue surveying large business customers and consider their responses when measuring customer satisfaction with Market Dominant products. To facilitate the Commission's evaluation, the Postal Service should file a table similar to Table V-28 above in the FY 2016 ACR. In the FY 2016 ACR, the Postal Service should also discuss reasons for any customer satisfaction decline for each Market Dominant product for residential, small/medium business, and large business customers. The Postal Service should consider, to the extent it deems useful, administering surveys throughout the fiscal year to improve the representativeness of the surveys.*

b. Survey Results

The Postal Service attributes the decline in customer satisfaction to misdelivered mail and gaps in the scanning processes. However, these reasons, when considered in tandem with available data, may not completely explain the decline in customer satisfaction for a number of Market Dominant products. Table V-29 lists the percentage of residential and small/medium business customers who responded negatively (Somewhat Disagree or Strongly Disagree)<sup>267</sup> to statements related to their most recent delivery experience in FY 2014 and FY 2015.

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<sup>267</sup> Question 2 of the Delivery (Residential) and Delivery (Small/Medium Business) surveys asks customers to evaluate their experiences with mail or packages they recently received by expressing their level of agreement with statements on carrier performance, delivery and tracking accuracy, and mail delivered in good condition. Customers provide their responses on a six-point scale: Strongly Agree, Somewhat Agree, Neither Agree nor Disagree, Somewhat Disagree, Strongly Disagree, and Don't Know.

**Table V-29**  
**Percent of Residential and Small/Medium Business Customers Who Responded**  
**Negatively to Delivery Survey Statements for Mail or Packages Recently Received**

Delivery Survey Statement	Percent of Residential Customers who Somewhat or Strongly Disagreed		Percent of Small/Medium Business Customers who Somewhat or Strongly Disagreed	
	FY 2014	FY 2015	FY 2014	FY 2015
Mail or packages are delivered to the correct address.	11.2	11.7	12.9	14.8
Letter carriers perform their job well.	9.3	9.8	10.7	11.8
Tracking information for packages is accurate.	4.8	5.0	4.6	5.3
Mail or packages are delivered in good condition.	4.8	4.9	4.7	7.4
Letter carriers are friendly and courteous.	4.1	4.4	5.6	6.0

Sources: Docket No. ACR2014, Library Reference USPS–FY14–38, December 29, 2014, Excel file “CI Question Response Counts FY2014.xlsx,” tabs “Delivery\_SMB” (small/medium business customers) and “Delivery\_RES” (residential customers); Library Reference USPS–FY15–38, Excel file “CI Question Response Counts FY15.xlsx,” tabs “Delivery\_SMB” (small/medium business customers) and “Delivery\_RES” (residential customers). “Don’t Know” responses were included in the total for the percentage negative response calculations.

Table V-29 illustrates that between FY 2014 and FY 2015, negative responses increased. Delivery accuracy and letter carrier performance received the most negative responses from residential and small/medium customers in FY 2014 and FY 2015. Between FY 2014 and FY 2015, the percentage of negative responses—particularly for delivery accuracy, mail or packages delivered in good condition, and letter carrier performance—increased for small/medium business customers to a larger extent than for residential customers.

The Postal Service’s proposal to improve scanning may address issues related to the accuracy of tracking information. However, it may not address other major causes of customer dissatisfaction that relate to delivery accuracy and letter carrier performance.

The Commission notes that the Postal Service plans to modify FY 2016 questions on the Delivery (Residential) and Delivery (Small/Medium Business) surveys “to gain deeper insights into our customer’s delivery experience and delivery needs.”<sup>268</sup>

*In the FY 2016 ACR, the Commission recommends that the Postal Service further examine increasing customer dissatisfaction results for misdelivered mail and letter carrier performance and describe what changes it implemented to address these issues. The Commission also recommends the Postal Service continue its efforts to improve scanning and provide more accurate tracking information to customers. If the Postal Service elects to change survey questions, the Commission encourages the Postal Service to ensure that results are comparable across fiscal years.*

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<sup>268</sup> Responses of the United States Postal Service to Questions 1-6 of Chairman’s Information Request No. 3, January 21, 2016, question 6 (Responses to CHIR No. 3).

# CHAPTER 6: FLATS COST AND SERVICE ISSUES

## A. Background

The Postal Service has faced significant challenges in processing and delivering flat-shaped mailpieces (flats) profitably during the PAEA era. Postal Service efforts relating to improving flats products' service or contribution (profitability) are ongoing and interrelated. This chapter, therefore, reviews these issues in tandem. The Commission explores potential causes for the problems identified to date and calls on the Postal Service to take steps to better define the scope of the problems and potential solutions. Specifically, the Commission requires that the Postal Service report on methods to quantify what the Commission understands to be the main drivers of significant and ongoing service failures and cost shortfalls.

Relevant to the financial performance, and as reported in Chapter 3, in FY 2015 the attributable costs of Outside County Periodicals and Standard Flats combined to exceed revenues by over \$1 billion. *See* Chapter 3, *supra*, at 43, 51. Since FY 2008, the combined attributable costs of four flats products exceeded revenues by more than \$8 billion. *Id.* Relevant to service performance and as detailed in Chapter 5, the Postal Service has never met its service performance targets for any flats product.

In previous ACDs, the Commission directed the Postal Service to provide information regarding operational changes for flats designed to reduce costs and improve costing methodologies in both Periodicals and Standard Mail.<sup>269</sup> The Commission also directed the Postal Service to make efforts to improve service performance for flats and explain why other efforts have not been effective. *See* FY 2014 ACD at 109.

### 1. Flats Financial Performance

The Postal Service implemented a wide range of operational changes in the past 10 years intended to reduce the costs of flats.<sup>270</sup> Despite these operational changes, the shortfall created by flats products' attributable costs exceeding revenues was higher in FY 2015 than any year since FY 2012.<sup>271</sup> In addition, the Postal Service has not, despite Commission

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<sup>269</sup> *See, e.g.*, Docket No. ACR2008, *Annual Compliance Determination Report*, March 30, 2009, at 54, 58-60 (FY 2008 ACD); FY 2009 ACD at 65, 75; FY 2010 ACD at 93-94, 103-107; FY 2011 ACD at 106, 117-118; FY 2012 ACD at 89, 92-97, 109-116; FY 2013 ACD at 44-45, 53-55; FY 2014 ACD at 40-41, 47-48.

<sup>270</sup> *See* Chapter 3, *supra*, at 47-49, 53-59; *Periodicals Mail Study* at 95-97; FY 2014 ACD at 38; *see also* Docket No. N2012-1; Docket No. N2014-1; and Docket No. R2010-4, Library Reference USPS-R2010-4/9, July 6, 2010.

<sup>271</sup> FY 2015 ACR at 29-30; *see* Chapter 3, *supra*, Tables III-1 and III-5. In FY 2015, the Postal Service incorporated three methodology changes which it estimates increased unit costs for Standard Mail Flats by 0.99 cents, or 2.1 percent. *See* FY 2015 ACR at 29-30. The shortfall has continued to increase, even after removing the effects of these methodology changes.

direction, provided estimates as to the financial impacts of the majority of these operational changes. *See* Chapter 3, *supra*, at 48-49, 54-58. The Commission has consistently recommended that the Postal Service improve the financial performance of flats products in its past ACDs as detailed in Table VI-1 below.

**Table VI-1**  
**Annual Compliance Determinations Where the Postal Regulatory Commission Recommended the Postal Service Improve Standard Mail Flats and Periodicals Financial Performance**

Product/Class	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Standard Mail Flats	X	X	X	X	X	X	X
Periodicals	X	X	X	X	X	X	X

Source: FY 2008 ACD at 54, 58-60; FY 2009 ACD at 65, 75, 87-88; FY 2010 ACD at 93-94, 103-107; FY 2011 ACD at 106, 117-119; FY 2012 ACD at 89, 92-97, 109-116; FY 2013 ACD at 44-45, 53-55; and FY 2014 ACD at 40-41, 47-48.

The Commission previously directed the Postal Service to provide visibility into the financial impacts of its operational changes to Standard Mail Flats in order to ascertain the effectiveness of those changes. In the FY 2010 ACD, after 3 years of increasing negative contribution from Standard Mail Flats, the Commission directed the Postal Service to “increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments...and cost reductions...” FY 2010 ACD at 106. As part of this directive, the Commission required that in subsequent ACRs the Postal Service describe all operational changes designed to reduce overall flats costs in the previous fiscal year and estimate the financial effects of such changes. *Id.* at 107. In FY 2015, as in previous years, the Postal Service did not quantify the financial effects of those changes. *See* Chapter 3, *supra*, at 48-49, 54-58.

The Commission steadily increased its attempts to encourage transparency for the operational initiatives designed to reduce flats costs for Periodicals as well. The Commission worked with the Postal Service to produce the *Periodicals Mail Study*<sup>272</sup> in FY 2010, in which the Commission and the Postal Service described initiatives designed to reduce the cost of flats. *Periodicals Mail Study* at 81-99. In the FY 2013 ACD, the Commission found that the Postal Service was unable to report on the success of initiatives developed from the *Periodicals Mail Study* that were designed to lower the cost of Periodicals. FY 2013 ACD at 45. The Commission, therefore, required the Postal Service to quantify the financial impact of implementing the operational strategies outlined in the *Periodicals Mail Study* and develop metrics to track progress in subsequent ACRs. *Id.* As discussed in Chapter 3, in the FY 2015 ACR, the Postal Service did not provide a detailed analysis of the cost savings impact of these operational strategies or the progress in developing metrics to assess the resulting cost savings. The Postal Service continues to

<sup>272</sup> The *Periodicals Mail Study* responds to section 708 of the PAEA, which directs the Postal Service and Commission to jointly address the quality of data for attributing costs and opportunities for operational efficiencies, including pricing incentives. *See Periodicals Mail Study* at 5.

maintain that it “is unable to provide an estimate of the financial impacts of these operational initiatives at this time.” FY 2015 ACR at 19.

To date, despite Commission inquiries, the Postal Service has not quantified the impact of its operational changes on flats costs. Moreover, it was unsuccessful in reducing costs as evidenced by the continued increase in costs for flats. Further, the Postal Service did not explain its failure to develop metrics to assess cost savings and other issues. As a result, the Postal Service did not identify a comprehensive plan to ameliorate the problem or a way to measure the effectiveness of its actions on this billion-dollar challenge.

## 2. Flats Service Performance

In addition to the increased costs for flats products, the Postal Service did not meet its service performance targets for flats products.<sup>273</sup> The Postal Service has in recent years experienced significant reductions in on-time delivery for several flats products. This decline in service performance for flats products continued despite the relaxation of several service standards since FY 2012.<sup>274</sup> While the Postal Service increased service windows (an effort to increase volume on automation equipment and drive efficiency), it did not meet these less stringent service standards. Table VI-2 contains the service performance results for selected flats products from FY 2011 to FY 2015.

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<sup>273</sup> See Chapter 5, *supra*, at 102-131 for further details regarding service performance.

<sup>274</sup> The Postal Service sets its own service performance targets (the measure of the amount of mail within a product or group that meets a specified service standard). In FY 2012, the Postal Service implemented Phase 1 of its Network Rationalization initiative. Pursuant to this initiative, service windows for First Class, Standard Mail, and Periodicals were increased. In FY 2015, service windows were again increased pursuant to Phase 2 of Network Rationalization. See Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 41-72 (Docket No. N2012-1, Advisory Opinion). In FY 2014, the Postal Service implemented the load leveling program, which increased the service windows for specific portions of Standard Mail and Periodicals. See Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014, at 10-19 (Docket No. N2014-1, Advisory Opinion).

**Table VI-2**  
**Flats Products' Service Performance Results FY 2011–FY 2015**

Product	FY 2011		FY 2012		FY 2013		FY 2014		FY 2015	
	Target	% On-Time								
<b>First-Class Mail Flats 3-5 Day<sup>275</sup></b>	92.85	80.00	92.85	80.00	95.00	77.60	95.25	72.60	95.25	65.28
<b>Standard Mail Carrier Route</b>	90.00	50.10	90.00	70.60	90.00	79.70	91.00	81.40	91.00	82.02
<b>Standard Mail Flats</b>	90.00	59.90	90.00	70.00	90.00	76.90	91.00	76.20	91.00	73.78
<b>Periodicals Outside County</b>	91.00	75.50	91.00	68.70	91.00	82.10	91.00	80.80	91.00	77.57
<b>Bound Printed Matter Flats</b>	N/A	N/A	90.00	54.30	90.00	62.60	90.00	60.20	90.00	45.20

Source: Library Reference PRC-LR-ACR2015/9.

In the FY 2014 ACD, the Commission noted the Postal Service's continued difficulties with achieving service performance targets for flats across all classes. Specifically, the Commission noted that flats in First-Class Mail, Periodicals, Standard Mail, and Package Services did not meet service performance targets in FY 2014 and had not met targets since the inception of the modern service standard tracking program. FY 2014 ACD at 104, 109, 111-112, 114. In the FY 2014 ACD, the Commission directed the Postal Service to improve performance for flats in FY 2015 or, if results did not improve, provide an explanation for why its efforts to improve results were ineffective and to identify the changes it plans to make to improve service performance. *Id.* As discussed in Chapter 5, service performance results for all but one flats product did not improve, and the Postal Service failed to supply adequate plans for improvement given service performance results for flats remain below applicable targets. *See* Chapter 5, *supra*, at 102-131.

### 3. Data Systems

The Postal Service did not provide transparency into the financial and service impacts of the operational initiatives intended to improve flats products' cost coverage. Based on the Postal Service's responses to CHIRs in this proceeding and past ACDs, the Postal Service recognized limitations in its use of its data sources. Specifically, it noted that isolating cost and service impacts of operational initiatives by class is difficult because the available data are not collected at the class level, or the available data are not representative of all volume.<sup>276</sup> These limitations have an effect on the Postal Service's ability to measure the

<sup>275</sup> "First-Class Mail Flats 3-5 Day" denotes First-Class Mail Flats that have a service standard of 3 to 5 days. Most First-Class Mail Flats volume falls into this category.

<sup>276</sup> See February 17, 2016, Responses to CHIR No. 12, question 4; Docket No. ACR2014, Responses of the United States Postal Service to Questions 5-7 and 10-12 of Chairman's Information Request No. 4, February 19, 2015, question 11 (Docket No. ACR2014, February 19, 2015, Responses to CHIR No. 4).

effectiveness of its operational initiatives intended to improve cost and service performance for flats.

For financial reporting purposes, the Postal Service focuses on CRA-level data, which are used for cost attribution. The CRA was developed in response to the statutory requirements of the Postal Reorganization Act (PRA) and the subsequent PAEA. In multiple studies, stakeholders have repeatedly advocated and the Commission has repeatedly agreed that CRA-level data are “reasonably accurate for rate-setting purposes.” *Periodicals Mail Study* at 57; *see also* FY 2014 ACD at 48. Although relevant for developing reasonably accurate product costs,<sup>277</sup> the CRA data are not “sufficient to accurately assess the savings achievable through improved operational efficiency.” *Periodicals Mail Study* at 57. Further, CRA data are not designed to identify the “pinch points,” *i.e.*, functions where the Postal Service is not operating at a maximum efficiency and where operational reality does not match ideal operational design. Rather, CRA data are designed to determine the costs incurred by classes and products in a given year. These limitations inhibit the CRA from being an effective data source to evaluate the success of operational initiatives intended to improve flats costs.

With respect to service performance, the Postal Service developed and implemented a host of new data systems over the past 5 years. Many of these systems are used to track and report service performance. In response to CHIRs in this proceeding, the Postal Service identifies numerous data systems which it has developed to track operational issues for service performance and tracking for flats. The Postal Service indicates that the following systems can provide additional insight into flats products: Mail History Tracking System (MHTS), IMb Service Performance Diagnostics System (SPD), Flats ID Coding System (FICS), Seamless Acceptance and Service Performance (SASP), Business Intelligence Data Storage (BIDS), and Intelligent Mail Accuracy and Performance System (IMAPS).<sup>278</sup>

However, as discussed in Chapter 5, it appears that the Postal Service’s use of its diagnostic tools was ineffective in improving service performance results for flats products. *See* Chapter 5, *supra*, at 103-104, 115-116, 123, 129. It is not clear whether these data systems are able to track or measure problems causing flats service performance declines, *i.e.*, the pinch points in processing or transportation flows. It is also unclear that the Postal Service leveraged the available data to provide visibility and insight into the issues facing flats, which may prevent the Postal Service from developing effective solutions. The Postal Service repeatedly indicates that it is “unable to provide an estimate of the financial impacts”<sup>279</sup> of the operational changes intended to improve flats mail processing. Further, the Postal Service states that “[f]or the vast majority of programs the Postal Service has no

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<sup>277</sup> For example, CRA data is developed for accuracy in ratemaking and cross-subsidy analysis, an important economic feature of both the PRA and the PAEA. *See* FY 2011 ACD at 119.

<sup>278</sup> February 19, 2016, Responses to CHIR No. 12, questions 8 and 12.

<sup>279</sup> FY 2015 ACR at 19; *see also* February 17, 2016, Responses to CHIR No. 12, question 4 (“The Postal Service has not developed and is not developing metrics to assess the cost-savings impact of operational strategies for Periodicals for FY 15.”).

system in place today to accurately measure the isolated cost impact of a single initiative due to the number of factors impacting costs in a given operation.”<sup>280</sup>

The solutions presented by the Postal Service failed to achieve the intended improvements given the continued decline in flats cost coverage and service performance. Without visibility into the capabilities of the Postal Service’s current data systems to track and measure the impacts of its operational initiatives intended to improve flats costs and performance, flats will continue to be a billion-dollar issue for years to come.

## **B. Current Flats Environment: Factors Contributing to Cost and Service Issues**

During the course of this ACD proceeding, the Commission attempted to gather more information regarding the cost coverage and service performance issues with flats. The Postal Service responses to numerous CHIRs highlight potential obstacles to improving cost coverage and service performance for flats. Based on the Postal Service responses, the Commission identifies the following obstacles which are shared among flats in all classes of mail:

1. Bundle processing<sup>281</sup>
2. Low productivity on automated equipment<sup>282</sup>
3. Manual sorting<sup>283</sup>
4. Productivity and service issues in allied operations<sup>284</sup>
5. Increased transportation time and cost<sup>285</sup>
6. Last mile/delivery<sup>286</sup>

These six operations are “pinch-points,” functions where the Postal Service is not operating at maximum efficiency from a cost or service perspective. Figure VI-1 illustrates a basic flats processing flow and the obstacles that may occur at each node in the flow.

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<sup>280</sup> Docket No. ACR2014, February 19, 2015, Responses to CHIR No. 4, question 11.

<sup>281</sup> January 19, 2016, Responses to CHIR No. 2, question 16; Responses to CHIR No. 4, question 14; Responses of the United States Postal Service to Questions 1-6, 8-10 of Chairman’s Information Request No. 11, February 16, 2016, question 3 (Responses to CHIR No. 11); February 19, 2016, Responses to CHIR No. 12, question 1.

<sup>282</sup> February 8, 2016, Responses to CHIR No. 7, question 1; Responses to CHIR No. 4, question 16.

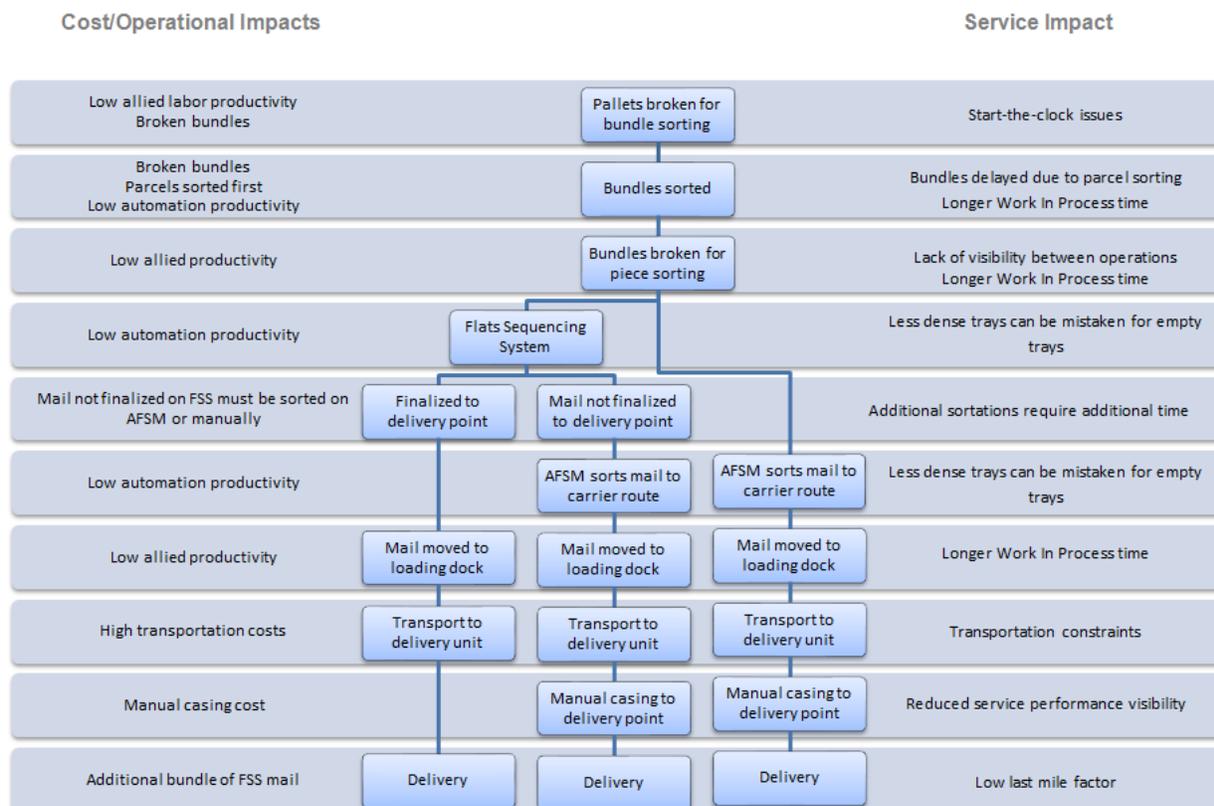
<sup>283</sup> Responses to CHIR No. 4, question 14.

<sup>284</sup> January 15, 2016, Responses to CHIR No. 2, question 5; January 19, 2016, Responses to CHIR No. 2, questions 22, 24, and 26; Responses to CHIR No. 11, question 1.

<sup>285</sup> January 29, 2016, Responses to CHIR No. 6, question 20; Responses to CHIR No. 11, question 1.

<sup>286</sup> January 19, 2016, Responses to CHIR No. 2, question 17.

**Figure VI-1: Flats Mail Processing Impact on Cost and Service**



In this section, the Commission discusses the potential cost and service impacts of each pinch point, the data limitations, and potential data sources that may provide actionable information in the future.

### 1. Bundle Sorting Operations/Bundle Breakage

The first pinch point for flats involves the bundle sorting operation. Bundles are plastic-wrapped or banded groups of presorted pieces. The bundle sort pinch point is implicated both when moving the mail to the bundle sort and during the bundle sort. Over 90 percent of flats arrive at Postal Service facilities presorted in bundles on pallets or in sacks. *Periodicals Mail Study* at 36. Seventy-five percent of all flats are dropshipped to either a destination sectional center facility (DSCF) or a Destination Flats Sequencing System (DFSS) facility. *See* Library Reference PRC–LR–ACR2015/9. Almost all flats require a bundle sort. *Periodicals Mails Study* at 36.

The bundle sorting operation implicates both cost and service performance issues for flats. Bundle breakage is an issue unique to the processing of flats, particularly with bundle processing on the Automated Package Processing System (APPS) and Automated Parcel Bundle Sorter (APBS). When postal employees unload pallets that contain bundles of flats and perform the bundle sort, the bundles can break. Bundle breakage occurs when the

material that holds the flats together in a bundle breaks. When a bundle breaks, the value of the presortation is lost and this increases costs to the Postal Service to process the pieces that were formerly bundled together. Responses to CHIR No. 11, question 3.b.

When bundle breakage occurs, it also negatively impacts service performance because the formerly bundled pieces now require additional handling and processing by the Postal Service. *Id.* Further, delays in the bundle sort process regardless of breakage can also negatively affect service performance. As discussed in the “allied operations” section below, any time delay between arrival of palletized flats and the initial bundle process can cause flats to miss their service performance standards. Thus, the time required for the initial bundle sort is a pinch point for effective service performance.

Although bundle breakage negatively affects cost and service performance of flats, the actual cost and service impact of bundle breakage is unclear.<sup>287</sup> Postal Service data systems do not record all instances of bundle breakage and only estimate bundle breakage. Docket No. ACR2014, February 6, 2015 Responses to CHIR No. 4, question 9. The Postal Service states that bundle breakage continues to be a significant problem for flats.<sup>288</sup> Bundle breakage leads to an increase in the number of handlings, cost of processing, and time prior to finalization. Responses to CHIR No. 11, question 3.b. In FY 2015, the Postal Service completed a Lean Six Sigma study on bundle breakage. Responses to CHIR No. 4, question 18. However, this study was not designed to determine the current scope and scale of bundle breakage; it was designed to mitigate breakage going forward.

As expressed above, the current data are limited in identifying the actual cost and service impacts of bundle breakage. Specifically, because the currently available data do not fully indicate the scope and scale of bundle breakage at a national or facility level, the impacts of this issue on cost and service performance are unclear. Without knowing the actual impact of bundle breakage at a facility level, it is difficult to propose or implement effective solutions to this problem. However, by leveraging its available data, including IMb and MHTS, the Postal Service can gain insight into where and when bundle breakage occurs. For example, quantifying the percentage of a given mailer’s volume that results in broken bundles would allow the Postal Service to develop a specific mitigation strategy tailored to that mailer. IMb data could be utilized to identify at-risk mailings, which would allow the Postal Service visibility into the root cause of the problem. These types of data would be relevant to identify areas of improvement that could be achieved through changes in mail preparation standards and rules when the Postal Service establishes or revises them.

## 2. Low Productivity on Automated Equipment

The second pinch point for flats is automated processing. The APBS, the APPS, and the Automated Flats Sequencing Machine (AFSM) 100 are the three primary machines used to

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<sup>287</sup> Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-4, 8-9, and 13-17 of Chairman’s Information Request No. 4, February 6, 2015, question 9 (Docket No. ACR2014, February 6, 2015, Responses to CHIR No. 4).

<sup>288</sup> See FY 2015 ACR at 27; see also United States Postal Service Office of Inspector General, Audit Report – Periodicals Mail Costs, Report No. CRR-AR-11-001, December 7, 2010, at 4-6.

process flats. The APBS and APPS are used to sort bundles of flats and the AFSM is used to sort individual pieces to carrier routes.

This pinch point also impacts both cost and service for flats. One of the major issues causing the increased cost of flats is the decline in productivity on automated equipment. Over the past decade, the productivities measured in pieces per hour (pph) for these machines declined.<sup>289</sup> When productivities go down, the cost efficiency of the Postal Service's operations declines.

The Postal Service attributes these productivity declines to the long running volume declines but does not explain why lower volumes necessarily translate into lower productivities.<sup>290</sup> Despite the lower volume, the Postal Service made changes to its operations intended to increase productivities, but those changes did not produce measurable positive effects on productivities. As an example, APBS replaced the Small Parcel and Bundle Sorter (SPBS) in FY 2013.<sup>291</sup> This change was supposed to improve productivity, however, as Table VI-3 shows, the productivity continued to decline after the APBS was introduced.<sup>292</sup>

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<sup>289</sup> See Table VI-3 below. Further note that the productivity for the SPBS/APBS increased from FY 2011 to FY 2013. This increase was due to the deployment of the APBS, which automated the keying activity required by the SPBS. While the Postal Service upgraded the SPBS, the current productivity of the new generation, the APBS, is lower in FY 2015 than the prior generation in FY 2008. See Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-6, 8, 10, 12-13 and 15-22 of Chairman's Information Request No. 2, January 23, 2015, question 8 (Docket No. ACR2014, Responses to CHIR No. 2).

<sup>290</sup> Docket No. ACR2014, Responses to CHIR No. 2, question 8. The Postal Service has not linked the productivity of the APPS, APBS, or AFSM at a facility level to facility-specific volumes. That is, the Postal Service has not provided evidence that facilities with lower volume actually have lower productivities.

<sup>291</sup> Docket No. ACR2014, February 19, 2015, Responses to CHIR No. 4, question 11.

<sup>292</sup> See Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2, 5-11 and 13-14 of Chairman's Information Request No. 3, January 30, 2015, question 6 (Docket No. ACR2014, January 30, 2015, Responses to CHIR No. 3).

**Table VI-3  
Pieces Per Hour (PPH) Sorted**

Fiscal Year	AFSM100 Incoming Secondary		SPBS/APBS Incoming		APPS Incoming	
	PPH	% Change	PPH	% Change	PPH	% Change
2008	3273		252		498	
2009	3138	-4.1%	224	-10.8%	451	-9.3%
2010	2998	-4.5%	208	-7.2%	430	-4.7%
2011	2898	-3.3%	201	-3.4%	397	-7.7%
2012	2692	-7.1%	220	9.6%	361	-9.0%
2013	2725	1.2%	232	5.4%	350	-3.0%
2014	2685	-1.5%	219	-5.6%	319	-9.1%
2015	2673	-0.4%	205	-6.6%	304	-4.5%

Source: PRC-LR-ACR2015/9.

The Postal Service notes that productivity and volume declines negatively impact service performance. January 19, 2016, Responses to CHIR No. 2, questions 15, 16, and 17. The Postal Service further notes that it attempts to maximize volume per sort plan, which leads to processing being performed later in the day. *Id.* questions 16 and 17. There are indications that, in some cases, the Postal Service may be delaying processing until it has reached a certain volume. Responses to CHIR No. 11, question 1. Given the continuing decline in volume, this delay in processing will only decrease the Postal Service's ability to meet its service performance standards for flats.

The Postal Service implemented a number of operational and concurrent service standard changes with the purpose of increasing flats automation productivity. The Postal Service implemented Mail Processing Realignment in two phases. In Phase 1, the Postal Service consolidated 140 facilities and extended service standards for flats across multiple classes and products.<sup>293</sup> The Postal Service implemented Phase 1 from FY 2012 to FY 2014. One of the purposes of Phase 1 was to increase volume at the facility level to increase available volume for automation processing. In FY 2015, the Postal Service implemented Phase 2, which extended service windows and realigned operating windows in mail processing facilities.<sup>294</sup> In Docket No. N2012-1, the Postal Service estimated that implementation of Phase 2 would improve flats processing productivity by 15 percent.<sup>295</sup> As detailed in Table

<sup>293</sup> Docket No. N2012-1, Advisory Opinion at 46; see also Revised Service Standards for Market-Dominant Mail Products, 77 Fed. Reg. 31,190 (May 25, 2012).

<sup>294</sup> See Revised Service Standards for Market-Dominant Mail Products; Designation of Implementation Date, 79 Fed. Reg. 44,700 (August 1, 2014).

<sup>295</sup> Docket No. N2012-1, Advisory Opinion at Appendix H at 6, Table H-1.

VI-3, flats processing productivities continued to decline in FY 2015. These operational changes had a limited effect and service performance continued to decline.

In addition to the three primary machines to process flats, the Postal Service implemented the Flats Sequencing System (FSS) to sequence flats automatically. The FSS sorts flats into delivery point sequence (DPS). Where the FSS is not used to sequence flats, carriers must manually sequence, or “case” the mail. One of the intended benefits of FSS is a decrease in casing costs in FSS zones. Due to the reduction in flats volume and the FSS failing to meet key performance requirements, the deployment of the FSS is more limited today than originally envisioned.<sup>296</sup> As of January 2014, the Postal Service deployed 100 FSS machines in 33 locations.<sup>297</sup>

However, the FSS did not have the intended effect on improving cost or service. In FY 2015, 20 percent of flats that destined in FSS zones were not finalized on FSS equipment.<sup>298</sup> The Postal Service spent over \$202 million on processing flats on the FSS in FY 2015.<sup>299</sup> The Postal Service estimates that only 81.9 percent of flats that destinate in FSS zones were finalized to DPS on the FSS in FY 2015, requiring the remainder to be manually cased despite these mailpieces paying the cheaper automation FSS prices.<sup>300</sup> The inability of the Postal Service to achieve DPS percentages above 81.9 percent creates cost and service issues for flats across all classes and products. However, the Postal Service did not clearly identify the cost or the service impact of the FSS implementation.<sup>301</sup>

The Postal Service develops its productivity data for its automated equipment using the MODS and Web End-of-Run (WebEOR) system.<sup>302</sup> WebEOR provides high quality granular productivity data on the total pieces processed on automation equipment and MODS allows the Postal Service insight into the workhours for these operations.<sup>303</sup> However, these data systems provide limited insight into the causes of the problems involving the decline in

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<sup>296</sup> United States Postal Service Office of Inspector General, Audit Report – Challenges in Controlling Costs with Standard Mail Flats and Periodicals, Report No. SM-WP-15-001, February 26, 2015, at 8 (USPS OIG Report No. SM-WP-15-001).

<sup>297</sup> USPS OIG Report No. SM-WP-15-001 at 8. Facilities that house FSS machines are referred to as destination FSS (DFSS) facilities.

<sup>298</sup> Library Reference USPS-FY15-11, December 29, 2015, Excel file “USPS-FY15-11 STD flats.xlsx,” tab “Coverage Factors,” cell E79.

<sup>299</sup> Library Reference USPS-FY15-26, December 29, 2015, Excel file “shp15prc.xls,” tab “Flats (2),” columns “F” and “AX.” The cost of FSS processing in Management Operating Data System (MODS) and network distribution center (NDC) facilities was over \$202 million.

<sup>300</sup> Responses to CHIR No. 4, question 13. In its Responses to CHIR No. 4, question 13, the Postal Service states that only 59.99 percent of flats that destinate in FSS zones are finalized via the FSS. However, in February 8, 2016, Responses to CHIR No. 7, question 10, the Postal Service explains that the 59.99 metric includes “mail pieces not intended to be processed on the FSS, specifically EDDM, High Density and Saturation Flats” and that 81.9 percent of machinable flats destinating in FSS zones are successfully sequenced.

<sup>301</sup> The Postal Service has repeatedly stated it is unable to isolate the cost savings from the FSS Initiative. See Docket No. ACR2014, Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015, Attachment A at 4. Concerning service performance, in a notice revising its response to CHIR No. 12, question 11, the Postal Service confirmed that it “has not developed a process to measure service performance impact -- from acceptance to delivery -- that could be said to result from FSS scheme bundles.” Notice of the United States Postal Service of Filing a Revised Response to Question 11 of Chairman’s Information Request No. 12 -- ERRATA, February 18, 2016, question 11 (February 18, 2016, Response to CHIR No. 12).

<sup>302</sup> United States Postal Service Office of Inspector General, Audit Report – Web End-of-Run System, Report No. MS-AR-14-004, June 2, 2014, at 1 (USPS OIG Report No. MS-AR-14-004); see also Library Reference USPS-FY15-23.

<sup>303</sup> USPS OIG Report No. MS-AR-14-004 at 1.

productivity and increase in costs facing the automated processing of flats. Further, these data systems do not record information at the product level. That is, for a given processing run, the Postal Service has data on how many pieces were fed and finalized, but it generally does not have data as to whether those pieces were Periodicals, Standard Mail Flats, or Standard Mail Carrier Route.<sup>304</sup> While the Postal Service implemented various operational initiatives intended to improve both cost and service performance, it did not leverage available data or develop new data sources to detail the aspects of the initiatives that are working. It also did not determine which aspects of the initiatives are not working as planned. The Postal Service could leverage available service performance information, such as the MHTS and IMb SPD, to determine if the changes to the operating windows for flats have led to increased productivity. The Postal Service could leverage available machine run information to determine the frequency with which multiple processing runs occur in the same operation in the same facility. Such information could provide insight relevant to improving the productivity of automation flats in a timely fashion.

The Postal Service could leverage existing data in order to gain better insight into the problems facing its automated flats processing from a global perspective. The Postal Service has evaluated specific functions of automation processing in an attempt to increase visibility regarding the issues. The Postal Service can utilize the results of these inquiries, including the results from the Bundle Breakage Lean Six Sigma project, Mail Pieces At-Risk report, and Electronic Mail Improvement Reporting (eMIR)<sup>305</sup> to determine where flats are encountering problems at each step in the automated processing system. FY 2015 ACR at 19-20, 24-25, and 27. The Postal Service also has the ability to leverage IMb data in order to identify at-risk mailings. *See* FY 2015 ACR at 19 (FSS Scorecard). Further, the IMb data could identify locations where automation runs are class specific, and therefore help generate class-specific productivity.

### 3. Manual Processing

The third pinch point for flats is manual processing. Generally, automation is preferable to manual processing, which tends to be more costly and time consuming. Manual processing of flats is a pinch point because a high percentage of flats continue to be diverted to manual processing, resulting in higher costs and poorer service.

Manual processing of flats has a large impact on costs. In FY 2015, the Postal Service spent over \$355 million manually processing flats.<sup>306</sup> For example, the Postal Service reports that a manual incoming secondary sort costs an additional 21.899 cents per piece, over eight times as much as the cost of 2.609 cents per piece for an automated incoming secondary

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<sup>304</sup> In some instances, the Postal Service will process Periodicals and First-Class Mail Flats on specific runs, which are recorded using different MODS operations codes. However, there is no method for measuring the actual content of those processing runs.

<sup>305</sup> The eMIR system “was designed to save costs by assigning Postal Service representatives to contact mailers to discuss the reported issues, their root causes, and corrective action the mailer will take.” *See* United States Postal Service Office of Inspector General, Audit Report – Electronic Mail Improvement Reporting – Workshare Mail Quality, Report No. CP-AR-16-001, December 8, 2015, at 1.

<sup>306</sup> The cost of manual processing in MODS and NDC facilities was over \$139.0 million. *See* Library Reference USPS-FY15-26, Excel file “shp15prc.xls,” tab “Flats (2),” columns “M, N, O, and AY.” The cost of manual processing in non-MODS facilities was over \$216.7 million. *See id.* columns “BN, BO, BP.”

sort. February 8, 2016, Responses to CHIR No. 7, question 10. According to the Postal Service, 10 percent of flats were processed manually in FY 2015, despite the fact that 95 percent of flats were entered at automation prices.<sup>307</sup>

In addition to costs, when flats are processed manually, service times are negatively impacted because manual sortation generally increases the time it takes to process the mail. The Postal Service uses automation systems to track service performance issues. Manual sortation creates transparency issues because the service performance of those pieces manually sorted is not measured accurately.<sup>308</sup>

Currently, MODS and eFlash data<sup>309</sup> provide information relating to the manual processing of flats. However, neither MODS nor Eflash record the actual volume that is manually processed. Instead of measuring actual volume, the Postal Service tracks the workhours in manual processing operations and attributes the related costs to specific products on the basis of In-Office Cost System (IOCS) tallies. To estimate the volume in manual processing operations, the Postal Service multiplies the volume processed in automation operations by a factor estimated from a survey to calculate an estimate of manually processed volume.<sup>310</sup> Similar to automation operations, the Postal Service does not track volume by class or product in manual operations. Because existing data systems do not record actual volumes by product or facility, these data systems are insufficient for the Postal Service or the Commission to address the significant cost and service impacts of the practice.

The current data provided by the Postal Service lacks transparency, as there is no way to track and report the amount of manual processing that actually occurs. The Commission and the Postal Service previously identified global issues with the cost and service performance of flats that are manually processed. *See Periodicals Mail Study* at 2. However, the Postal Service needs to identify, analyze, and explain why so many flats continue to be processed manually. The Postal Service does not currently identify the total volume of flats processed manually at a facility level. Without facility-level data, there is no way to measure the extent of manual processing at individual facilities or propose targeted solutions.

By using IMb data and the aggregation platforms developed for evaluating service performance, the Postal Service has the ability to identify the portion of IMb volume that is unable to be finalized on automation equipment. This data system can be used to determine where, when, and potentially why, automation compatible volumes are

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<sup>307</sup> See FY 2015 ACR at 21; Library Reference USPS-FY15-4, December 29, 2015, Excel files "FY15 STD MAIL BD.xls," "FY15 Periodicals BDs.xls," and "FY15 FCM BDs.xls."

<sup>308</sup> In its February 19, 2016, Responses to CHIR No. 12, question 8, the Postal Service details how the IMb SPD used to identify service issues requires barcode scans from automation processing.

<sup>309</sup> See United States Postal Service Office of Inspector General, Audit Report – Flat-Shaped Mail Costs, Report No. MS-AR-13-003, January 4, 2013, at 1. The eFlash system reports data from delivery, mail processing, customer service, and other functions. Such data are collected by individual post offices and then summarized at various organization levels.

<sup>310</sup> United States Postal Service Handbook M-32, *Management Operating Data System (MODS)*, March 2009, at 12. Specifically, "WebEOR calculates volume as a percentage of automated mail that flows to manual operations." USPS OIG Report No. MS-AR-14-004 at 5.

manually processed. The Postal Service could also utilize the MHTS, the SPD tool, and the Informed Visibility platform to identify a way to track and report the actual amount of manual processing that occurs. By examining all available data relating to the manual processing of flats as a whole, as opposed to at the class or product level, the Postal Service will be able to develop a plan to increase visibility and transparency regarding the causes for the manual processing of flats. These types of data would be necessary to illuminate the root causes of manual processing and provide the increased visibility necessary to create solutions to the cost and service impacts of this problem.

#### 4. Allied Operations Cost and Service Issue

The fourth pinch point for flats is allied operations. Allied operations are mail processing activities that involve preparing the mail for pallet, bundle, or piece processing and include platform operations, *e.g.*, unloading trucks and moving pallets to mail processing equipment. Allied operations occur throughout the mail processing and delivery work flow. Due to the numerous operations required to move the mail, allied operations are also the largest single cost center in mail processing. *Periodicals Mail Study* at 66-67.

The productivity of allied operations has declined and this decline has negatively impacted both the cost and service performance for flats. As noted by the Postal Service, the ratio of allied costs to productive distribution has increased for flats operations in recent years. *See Responses to CHIR No. 11, question 1.* This means that the costs of preparing and moving the mail for processing increased faster than the cost of processing. Because allied activities do not involve the processing of individual mailpieces, it is impossible (with the data systems currently in use) to calculate pieces per hour, normally used to measure productivity, for these operations. *See Docket No. N2012-1, Advisory Opinion at 103-104.* Until the Postal Service is able to measure volumes in allied operations, the Commission evaluates the percentage of time (and thus cost) devoted to allied operations as the next-best productivity measure for allied operations. *Id.* Functionally, an increase in the percentage of allied costs means that the productivity of these operations has declined.

Service performance is negatively impacted by the decline in the productivity of allied operations. As allied operations are the processes used to move flats to where they need to be, productive allied operations are critical to the timely processing of the mail. In an ideal mail flow, palletized mail is unloaded from mailer trucks and moved directly to the staging area, where the bundles are sorted.<sup>311</sup> Then the sorted bundles should immediately move to the next operation, either being sorted by piece or transported to the destination delivery unit (DDU). *Id.* Moving the mail from the trucks to the staging area and from the bundle sort to the next operation are allied activities. Thus, efficient and effective allied operations are key to meeting service performance targets.

In FY 2014, as part of its efforts to improve the productivity of its mail processing network, the Postal Service introduced a load leveling program meant to create loads that can be

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<sup>311</sup> *See* February 19, 2016, Responses to CHIR No. 12, question 1, file "CHIR.12.Q1.2010.Periodical VSM.pdf."

more evenly processed across the workweek. *See* Responses to CHIR No. 11, question 9. The intended result of the program was to reduce the cost of allied operations by producing containers and trays with more volume. *See generally*, Docket No. N2014-1, Advisory Opinion.

Despite its intent to improve costs, the Postal Service did not quantify any associated cost savings for the load leveling operational changes.<sup>312</sup> There is little evidence that implementation of service standard changes and operation schedule changes associated with load leveling or Network Rationalization had the desired impact of reducing costs, but they have impacted service.<sup>313</sup> The load leveling program also required relaxed service standards for flats entered at the DSCF on Fridays and Saturdays. *See* Responses to CHIR No. 11, question 9. As discussed in Chapter 5, *supra*, while mail subject to the program had better service performance results in FY 2015, it did not meet service performance targets. *See* Chapter 5, *supra*, at 121, Figure V-12. Service performance results demonstrate that the Postal Service does not meet even the post-load leveling and processing Network Rationalization relaxed service standards.

The Postal Service measures time between processing operations using Work In Process (WIP) cycles. Utilizing one machine to process both bundles and parcels appears to have led to longer WIP cycles for flat sorting because the bundles compete with the parcels for processing time. *See* January 19, 2016, Responses to CHIR No. 2, question 16. When mail is not moved in a timely fashion, service performance declines, as demonstrated in the WIP metric. The WIP metric has many purposes. One purpose is to measure the time between bundle processing and the next handling (either a piece distribution or another bundle distribution). *See id.* question 22. In FY 2015, the median time between bundle processing and the next handling was 29 hours. *Id.* This means that flats sat idle in Postal Service facilities for more than 1 day, on average, after bundle processing. As seen in Table VI-4, the median number of hours it takes for flats to be processed increased in FY 2015.

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<sup>312</sup> *See* Docket No. ACR2014, January 30, 2015, Responses to CHIR No. 3, question 6.

<sup>313</sup> *See id.*; *see also* Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-3, 5 of Chairman's Information Request No. 17, May 15, 2015, question 3, which demonstrates that workhours were not reduced as much as planned. *See also* Responses to CHIR No. 11, Excel file "ChIR.11.Q9b.Attachment.xlsx," which shows that load-leveled mail is not meeting its revised 4-to-5 day service standard.

**Table VI-4**  
**Service Performance Diagnostics Tool**  
**Median 5 Day Work In Process**  
**Standard Mail Flats, FY 2012–FY 2015**

Time Period from Service Performance Diagnostics	Median Hours
FY 2012 (Week ending 3/02/12 - 9/28/12)	52.4
FY 2013 (Week ending 10/19/12 - 9/27/13)	50.5
FY 2014 (Week ending 10/01/13 - 9/30/14)	49
FY 2015 (Week ending 10/01/14 - 9/30/15)	52

Source: FY 2015 ACR at 22; Docket No. ACR2013, Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 2, January 23, 2014, question 1.

Currently, the Postal Service uses MODS data to determine allied handling time and cost information. *See* Library Reference USPS-FY15-7, December 29, 2015. With respect to allied handling time, this data system does not provide insight into the volume of mail being processed in allied operations, nor does it allow for insight into the time between handlings. The Postal Service has been using the WIP and SPD tools to diagnose processing issues, including allied issues, for several years.<sup>314</sup> Although expansive, these data do not provide the distribution of allied costs between letters, flats, and parcels. Further, the data provide little visibility into WIP metrics and SPD diagnostics at a facility or product level. Without improving these data, it is difficult to propose or implement targeted solutions to the problems facing flats. The current data used by the Postal Service are insufficient to provide visibility and transparency for the issues facing flats cost and service performance with respect to allied operations.

The Postal Service could leverage newly available data in order to gain better insight into the problems facing its allied operations. Most recently, the Postal Service has implemented an Informed Visibility tool. As the Informed Visibility<sup>315</sup> tool ramps up operational deployment, the Postal Service should be able to improve its ability to measure the percentage of flats that are not moved between operations quickly and accurately. By leveraging available data, the Postal Service should be able to identify and eliminate errors in its allied operations and improve productivity from both a cost and service perspective. Specifically, the Postal Service can determine the time between mail entry, bundle scans, and piece processing scans. Using this information the Postal Service can determine, at the facility level, how long flats sit idle and at what point in the process there is a breakdown. Further, the Postal Service can identify when flat mail is in a facility but not processed with other flats, impacting volume density and the allied to productive ratio.<sup>316</sup> Such information could provide insight relevant to improving the productivity of allied operations.

<sup>314</sup> For more information on the SPD, *see* Chapter 5, *supra*.

<sup>315</sup> For more information on the Informed Visibility tool, *see* Docket No. PI2015-1.

<sup>316</sup> The allied to productive ratio is the ratio of allied costs to productive distribution.

## 5. Transportation

The fifth pinch point for flats' cost and service issues is transportation operations. After flats are processed, they have to be transported, either to a DDU for delivery or to another mail processing facility for additional sortation. The Postal Service generally transports all shapes of mail together. Due to the comingled nature of transportation operations, there is limited visibility concerning the cost and service impacts of flats transportation operations. Despite this transparency issue, global information regarding transportation highlight certain issues regarding the cost and service performance of flats.

In the past 3 years, unit costs for transportation for flats have increased by 13.7 percent, as detailed in Table VI-5 below.

**Table VI-5  
Flats Transportation Costs  
FY 2013–FY 2015**

	FY 2013	FY 2014	FY 2015	% Change FY 2013 to FY 2015
<b>Cost Segment 14 Flats Cost</b>	686,602	669,692	712,179	3.7%
<b>Flats Volume</b>	23,558,663	22,161,652	21,489,192	-8.8%
<b>Flats Transportation Unit Costs</b>	\$0.0291	\$0.0302	\$0.0331	13.7%

Source: PRC-LR-ACR2015/9.

In addition to the cost increases, issues with transportation have contributed to the decline in service performance. In January 19, 2016, Responses to CHIR No. 2, question 19, the Postal Service indicates that transportation capacity constraints have decreased service performance results.<sup>317</sup>

The Postal Service currently uses the Transportation Cost System (TRACS) to allocate transportation costs. TRACS samples how products use transportation but it is not designed to identify specific transportation issues.<sup>318</sup> Based on the aggregated data provided by TRACS and the service performance data provided in Library Reference USPS-FY15-29,<sup>319</sup> it appears that flats are being transported in ways that are both expensive and unreliable. However, TRACS provides limited insight and visibility as to the causes of these transportation cost and service issues. Specifically, TRACS does not provide data on the number of trips for each product that is on surface and air transportation. Further, the number of transportation legs and trips per facility/DDU are currently unidentified. In

<sup>317</sup> See also January 29, 2016, Responses to CHIR No. 6, questions 19 and 20; Responses to CHIR No. 11, question 1.

<sup>318</sup> See Docket No. RM2013-6, Order No. 1983, Order on Analytical Principles Used in Periodic Reporting (Proposals One Through Five), February 4, 2014, Proposal Two; Library Reference USPS-FY15-36, December 29, 2015, file "USPS\_FY15\_36\_TRACS.Preface.pdf."

<sup>319</sup> See Library Reference USPS-FY15-29, December 29, 2015.

addition, there is no transparency as to the volume and cost of truck capacity used by flats and the service performance delay caused by missed transportation.

For service performance measurement, the Postal Service uses an adjustment factor called the last mile factor. The last mile factor is calculated using the “last recorded mail processing scan reported by the IMb system, and the actual delivery date recorded by external reporters with scanners capable of reading IMBs.”<sup>320</sup> However, the difference between the last mail processing scan and the final delivery scan includes transportation as well as delivery time. Because the Postal Service does not currently have comprehensive insight as to the frequency that flats miss their transportation window, the cause of delayed service cannot be pinpointed. For flats that miss their transportation windows, additional later trips may be necessary in order to attempt to meet service standards, and these additional trips require additional cost.

The Postal Service could leverage existing data in order to gain better insight into the problems facing its transportation of flats. The Postal Service continues to implement the Surface Visibility technological platform to develop insights and operational understanding for transportation cost and service issues.<sup>321</sup> The Postal Service has also developed a program called “Informed Visibility,” which is the next generation platform for visibility of transportation, mail processing, and delivery. The purpose of these programs is to provide the Postal Service with an understanding of what mail is going on to surface and air transportation, when it is both leaving and arriving at facilities, and how much volume of each class is moving between facilities.

The current evolution of transportation visibility from the Surface Visibility technological platform to the Informed Visibility platform should improve the Postal Service’s ability to develop an understanding of flats transportation, track both service and cost, and report on said service and cost.

## 6. Last Mile/Delivery

The sixth pinch point for flats’ cost and service issues is delivery, which encompasses last mile operations. There are two components of city carrier delivery operations,<sup>322</sup> in-office and street time.<sup>323</sup> In-office cost largely reflects the amount of cost incurred by carriers while casing. Street time reflects the amount of time, and thus cost, city carriers spend delivering the mail. *Id.* As described above in the transportation section, the Postal Service’s

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<sup>320</sup> Docket No. PI2008-1, Order No. 140, Order Concerning Proposals for Internal Service Standards Measurement Systems, November 25, 2008, at 9.

<sup>321</sup> See United States Postal Service Office of Inspector General, Audit Report – Evaluation of Major Transportation Technology Initiatives, Report No. NL-AR-11-008, September 27, 2011; United States Postal Service Office of Inspector General, Audit Report – Surface Visibility – Transportation Operations – Suncoast District, Report No. NO-AR-14-004, May 5, 2014; Steve Dearing, Internal Measurement through Informed Visibility, March 18, 2015, [http://www.prc.gov/sites/default/files/uspsreports/USPS\\_Presentation.pdf](http://www.prc.gov/sites/default/files/uspsreports/USPS_Presentation.pdf).

<sup>322</sup> City carriers deliver 71 percent of all flats and account for 77 percent of delivery costs. Flats are also delivered by rural carriers and delivered to PO Boxes. Rural and PO Box delivery account for 23 percent of all flats costs. See PRC-LR-ACR2015/9.

<sup>323</sup> See Docket No. RM2015-7, Order No. 2792, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), October 29, 2015, at 6 n.9.

service performance system uses a last mile delivery factor to determine how much delivery impacts the on-time performance of flats. As discussed in Chapter 5, Table VI-6 below contains the last mile factor for Standard Mail Carrier Route Destination-Entry from FY 2012 to FY 2015.

**Table VI-6**  
**Standard Mail Carrier Route**  
**Destination-Entry Last Mile Factors, FY 2012–FY 2015**

FY 2012				FY 2013				FY 2014				FY 2015			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-4.3	-4.6	-6.4	-11.8	-17.8	-11	-9	-9.7	-16.8	-14	-9.1	-9.6	-13.7	-11.5	-9.5	-12.5

Source: See Chapter 5, *supra*, at 113, Table V-9.

As shown in the table, and further discussed in Chapter 5, delivery operations were the primary pinch point for on-time service for Standard Mail Carrier Route in FY 2015.

The unit costs for city carrier in-office processing (casing) were higher in FY 2015 than FY 2008 for the five different flats products as detailed in Table VI-7 below and as reported in cost segment 6. In addition to increased costs related to casing, this increased casing workload can cause delays in service. One of the intended benefits of FSS is that it decreases casing costs in FSS zones. February 8, 2016, Responses to CHIR No. 7, question 7. Despite deployment of FSS, as discussed in “Manual Processing,” *supra*, and increases in worksharing, the average unit casing cost increased by 18 percent from FY 2008 to FY 2015, as detailed in Table VI-7.

**Table VI-7**  
**Cost Segment 6: City Delivery Carriers – Office Activity**  
**Unit Costs FY 2008–FY 2015**

Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015
<b>CS 6 Flat Costs (\$ in millions)</b>	1,549	1,519	1,513	1,442	1,274	1,196	1,139	1,143
<b>Flats Volumes (millions)</b>	34,356	28,773	26,524	25,719	24,081	23,559	22,162	21,489
<b>Unit Costs (cents)</b>	4.51	5.28	5.71	5.61	5.29	5.08	5.14	5.32

Source: PRC-LR-ACR2015/9.

The Postal Service spent a total of \$1.1 billion in city carrier in-office costs, which include casing costs for flats in FY 2015. See Table VI-7. When the additional mail processing costs associated with the FSS are added to the city carrier in-office costs,<sup>324</sup> the Postal Service

<sup>324</sup> As detailed in Table VI-7, the segment 6 in-office cost for flats was \$1.143 billion. As detailed in Library Reference USPS-FY15-26, Excel file “shp15.prc.xls,” tab “Flats(2),” columns “F” and “AX,” the mail processing cost for the FSS was \$202 million.

spent over \$1.3 billion processing flats to DPS in FY 2015.<sup>325</sup> This is nearly the amount spent casing flats in FY 2008, when volume was 60 percent higher than FY 2015.<sup>326</sup> In FY 2008, the Postal Service had to manually case all flats because there were no FSS machines. Despite the addition of 100 FSS machines and lower volume, the Postal Service spent nearly the same total amount in processing flats in FY 2015. The increasing cost of DPS for flats is not the only issue with the current mail processing environment as the DPS process for flats is an important function of meeting service performance targets. Specifically, the Postal Service did not clearly identify if it routinely tracks and quantifies service performance for FSS zones compared to non-FSS zones.<sup>327</sup>

The current data utilized by the Postal Service are reflected by MODS data for cost segment 3, IOCS/Time and Attendance Collection System data for cost segment 6, and the FSS scorecard for DPS data. In-office cost is measured by the IOCS and reported in cost segment 6 and street time is measured using a special study.<sup>328</sup> The current data systems do not provide visibility into the amount of FSS compatible volume by product that is unable to be finalized on the FSS at a facility level, nor does it quantify the cost increases resulting from mail not finalized on the FSS. These data systems are also unable to identify service performance data in FSS zones compared to non-FSS zones at a product level. Further, in FSS zones, the Postal Service did not provide visibility into the service performance results for mail that is finalized on the FSS and mail not finalized on the FSS. Without transparency and insight into issues relating to the cost and service performance of flats, the Postal Service will be unable to implement targeted and effective solutions to these problems.

For a comprehensive view of the FSS issues that are negatively affecting cost and service performance, the Postal Service should utilize all available data in order to identify strategic opportunities to improve the processing of flats. In the FY 2015 ACR, the Postal Service briefly discusses the following operational initiatives, which appear to be targeted

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<sup>325</sup> The cost of FSS processing in MODS and NDC facilities was over \$202 million. See Library Reference USPS-FY15-26. In addition to mail processing operations, the FSS machines have a cost impact on delivery operations. When flats that destinate in FSS zones are not finalized via automation, they create additional work both in the mail processing facilities and in the delivery units. This additional work is often performed manually, reducing visibility for service performance measurement while increasing costs.

<sup>326</sup> As detailed in Table VI-7, the cost segment 6 in-office cost for flats in FY 2008 was \$1.549 billion, \$131 million more than the combined FSS mail processing and in-office cost of \$1.418 billion in FY 2015. As further detailed in Table VI-7, flat volume was 34.35 billion pieces in FY 2008 and declined by 12.87 billion pieces to a volume of 21.48 billion pieces in FY 2015. The decline of 12.87 billion pieces represents a 37.5-percent decline.

<sup>327</sup> See February 8, 2016, Responses to CHIR No. 7, question 9 ("Service data is not available below the 3-digit level and, therefore, service comparison between FSS and non-FSS is not possible.").

<sup>328</sup> In-Office Activity costs are reported in cost segment 6 and Street Activity costs are reported in cost segment 7. See Library Reference USPS-FY15-2, December 29, 2015.

at improving the productivity of the FSS: (1) FSS Scorecard<sup>329</sup>; (2) High Speed Flats Feeder (HSFF)<sup>330</sup>; and (3) FSS Mail Preparation.<sup>331</sup> FY 2015 ACR at 19-27. However, the Postal Service has not quantified savings related to these initiatives. The Postal Service has the ability to leverage IMb data by facility in order to determine opportunities to increase productivity. By optimizing its data and evaluating the FSS as a whole, the Postal Service can gain better visibility into cost and service issues. Increased visibility into these issues relating to FSS may allow the Postal Service to develop and implement solutions designed to resolve those cost and service issues that are problematic for the processing of flats.

## C. Commission Directive

### 1. Introduction

*As detailed in this chapter, as well as supra in Chapter 3 and Chapter 5, the Postal Service has long term difficulties processing and delivering flats in a timely and cost effective manner. The Postal Service developed and implemented a series of operational initiatives designed to improve these issues but, to date, has not measured the impact. As described above, the Commission identified components of the flats mail flow that appear to represent pinch points that significantly impact flats' costs and service. While the current data provided by the Postal Service are sufficient to identify the global issues related to flats, they are insufficient to identify the root causes of the problems. Moreover, the Postal Service did not demonstrate it is using its data systems to identify solutions or measure whether its operational initiatives are effective. The Postal Service needs to utilize systems to analyze granular data from its various tracking platforms. Without the ability to measure or identify the root causes of the problems effecting flats cost and service performance issues, there can be little hope for identifying solutions to these issues.*

*At this juncture, due to the lack of comprehensive data, the Postal Service cannot measure the impact or success of its initiatives designed to improve cost and service issues for flats. The Commission finds that the Postal Service's ability to assess both whether it has identified the root causes of the issues facing flats and whether its efforts to address those issues are successful depends on the development of appropriate metrics.*

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<sup>329</sup> The FSS Scorecard tracks throughput per hour (pph), the percentage of mail that is in DPS, and Mail Pieces At-Risk. FY 2015 ACR at 19. The Postal Service uses these metrics "to develop a list of specific sites with the greatest opportunity of improvement." *Id.*

<sup>330</sup> The Postal Service asserts that the HSFF improves processing efficiencies by optimizing bin capacities and consolidating sort programs. *Id.* at 23. In addition, the Postal Service represents that the HSFF allows mailers to produce higher density pallets and reduce mixed pallets, which reduces bundles processing, bundle breakage, and manual handling. *Id.*

<sup>331</sup> In January 2014, the Postal Service began requiring Standard Mail Flats and Periodicals destined for FSS ZIP Codes to be prepared as FSS Scheme bundles. *Id.* at 25. The Postal Service asserts that FSS Scheme Bundles reduce attributable mail processing costs. *Id.* In addition, the Postal Service instituted a 250-pound minimum for FSS Scheme pallets. *Id.* The Postal Service explains that these pallets bypass bundle distribution, which leads to less handling and bundle breakage. *Id.* at 26. The Postal Service asserts that these pallets are entered at FSS sites, which reduce Postal Service transportation expenses and improve service. *Id.*

## 2. Postal Service Report

*In order to understand what can be done to improve cost and service efficiency for flats, the Commission directs the Postal Service to provide a report on flats issues within 120 days of issuance of this ACD. This report shall address, at a minimum, each of the pinch points described above. If the Postal Service identifies additional operational areas where it has developed, or intends to develop, measurement systems to comprehensively identify and resolve cost and service efficiency issues for flats, it shall provide such additional details. The Commission recognizes the importance of striking a balance between the value of utilizing systems to analyze granular data and the cost of using or developing systems to analyze said data. Where the Postal Service cannot leverage its current data systems to generate and analyze granular data, it should explain the process and expense involved to acquire and analyze such data.*

*For each pinch point, the report shall identify a method to measure, track, and report the cost and service performance issues relating to the individual pinch point at the most granular level practicable. As part of this method, the Postal Service shall identify the service performance impact of the individual pinch point at the most granular level practicable. In order to increase transparency, the report shall contain the following information regarding the Postal Service's data systems for each pinch point:*

- *Identify all information related to each pinch point operation that is generated by current data systems. Include all relevant existing data systems, such as IMb Service Performance Diagnostics System (SPD), Seamless Acceptance and Service Performance (SASP), Informed Visibility (IV), the Intelligent Mail Accuracy and Performance System (IMAPS), and any other systems not identified herein.*
- *Provide a detailed analysis of the cost to produce and aggregate such data in a way capable of quantifying the cost and service impacts of each pinch point at the most granular level practicable. The cost analysis should include all development costs, as well as ongoing data maintenance and analysis costs, and include specific estimates of workhours required and the cost of those workhours.*
- *Identify relevant information, in addition to current data, that could be developed by adjusting or expanding existing data systems and provide a detailed analysis of the cost involved for any adjustments or expansions needed to generate the information.*
- *Identify all information that would be necessary to develop, implement, monitor, and quantify results for a comprehensive plan to improve flats service performance and cost coverage if an ideal data system were available.*

*If, as a result of the Postal Service's analysis, it finds the type of information requested cannot be developed using existing data systems, the Postal Service shall provide a detailed explanation why, supported by examples, for each pinch point the Postal Service contends is not measurable using existing data systems. The Postal Service shall also provide a detailed description of the type of data collection/modifications to existing systems that would be required and associated costs.*

### 3. Conclusion

The Commission will evaluate the Postal Service report and may use the information provided to form the basis of a new proceeding or other appropriate action.

# Appendix A: Special Study of Delivery Performance in Remote Locations

Every 2 years, the Commission evaluates a special study conducted by a third party contractor on behalf of the Postal Service concerning final delivery service performance to the remote locations of the Alaska, Honolulu, and Caribbean Districts.<sup>332</sup> These districts serve remote locations less populated than the average continental district, and large portions of these districts are located far from mail processing facilities.<sup>333</sup> Each of these districts also serves more populated areas, called Gateway cities. The Gateway city for the Alaska District is Anchorage; the Gateway city for the Honolulu District is Honolulu; and the Gateway city for the Caribbean District is San Juan.

The purpose of the Offshore Special Study FY 2015 Report (2015 Study) is to evaluate service performance results for remote locations compared to the area's Gateway city.<sup>334</sup> The 2015 Study compares the performance results between the Gateway and remote areas to determine statistically significant differences between service performance results. *Id.* at 5-6.

The Postal Service measures performance for 119 remote 3-Digit ZIP Codes and mail class groupings. *Id.* at 23. Of these 119 groups, the Gateway had better service performance results than the remote 3-Digit ZIP Codes 58 percent of the time. *Id.* at 23. There were 19 instances where the remote 3-Digit ZIP Codes had better service performance results than the Gateway, and 31 instances where there was no statistically significant difference between the Gateway and the remote 3-Digit ZIP Code. *Id.* The 2015 Study uses sampling-related margins of error to determine if score differences were statistically significant at a 95-percent confidence level. Due to sample size differences for each measured region, the margins of error will differ for each comparison.<sup>335</sup>

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<sup>332</sup> Library Reference USPS-FY15-29, December 29, 2015, "Special Study of Off-Shore Service Performance FY15.pdf," at 1 (2015 Study). See also, e.g., Docket No. ACR2014, Library Reference USPS-FY13-29, December 27, 2013, "Special Study of Off-Shore Service Performance FY13.pdf" (2013 Study); Docket No. ACR2014, Library Reference USPS-FY11-29, December 29, 2011, "Special Study of Off-Shore Service Performance FY11.pdf" (2011 Study).

<sup>333</sup> 2015 Study at 1. When referring to non-Gateway ZIP Codes, the 2015 Study uses the terms "remote" and "rural" interchangeably. This Appendix uses the term "remote" to refer to non-Gateway ZIP Codes.

<sup>334</sup> *Id.* Each offshore district has several processing facilities that serve the more remote areas. Alaska has six different primary postal facilities. Caribbean has two postal facilities for all postal processing. Honolulu has three primary postal facilities to process their destinating mail. *Id.* at 3.

<sup>335</sup> The 2015 Study notes that it used "sampling related margins of error to determine if score differences were statistically significant." *Id.* at 6, 22. Sample size and margin of error are inversely related, such that as sample sizes increase, margins of error decrease. The 2015 Study states that "the goal was to have a minimum of approximately 400 pieces for the fiscal year." *Id.* at 5. This volume would achieve a 95-percent confidence interval and margin of error of +/- 4.0. *Id.* However, margins of error were adjusted across regions, products, and service standards because sample sizes deviated from the 400-piece target. In these cases, statistical significance was determined by the newly adjusted margin of error. *Id.*

The results of the 2015 Study highlight the difficulties the Postal Service has in achieving similar service performance in remote locations as in the Gateway. The Postal Service notes “most of the largest score differences were with ZIP Codes Areas that were both extremely isolated and have low mail volumes....” *Id.* at 23.

The 2015 Study also compares the FY 2015 results for each 3-Digit ZIP Code to the FY 2013 results.<sup>336</sup> Service performance results for First-Class Mail and Periodicals generally declined from FY 2013 to FY 2015, whereas service performance for Standard Mail and Package Services improved during the same period.<sup>337</sup>

The following sections discuss service performance comparisons between the Gateway cities and remote areas and between FY 2013 and FY 2015 by class and product.

## A. First-Class Mail

In FY 2015, service performance results for both Single-Piece and Presorted First-Class Mail for Gateway cities and most remote areas decreased compared to FY 2013. In particular, service performance for mail with a 3-5-Day service standard declined considerably in the Caribbean and Honolulu Districts. *Id.* at 17-18.

### 1. Single-Piece Letters/Postcards/Flats

Table A-1 shows service performance results for Single-Piece First-Class Mail Letters/Postcards and Flats by service standard, Gateway, and remote regions.

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<sup>336</sup> There are 151 comparisons for all 3-Digit ZIP Codes by mail class. *Id.* at 24. Of the 151 comparisons, the Postal Service states that the FY 2015 results improved over the FY 2013 result 68 times, or 45 percent. *Id.* There were 64 instances (42 percent) where the FY 2015 results declined from the FY 2013 results. *Id.* There was no statistically significant difference for the remaining 19 instances (13 percent). *Id.*

<sup>337</sup> The Postal Service improved its Standard Mail service performance in slightly more than 50 percent of the 3-Digit ZIP Codes compared to FY 2013. *Id.* Similarly, the Postal Service improved its Package Services service performance in 11 of the 12 measured instances. *Id.* Conversely, the Postal Service’s service performance with respect to First-Class Mail declined in slightly less than 50 percent of the 3-Digit ZIP Codes. *Id.* The Postal Service also reported declines in Periodicals in 15 of the 28 instances (53 percent). *Id.*

**Table A-1**  
**Single-Piece First-Class Mail Letters/Postcards/Flats**  
**Service Performance Results, FY 2011, FY 2013, and FY 2015**

	Overnight <sup>338</sup>			2-Day			3-5-Day		
	FY 2011	FY 2013	FY 2015	FY 2011	FY 2013	FY 2015	FY 2011	FY 2013	FY 2015
<b>Alaska</b>									
<b>995 Gateway</b>	96.3	97.4	<b>96.6</b>	99.3	99.4	<b>99.6</b>	90.5	87.6	<b>82.8</b>
995 Remote	NSS	NSS	<b>NSS</b>	97.9	97.8	<b>97.5</b>	93.7	95.0	<b>91.8</b>
996	NSS	NSS	<b>NSS</b>	98.1	98.0	<b>96.6</b>	95.3	94.5	<b>90.4</b>
997	NSS	NSS	<b>NSS</b>	92.9	93.4	<b>88.0</b>	92.9	93.4	<b>92.2</b>
998	NSS	NSS	<b>NSS</b>	96.5	90.3	<b>94.5</b>	87.6	82.8	<b>84.3</b>
999	NSS	NSS	<b>NSS</b>	98.5	95.4	<b>93.7</b>	89.1	85.0	<b>84.8</b>
<b>Caribbean</b>									
<b>009 Gateway</b>	94.4	95.1	<b>95.0</b>	97.2	98.6	<b>96.3</b>	85.6	82.6	<b>65.4</b>
006	93.7	93.7	<b>95.4</b>	96.4	98.2	<b>93.7</b>	84.5	83.1	<b>65.1</b>
007	93.6	94.3	<b>93.8</b>	94.7	98.5	<b>95.0</b>	85.7	82.6	<b>65.9</b>
008	87.7	92.4	<b>89.4</b>	96	98.8	<b>96.9</b>	91.8	94.3	<b>88.0</b>
<b>Honolulu</b>									
<b>968 Gateway</b>	97.7	97.2	<b>97.3</b>	NSS	12.4	<b>97.4</b>	86.3	86.5	<b>70.5</b>
96700-96798 Hawaiian Islands	97.5	97.4	<b>96.9</b>	NSS	NSS	<b>97.5</b>	96	95.6	<b>88.3</b>
96799 American Samoa	-	NSS	<b>NSS</b>	-	12.4	<b>7.8</b>	-	18.7	<b>8.0</b>
969 Guam	91.5	95.5	<b>93.4</b>	NSS	NSS	<b>97.8</b>	82.8	56.4	<b>21.1</b>
NSS = No Service Standard									

Source: 2015 Study at 6; 2013 Study at 8; 2011 Study at 7.

a. FY 2015 Results: Gateway versus Remote

The 2015 Study summarizes the statistical differences in service performance results among the Gateway and remote 3-Digit ZIP Codes. 2015 Study at 22. Table A-2 shows how many statistically significant differences there were between the remote regions and the corresponding Gateway for Single-Piece First-Class Mail Letters/Postcards and Flats.

<sup>338</sup> In FY 2015, the Postal Service eliminated the Overnight service standard for all classes; therefore, the analysis of Overnight results is based on mail received between October 1, 2014, and January 4, 2015. *Id.* In addition, the service standard for local mail (*i.e.*, mail that is entered and delivered within the same 3-Digit ZIP Code) changed on January 5, 2015, from Overnight to 2-Day.

**Table A-2**  
**Single-Piece First-Class Mail Letters/Postcards/Flats**  
**Statistically Significant Differences Between Gateway and Remote Performance in FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	10	9	8	27
Number Significantly Higher	3	1	1	5
Number Significantly Lower	3	1	3	7
Number Not Significantly Different	4	7	4	15

Source: 2015 Study at 22.

In the discussion that follows, the Commission highlights service performance results between the Gateway and remote locations.

(1) Alaska

*Overnight.* There were no service standards for remote 3-Digit ZIP Codes in Alaska. *See supra*, Table A-1.

*2-Day.* For Single-Piece First-Class Mail Letters/Postcards and Flats with a 2-Day service standard, the service performance result for the Gateway portion of 3-Digit ZIP Code 995 were higher than all of the remote 3-Digit ZIP Codes. The 2015 Study attributes the statistically significant lower service performance results to the size of the ZIP Code, noting that it is the largest 3-Digit ZIP Code in the United States in terms of square mileage. *Id.* In addition, the nearest Automated Area Distribution Center (AADC) is in Anchorage, which the 2015 Study notes is 360 miles from Fairbanks and significantly further from other towns falling within 3-Digit ZIP Code 997. *Id.*

*3-5-Day.* For Single-Piece First-Class Mail Letters/Postcards and Flats with a 3-5-Day service standard, the service performance result for the Gateway were lower than the service performance results of 3 of the remote 3-Digit ZIP Codes (995, 996, and 997) and not statistically different for 2 of the remote 3-Digit ZIP Codes (998 and 999).

(2) Caribbean

*Overnight.* The service performance results for overnight mail in the Caribbean District were not statistically different between the Gateway and the remote regions.

*2-Day.* For Single-Piece First-Class Mail Letters/Postcards and Flats with a 2-Day service standard, the service performance result for the Gateway portion of 3-Digit ZIP Code 009 was higher than 3-Digit ZIP Code 006 but not statistically different than 3-Digit ZIP Codes 007 and 008.

*3-5-Day.* For Single-Piece First-Class Mail Letters/Postcards and Flats with a 3-5-Day service standard, service performance results for the Gateway portion of 3-Digit ZIP Code 009 was lower than 3-Digit ZIP Code 008, but not statistically different than 3-Digit ZIP Codes 006 and 007. The 2015 Study notes that “for 3-5-Day Mail, the three ZIP Codes Areas

in Puerto Rico (006, 007, and 009) performed similarly with scores between 65.1-65.9 percent on time. 3-Digit ZIP Code 008 performed significantly better than the Gateway, likely benefitting from the additional day for processing.” *Id.*

(3) Honolulu

*Overnight.* The service performance results for overnight mail in the Honolulu District were not statistically different between the Gateway and the remote regions.

*2-Day.* For Single-Piece First-Class Mail Letters/Postcards and Flats with a 2-Day service standard, the service performance result for the Gateway portion of 3-Digit ZIP Code 968 was not statistically different than the Hawaiian Islands or 3-Digit ZIP Code 969. However, service performance results for American Samoa were much lower than both the Gateway and the other remote ZIP Codes. The 2015 Study attributes the very low service performance result for American Samoa to its extreme isolation and very low mail volume. *Id.* at 23.

*3-5-Day.* For Single-Piece First-Class Mail Letters/Postcards and Flats with a 3-5-Day service standard, the service performance result for the Gateway was higher than for American Samoa and 3-Digit ZIP Code 969 but lower than the service performance results for the Hawaiian Islands.

b. Comparing FY 2015 Performance Results to FY 2013

Table A-3 summarizes the number of statistically significant observations for each region when comparing FY 2015 to FY 2013 results.

**Table A-3**  
**Single-Piece First-Class Mail Letters/Postcards/Flats**  
**Statistically Significant Differences Between FY 2013 and FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	13	12	8	33
Number Significantly Higher	2	1	0	3
Number Significantly Lower	5	7	4	16
Number Not Significantly Different	6	4	4	14

Source: 2015 Study at 24.

The 2015 Study notes that most service performance results in Alaska declined, compared to FY 2013. *Id.* at 17. Specifically, “three ZIP Code Areas had statistically significant declines compared to [FY 2013] including [the Gateway, 995, and 997].” *Id.* For the Caribbean and Honolulu Districts, results for First-Class Single-Piece Mail Letters/Postcards and Flats with a 3-5-Day service standard declined significantly for all ZIP Codes. This decline in service performance results corresponds with the decline in service performance throughout the contiguous United States. *See supra* Chapter 5.

## 2. Presorted First-Class Mail Letters/Postcards

Measurement for Presorted First-Class Mail Letters/Postcards used documented arrival times to start-the-clock and an IMb scan by external reporters to stop-the-clock. The 2015 Study states that “[m]ail piece tracking from IMb in-process scans was used in conjunction with the external data to estimate results for the entire volume of mail measured.” *Id.* at 8. The Postal Service calculates results for commercial mail using two separate legs: start-the-clock to the final processing scan and last mile. *Id.* at 8. Table A-4 shows the service performance results for Presorted First-Class Mail destinating to the 3-Digit ZIP Codes of the offshore districts for FY 2011, FY 2013, and FY 2015.

**Table A-4**  
**Presorted First-Class Mail Letters/Postcards**  
**Service Performance Results, FY 2011, FY 2013, and FY 2015**

	Overnight			2-Day			3-5-Day		
	FY 2011	FY 2013	FY 2015	FY 2011	FY 2013	FY 2015	FY 2011	FY 2013	FY 2015
<b>Alaska</b>									
<b>995 Gateway</b>	96.6	97.9	<b>98.7</b>	98	97.7	<b>No Data</b>	93.5	93	<b>88.6</b>
995 Remote	96.6	97.9	<b>NSS</b>	No Data	No Data	<b>98.2</b>	92.9	92.4	<b>94.2</b>
996	NSS	NSS	<b>NSS</b>	98	97.9	<b>98.3</b>	96	96.7	<b>94.4</b>
997	NSS	NSS	<b>NSS</b>	98	97.7	<b>97.5</b>	95.9	96.5	<b>93.5</b>
998	NSS	NSS	<b>NSS</b>	No Data	95.2	<b>98.9</b>	94.4	95.2	<b>83.6</b>
999	NSS	NSS	<b>NSS</b>	No Data	No Data	<b>No Data</b>	89.5	82.1	<b>78.3</b>
<b>Caribbean</b>									
<b>009 Gateway</b>	No Data	No Data	<b>95.0</b>	No Data	No Data	<b>No Data</b>	85.3	90.2	<b>80.5</b>
006	No Data	No Data	<b>92.1</b>	No Data	No Data	<b>No Data</b>	85.7	90.2	<b>79.3</b>
007	No Data	No Data	<b>92.6</b>	No Data	No Data	<b>No Data</b>	83.7	89.4	<b>79.9</b>
008	No Data	No Data	<b>No Data</b>	No Data	No Data	<b>97.9</b>	84.2	89.7	<b>91.8</b>
<b>Honolulu</b>									
<b>968 Gateway</b>	96.3	99.3	<b>93.6</b>	NSS	No Data	<b>No Data</b>	93.9	94.4	<b>83.5</b>
96700-96798 Hawaiian Islands	97	99.2	<b>95.8</b>	NSS	NSS	<b>NSS</b>	90.5	93.5	<b>94.2</b>
96799 American Samoa	95.9	99.3	<b>NSS</b>	NSS	NSS	<b>No Data</b>	95.9	97.9	<b>12.4</b>
969 Guam	-	NSS	<b>93.3</b>	-	No Data	<b>NSS</b>	-	45.8	<b>53.8</b>
NSS = No Service Standard									

Source: 2015 Study at 8; 2013 Study at 11-12; 2011 Study at 10-11.

a. FY 2015 Results: Gateway versus Remote

Table A-5 shows how many statistically significant differences there were between the remote regions and the corresponding Gateway for Presorted First-Class Mail Letters/Postcards.

**Table A-5**  
**Presorted First-Class Mail Letters/Postcards**  
**Statistically Significant Differences Between Gateway and Remote Performance in FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	5	5	5	15
Number Significantly Higher	3	1	2	6
Number Significantly Lower	2	1	2	5
Number Not Significantly Different	0	3	1	4

Source: 2015 Study at 22.

In the discussion that follows, the Commission highlights statistically significant service performance results between the Gateway and remote locations.

(1) Alaska

*Overnight and 2-Day.* Due to missing data, meaningful comparisons between the Gateway and remote 3-Digit ZIP Codes for Presorted First-Class Mail Letters/Postcards with an Overnight service standard or a 2-Day service standard cannot be made. *See id.* at 9.

*3-5-Day.* For 3-5-Day Presorted First-Class Mail Letters, the Gateway ZIP Code had a service performance result of 88.6 percent. *Id.* 3-Digit ZIP Codes 998 and 999 had lower service performance results than the Gateway. *Id.* The 3-Digit ZIP Codes 995, 996, and 997 had higher service performance results than the Gateway. *Id.*

(2) Caribbean

*Overnight.* For Presorted First-Class Mail Letters/Postcards with an Overnight service standard, service performance results for the Gateway were higher than the results for 3-Digit ZIP Code 006 and not statistically different than 3-Digit ZIP Code 007. *Id.* No data were available for 3-Digit ZIP Code 008. *Id.*

*2-Day.* Meaningful comparisons for Presorted First-Class Mail Letters/Postcards with a 2-Day service standard were not made due to missing data. *Id.*

*3-5-Day.* Service performance results for Presorted First-Class Mail Letters/Postcards with a 3-5-Day service standard in 3-Digit ZIP Code 008 were significantly higher than the Gateway. *Id.* Service performance results for the other 3-Digit ZIP Codes were not significantly different from the Gateway. *Id.*

(3) Honolulu

*Overnight.* For Presorted First-Class Mail Letters/Postcards with an Overnight service standard, the service performance result for the Gateway was lower than the Hawaiian Islands and not statistically different than the results for 3-Digit ZIP Code 969. *Id.* There were no service standards for American Samoa. *Id.*

*2-Day.* The Postal Service was unable to generate service performance results for the Gateway ZIP Code 968. *Id.*

*3-5-Day.* Both 3-Digit ZIP Code 969 and American Samoa performed significantly worse than the Gateway, while the Hawaiian Islands scored better. *Id.*

b. Comparing FY 2015 Performance Results to FY 2013

Table A-6 shows that 75 percent of the total FY 2015 remote observations were significantly worse than FY 2013 Presorted First-Class Mail results.

**Table A-6**  
**Presorted First-Class Mail Letters/Postcards**  
**Statistically Significant Differences Between FY 2013 and FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	10	4	6	20
Number Significantly Higher	5	0	0	5
Number Significantly Lower	5	4	6	15
Number Not Significantly Different	0	0	0	0

Source: 2015 Study at 24.

The Postal Service was unable to generate estimates of service performance results for Presorted First-Class Mail with a 2-Day service standard; therefore, the number of comparisons with FY 2013 performance was limited.

## B. Standard Mail

In FY 2014, the Postal Service implemented the load leveling initiative, which changed service standards for Standard Mail entered at a destination sectional center facility (DSCF). The revisions added a day to the service standard for Standard Mail entered at a DSCF on Fridays or Saturdays. *Id.* at 4.

For Destination Entry Mail, each of the Alaska ZIP Codes had a 3- or 4-Day service standard from the DSCF (depending on entry day for load leveling) to and from itself and a 3-5-Day service standard from other ZIP Codes in Alaska. *Id.* at 11. There was a 14-Day service standard from the destination network distribution center (DNDC) in Seattle, Washington to all Alaska ZIP Codes. *Id.*

Destination Entry Mail in Caribbean 3-Digit ZIP Codes 006, 007 and 009 had a 3- or 4-Day service standard (depending on entry day for load leveling) from the DSCF and a 4- or 5-Day service standard to the 3-Digit ZIP Code 008. *Id.* There was a 12-Day service standard from the DNDC in Jacksonville, Florida to all Caribbean ZIP Codes. *Id.*

For Destination Entry Mail, all of the Honolulu ZIP Codes had a 3- or 4-Day service standard (depending on entry day for load leveling) from the DSCF, excluding American Samoa, which had an additional day. *Id.* at 12. In addition, all Honolulu ZIP Codes had a 3- or 4-Day service standard (depending on entry day for load leveling) from the DNDC, excluding American Samoa, which had an additional day. *Id.* There was a 13-Day service standard from the DNDC in San Francisco, California with the exception of American Samoa, where it was 14 days. *Id.*

Table A-7 shows service performance results for Destination Entry and End-to-End Standard Mail Letters and Flats.

**Table A-7**  
**Standard Mail Letters and Flats**  
**Service Performance Results, FY 2011–FY 2015**

	Letters						Flats					
	Destination Entry			End-to-End			Destination Entry			End-to-End		
	FY 2011	FY 2013	FY 2015	FY 2011	FY 2013	FY 2015	FY 2011	FY 2013	FY 2015	FY 2011	FY 2013	FY 2015
<b>Alaska</b>												
<b>995 Gateway</b>	80.3	97.8	<b>98.1</b>	31.5	84.7	<b>86.1</b>	46.1	92.8	<b>96.4</b>	27.8	76.3	<b>80.7</b>
995 Remote	75.3	97.7	<b>97.8</b>	31.6	86.5	<b>86.3</b>	36.8	92.9	<b>92.1</b>	18	77	<b>75.3</b>
996	66.8	96.9	<b>97.3</b>	28.1	84.2	<b>84.6</b>	41.4	92.1	<b>91.7</b>	14	77.1	<b>75.6</b>
997	65	96.8	<b>97.5</b>	36.4	87	<b>87.2</b>	32.6	93.1	<b>93.5</b>	21.9	79.9	<b>79.1</b>
998	42.4	80.5	<b>90.1</b>	22.1	71.3	<b>80.1</b>	N/A	96.3	<b>83.4</b>	N/A	79.7	<b>62.4</b>
999	54.3	76.1	<b>89.3</b>	31.7	62.2	<b>76.7</b>	N/A	94.7	<b>73.8</b>	N/A	75	<b>44.2</b>
<b>Caribbean</b>												
<b>009 Gateway</b>	59.9	89.1	<b>89.6</b>	34.1	71.6	<b>72.8</b>	54.9	80.8	<b>87.3</b>	32.4	59.7	<b>61.7</b>
006	78.4	91.5	<b>92.1</b>	31.7	72.9	<b>74.6</b>	57.2	81.4	<b>87.4</b>	24.5	66.2	<b>67.1</b>
007	70.3	88.6	<b>91.1</b>	34.7	71.2	<b>74.8</b>	57.9	84.6	<b>84.9</b>	30	67.1	<b>63.9</b>
008	57.9	87.5	<b>87.3</b>	42.7	69.6	<b>56.9</b>	59.4	76	<b>81.5</b>	29	54.0	<b>51.8</b>
<b>Honolulu</b>												
<b>968 Gateway</b>	14.2	67.4	<b>95.9</b>	7.4	33.1	<b>69.1</b>	7.1	56.6	<b>91.6</b>	2.6	39.0	<b>61.9</b>
96700-96798 Hawaiian Islands	15.1	67.5	<b>96.5</b>	5.7	35.3	<b>69.2</b>	2.7	44.4	<b>80.3</b>	1	31.6	<b>53.3</b>
96799 American Samoa	-	25.1	<b>13.0</b>	-	14	<b>11.0</b>	-	11.7	<b>10.0</b>	-	8.5	<b>6.2</b>
969	0.3	24.9	<b>27.3</b>	4.8	21.9	<b>27.6</b>	1.2	18.3	<b>19.9</b>	1.2	24.1	<b>16.1</b>

Source: 2015 Study at 19; 2013 Study at 13; 2011 Study at 12.

## 1. FY 2015 Results: Gateway versus Remote

Table A-8 shows that service performance in most remote areas was significantly lower than the Gateway cities.

**Table A-8**  
**Standard Mail Letters and Flats**  
**Statistically Significant Differences Between Gateway and Remote Performance in FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	20	12	12	44
Number Significantly Higher	1	5	1	7
Number Significantly Lower	12	5	10	27
Number Not Significantly Different	7	2	1	10

Source: 2015 Study at 22.

In the discussion that follows, the Commission highlights statistically significant service performance results between the Gateway and remote locations. Instances where the differences between the Gateway and the remote 3-Digit ZIP Codes are not statistically significant are not discussed.

### a. Alaska

For Destination Entry Letter Mail, service performance results for all but one remote ZIP Codes were worse than the results for the Gateway. End-to-End Letters in 3-Digit ZIP Code 997 had an on-time result of 87.2 percent, which was higher than the 86.1 on-time percentage for the Gateway. *Id.* at 11.

### b. Caribbean

Both Destination Entry and End-to-End Letters service performance results in 3-Digit ZIP Codes 006 and 007 were better than the Gateway. *Id.* at 11-12. For Destination Entry Flats, service performance results from remote areas 007 and 008 were lower than the Gateway. *Id.* For all Standard Mail Letters and Flats, service performance results for 3-Digit ZIP Code 008 were lower than the Gateway. *Id.*

### c. Honolulu

The service performance results for the Honolulu Gateway were higher than the results for all but one of the remote ZIP Codes for all Standard Mail. *Id.* at 12. Service performance for Destination Entry Standard Letters in the remote ZIP Codes of 96700-96798 were better than the results for the Gateway. *Id.* at 12.

## 2. Comparing FY 2015 Performance Results to FY 2013

The 2015 Study shows that the Postal Service has improved its on-time performance for Standard Mail. Table A-9 shows that over 65 percent of all comparisons were higher than FY 2013 results.

**Table A-9**  
**Standard Mail Letters and Flats**  
**Statistically Significant Differences Between FY 2013 and FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	24	16	16	56
Number Significantly Higher	14	12	11	37
Number Significantly Lower	8	4	5	17
Number Not Significantly Different	2	0	0	2

Source: 2015 Study at 24.

With few exceptions, service performance improved for both Destination Entry and End-to-End Standard Mail Letters. Performance also improved for Destination Entry Standard Mail Flats. Of the 17 instances where FY 2015 results were statistically significantly lower than FY 2013 results, 9 (a majority) were for End-to-End Standard Mail Flats.

### C. Periodicals

During the 2015 Study, there was a 10-Day service standard for Destination Entry Periodicals to Alaska 3-Digit ZIP Codes 995, 996, and 997 and an 11-Day service standard to 3-Digit ZIP Codes 998 and 999. *Id.* at 13. The End-to-End service standards varied significantly depending on the origin of the mail. *Id.*

For Destination Entry Mail in the Caribbean, San Juan served as the DSCF and DADC.<sup>339</sup> In the Honolulu District, there was an Overnight service standard from the DSCF to 967 and 968 with the exception of American Samoa; 2-Day service standard to 969; and 10-Day service standard from the DNDC in San Francisco to 967, 968, and 969 (except for American Samoa, which had an additional day). *Id.*

In FY 2013, service performance results showed significant improvements from FY 2011 after the Postal Service implemented service standard changes. *See* 2013 Study at 24-25.

<sup>339</sup> *Id.* at 14. For DSCF entered mail, there was an Overnight service standard to 006, 007, and 009 and a 3-Day service standard to 3-Digit ZIP Code 008. *Id.* For DADC entered mail, the only change from the DSCF mail was that 008 had a 4-Day service standard. *Id.* Likewise, it was an 8-Day service standard from the DNDC in Jacksonville to 3-Digit ZIP Codes 006, 007, and 009 and a 10-Day service standard to 3-Digit ZIP Code 008. *Id.*

In contrast, Table A-10 shows that service performance results reported this year have significantly declined as compared to FY 2013.

**Table A-10**  
**Periodicals**  
**Service Performance Results, FY 2011, FY 2013, and FY 2015**

	FY 2011 <sup>340</sup>	Destination Entry		End-to-End	
		FY 2013	FY 2015	FY 2013	FY 2015
<b>Alaska</b>					
<b>995 Gateway</b>	68.7	89.7	<b>89.0</b>	82.1	<b>76.4</b>
995 Remote	57.2	92.0	<b>88.2</b>	81	<b>74.6</b>
996	71.4	90.0	<b>86.7</b>	80.6	<b>74.3</b>
997	63.7	87.1	<b>77.9</b>	74.9	<b>71.9</b>
998	56.7	84.5	<b>59.0</b>	84.9	<b>62.2</b>
999	48.2	73.9	<b>66.7</b>	78.4	<b>64.0</b>
<b>Caribbean</b>					
<b>009 Gateway</b>	41.8	66.9	<b>75.6</b>	65	<b>71.6</b>
006	34.1	70	<b>71.4</b>	67.6	<b>67.9</b>
007	43.7	72.3	<b>69.9</b>	71.4	<b>65.9</b>
008	16.7	76.2	<b>78.4</b>	57.5	<b>63.3</b>
<b>Honolulu</b>					
<b>968 Gateway</b>	73.8	61	<b>76.2</b>	40.1	<b>54.9</b>
96700-96798 Hawaiian Islands	63	66.1	<b>69.9</b>	39.2	<b>53.5</b>
96799 American Samoa	-	4.4	<b>2.0</b>	9.6	<b>6.0</b>
969	80.4	16.5	<b>13.9</b>	24.2	<b>13.9</b>

Source: 2015 Study at 20; 2013 Study at 16; 2011 Study at 17.

## 1. FY 2015 Results: Gateway versus Remote

Table A-11 shows that service performance for most remote areas was significantly lower than the Gateway.

<sup>340</sup> In FY 2011, service performance results for Periodicals were not disaggregated by Destination Entry or End-to-End measurement.

**Table A-11**  
**Periodicals**  
**Statistically Significant Differences Between Gateway and Remote Performance in FY 2015**

Remote ZIP Code Metric	Total
Total Number of Remote Comparisons	22
Number Significantly Higher	0
Number Significantly Lower	20
Number Not Significantly Different	2

Source: 2015 Study at 22.

As detailed in Table A-11, there were no instances where the service performance results in remote areas were higher than the service performance results for the Gateway and only two instances where there was no statistically significant difference. In the discussion that follows, the Commission highlights statistically significant service performance results between the Gateway and remote locations.

a. Alaska

Service performance results for the Gateway were higher than all but one remote ZIP Code for both Destination Entry and End-to-End measured mailpieces. Destination Entry service performance was not significantly different between 3-Digit ZIP Code 995 Gateway and 3-Digit ZIP Code 995 remote. *Id.* at 13.

b. Caribbean

For Destination Entry Periodicals, the service performance result for the Gateway was below 3-Digit ZIP Code 008, but was better than 3-Digit ZIP Codes 006 (71.4 percent) and 007 (69.9 percent). *Id.* at 13-14. Although the service performance estimate for 3-Digit ZIP Code 008 was higher, the results were not significantly different. Service performance results for End-to-End Periodicals at the Gateway were higher than all the remote ZIP Codes. *Id.*

c. Honolulu

The service performance result for the Gateway was significantly higher than the results for all remote ZIP Codes for both Destination Entry and End-to-End measured mailpieces. *Id.*

## 2. Comparing FY 2015 Performance Results to FY 2013

The 2015 Study shows that on-time service performance improved for Periodicals in one district, declined in another district, and both improved and declined in the third district. Table A-12 shows that over 53 percent of all comparisons were lower than FY 2013 results.

**Table A-12**  
**Periodicals**  
**Statistically Significant Differences Between FY 2013 and FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	12	8	8	28
Number Significantly Higher	1	7	4	12
Number Significantly Lower	10	1	4	15
Number Not Significantly Different	1	0	0	1

Source: 2015 Study at 24.

All service performance results for 3-Digit ZIP Codes in Alaska (except 999) declined significantly compared with FY 2013 for both Destination Entry and End-to-End Periodicals. For Honolulu, significant declines for Destination Entry and End-to-End were reported in Guam and American Samoa. However, in the Honolulu District, service performance results improved for the Gateway 3-Digit ZIP Code 009 and the Hawaiian Islands. Periodicals service performance results for the Caribbean District significantly improved since the 2013 Study.

## D. Package Services

For the Alaska District, a 2-Day service standard was in place for mail from the DSCF to all Alaska ZIP Codes during the 2015 Study. *Id.* at 15. From the DNDC in Seattle, the service standard was 12 days to all Alaska ZIP Codes. *Id.* In the Caribbean District, there was a 2-Day service standard from the DSCF to the 006, 007, and 009 ZIP Codes and a 3-Day service standard to the 008 3-Digit ZIP Code. *Id.* at 16. For the Caribbean DNDC in Jacksonville, there was an 11-Day service standard to all ZIP Codes in the Caribbean District. *Id.* The Honolulu District had a 2-Day service standard from the DSCF to 3-Digit ZIP Codes 967, 968, and 969 (American Samoa, which had an additional day). In addition, there was an 11-Day service standard from the DNDC in San Francisco, California. *Id.*

Table A-13 shows that service performance results for Package Services have generally improved from FY 2011 to FY 2015.

**Table A-13**  
**Package Services**  
**Service Performance Results, FY 2011, FY 2013, and FY 2015**

	FY 2011	FY 2013	FY 2015
<b>Alaska</b>			
<b>995 Gateway</b>	31.3	89.5	<b>90.8</b>
995 Remote	21.9	70.3	<b>79.7</b>
996	25.9	77	<b>83.6</b>
997	21.5	71.7	<b>83.2</b>
998	21.2	72	<b>80.4</b>
999	21.7	59.9	<b>79.5</b>
<b>Caribbean</b>			
<b>009 Gateway</b>	19.8	53.6	<b>70.5</b>
006	23.9	51.5	<b>71.6</b>
007	24.4	53.2	<b>48.6</b>
008	7.7	28.5	<b>44.1</b>
<b>Honolulu</b>			
<b>968 Gateway</b>	6.9	45.9	<b>64.7</b>
96700-96798 Hawaiian Islands	6	29.2	<b>42.5</b>
96799 American Samoa	-	9.7	<b>25.2</b>
969	8	17.1	<b>19.8</b>

Source: 2015 Study at 15; 2013 Study at 21; 2011 Study at 19.

In the discussion that follows, the Commission highlights statistically significant service performance results between the Gateway and remote locations.

## 1. FY 2015 Results: Gateway versus Remote

### a. Alaska

The service performance result for the Anchorage Gateway was significantly higher than the results for all remote areas.

### b. Caribbean

Results for 3-Digit ZIP Code 006 were significantly higher than the Gateway results. For 3-Digit ZIP Codes 007 and 008, service performance was significantly lower than the Gateway.

### c. Honolulu

Service performance results for the Honolulu Gateway were higher than all remote ZIP Codes.

Table A-14 shows that service performance was significantly lower in the remote areas than the Gateway for most measured non-contiguous areas of the United States.

**Table A-14**  
**Package Services**  
**Statistically Significant Differences Between Gateway and Remote Performance in FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	5	3	3	11
Number Significantly Higher	0	1	0	1
Number Significantly Lower	5	2	3	10
Number Not Significantly Different	0	0	0	0

Source: 2015 Study at 22.

## 2. Comparing FY 2015 Performance Results to FY 2013

Service performance results improved significantly as compared to FY 2013 for many remote areas. Table A-15 summarizes these improvements.

**Table A-15**  
**Package Services**  
**Statistically Significant Differences Between FY 2013 and FY 2015**

Remote ZIP Code Metric	Alaska	Caribbean	Honolulu	Total
Total Number of Remote Comparisons	6	4	4	14
Number Significantly Higher	4	3	4	11
Number Significantly Lower	0	1	0	1
Number Not Significantly Different	2	0	0	2

Source: 2015 Study at 24.

The 2015 Study shows that in FY 2015 the Postal Service improved its service performance results for the Gateway and remote areas from FY 2013.

## E. Conclusion

In conclusion, service performance results for First-Class Mail and Periodicals declined from FY 2013 to FY 2015, and service performance results for Standard Mail and Package Services improved from FY 2013 to FY 2015.

In addition, 58 percent of service performance results from the Gateway cities were significantly higher than the remote areas. *Id.* at 23. Further, there were “26 cases where the Gateway’s score was more than 20 points higher than the [remote] ZIP Code Area.” *Id.*

The 2015 Study notes that most discrepancies between Gateway and remote service performance scores involved ZIP Codes that were both extremely isolated and had low mail volumes. *Id.* The 2015 Study suggests “reviewing processing operations, transportation and service standards in many of these situations given the extremely difficult logistics to these very remote areas.” *Id.*

# Appendix B: Key Commission Findings and Directives Requiring Postal Service Action for Annual Compliance Reports

## KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2015 ACD)

### Periodicals Pricing Directive:

- *The Commission finds that the Postal Service failed to meaningfully address the FY 2014 ACD directive that it report the cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation and on its progress in improving pricing efficiency. The Commission therefore directs the Postal Service within 120 days of issuance of this ACD to file a report which:*
  - *Discusses whether the 5-Digit, Carrier Route, and FSS workshare discounts are the proper economic incentives and send efficient pricing signals to mailers.*
  - *Reports the cost, contribution, and revenue impact of the pricing changes made by the Postal Service in FY 2015.*
  - *Provides a detailed quantitative analysis of the progress made in leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing in FY 2015.*
  - *Identifies any obstacles to providing the requested analysis as well as the Postal Service's strategy and timeframe for addressing those obstacles. The Postal Service must provide steps it has taken towards overcoming the obstacles identified.*
- *The Commission also directs the Postal Service to include an updated version of the report in its FY 2016 ACR. FY 2015 ACD, Chapter 2 at 23-24.*

### Inbound Letter Post:

- *The Commission finds that FY 2015 revenue for Inbound Letter Post was not sufficient to cover attributable cost. Under current circumstances, the Commission does not*

*recommend any remedial action. However, it does recommend continued efforts to develop a more compensatory UPU terminal dues formula for the next rate cycle (CY 2018 through CY 2021). The Commission also recommends that the Postal Service continue to pursue bilateral agreements that result in an improved financial position for the Postal Service relative to default UPU rates. FY 2015 ACD, Chapter 3 at 70.*

- *The Commission directs the Postal Service to report within 90 days of issuance of this ACD on further progress in its plans to improve on-time service performance scores for Inbound Letter Post. The Postal Service shall specifically address its progress in improving sacks processing, in negotiating at the UPU for adjustments to the sacked mail service performance standard, and the Lean Six Sigma Black Belt project. FY 2015 ACD, Chapter 3 at 72.*

#### Competitive NSAs:

- *The Commission finds that Priority Mail Contract 135 and Parcel Return Service Contract 8 are not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Postal Service stated that it will either amend or terminate the contracts as appropriate. The Commission directs the Postal Service to report within 30 days of issuance of this ACD on the result of the Postal Service's evaluation and the corrective action the Postal Service intends to take. FY 2015 ACD, Chapter 4 at 82.*
- *For those Competitive domestic NSAs that are not active or are paying published rates, the Postal Service should file a notice of termination to remove the agreement from the competitive product list. Furthermore, the Commission directs the Postal Service to identify each NSA product that had no mailpieces shipped under the respective contracts when it files future ACRs. FY 2015 ACD, Chapter 4 at 83.*

#### IMTS—Outbound and IMTS—Inbound Products:

- *The Commission finds that the IMTS—Outbound and IMTS—Inbound products were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the obstacles to exiting or renegotiating the agreements that comprise the IMTS—Inbound product. The Postal Service must discuss the impact of the FY 2016 price change for cost coverage of IMTS—Outbound in the FY 2016 ACR. FY 2015 ACD, Chapter 4 at 85.*

**Inbound Parcel Post (at UPU rates) Products:**

- *The Commission finds that the Inbound Parcel Post (at UPU rates) product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the status of its negotiations to remove the need to secure signatures upon delivery. The Commission also recommends that the Postal Service enter into bilateral agreements with foreign postal operators with rates that are above default UPU rates to improve the net financial position of the Postal Service. FY 2015 ACD, Chapter 4 at 86-87.*

**International Ancillary Services:**

- *The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the results of its examination of pricing solutions for Outbound Competitive International Registered Mail and what steps it plans to take to improve cost coverage. FY 2015 ACD, Chapter 4 at 87.*

**Inbound Air Parcel Post (at non-UPU rates) Products:**

- *The Commission concludes that the entry of inbound air parcels from EPG-member countries was inconsistent with 39 U.S.C. § 407(a)(2). The Commission directs the Postal Service to inform the Commission when it has formally exited the EPG Agreement. By July 31, 2016, the Postal Service must inform the Commission of the date it formally exited the EPG Agreement or must explain why it has not exited the EPG Agreement. FY 2015 ACD, Chapter 4 at 91-92.*

**Service Performance:**

- *The Commission is particularly concerned with the recent dramatic decline of service performance for First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance.*
- *The Commission directs the Postal Service to improve service for First-Class Mail Single-Piece Letters/Postcards in FY 2016. The Postal Service must provide an explanation in the FY 2016 ACR detailing specific efforts targeted to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2016. Further, it must provide a detailed, comprehensive plan to improve service*

*performance for First-Class Mail Single-Piece Letters/Postcards within 90 days of issuance of this ACD.*

- *In addition, the Postal Service must provide the following data, disaggregated by district level and service standard, in conjunction with its plan: percent of First-Class Mail Single-Piece Letters/Postcards that missed collection box pickups; percent of First-Class Mail Single-Piece Letters/Postcards where First Processing Operations (FPO) occurred one day after collection box pickup; percent of First-Class Mail Single-Piece Letters/Postcards that missed processing windows due to ground transportation constraints; percent of First-Class Mail Single-Piece Letters/Postcards that missed processing windows due to air transportation constraints; average WIP cycle time; facilities with above average WIP cycle time; and percent of First-Class Mail Single-Piece Letters/Postcards that have already missed service standard by Last Processing Operation (LPO). FY 2015 ACD, Chapter 5 at 137-138.*

#### Post Office Suspensions:

- *The Commission previously recommended that the Postal Service proceed expeditiously in either discontinuing offices under suspension or reopening them.<sup>341</sup> It reiterates that recommendation in this proceeding. The Commission expects the Postal Service to reduce the number of facilities under suspension in FY 2016. If it is unable to do so, the Postal Service shall include a detailed explanation of why it was unable to do so in the FY 2016 Annual Compliance Report. FY 2015 ACD, Chapter 5 at 150.*

#### Flats Cost and Service Issues:

- *In order to understand what can be done to improve cost and service efficiency for flats, the Commission directs the Postal Service to provide a report on flats issues within 120 days of issuance of this ACD. This report shall address, at a minimum, each of the pinch points described above and repeated below. If the Postal Service identifies additional operational areas where it has developed, or intends to develop, measurement systems to comprehensively identify and resolve cost and service efficiency issues for flats, it shall provide such additional details. The Commission recognizes the importance of striking a balance between the value of utilizing systems to analyze granular data and the cost of using or developing systems to analyze said data. Where the Postal Service cannot leverage its current data systems to generate*

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<sup>341</sup> See FY 2014 ACD at 121.

*and analyze granular data, it should explain the process and expense involved to acquire and analyze such data.*

- *For each pinch point, the report shall identify a method to measure, track, and report the cost and service performance issues relating to the individual pinch point at the most granular level practicable. As part of this method, the Postal Service shall identify the service performance impact of the individual pinch point at the most granular level practicable. In order to increase transparency, the report shall contain the following information regarding the Postal Service's data systems for each pinch point:*
  - *Identify all information related to each pinch point operation that is generated by current data systems. Include all relevant existing data systems, such as IMb Service Performance Diagnostics System (SPD), Seamless Acceptance and Service Performance (SASP), Informed Visibility (IV), the Intelligent Mail Accuracy and Performance System (IMAPS), and any other systems not identified herein.*
  - *Provide a detailed analysis of the cost to produce and aggregate such data in a way capable of quantifying the cost and service impacts of each pinch point at the most granular level practicable. The cost analysis should include all development costs, as well as ongoing data maintenance and analysis costs, and include specific estimates of workhours required and the cost of those workhours.*
  - *Identify relevant information, in addition to current data, that could be developed by adjusting or expanding existing data systems and provide a detailed analysis of the cost involved for any adjustments or expansions needed to generate the information.*
  - *Identify all information that would be necessary to develop, implement, monitor, and quantify results for a comprehensive plan to improve flats service performance and cost coverage if an ideal data system were available.*
- *If, as a result of the Postal Service's analysis, it finds the type of information requested cannot be developed using existing data systems, the Postal Service shall provide a detailed explanation why, supported by examples, for each pinch point the Postal Service contends is not measurable using existing data systems. The Postal Service shall also provide a detailed description of the type of data collection/modifications to existing systems that would be required and associated costs. FY 2015 ACD, Chapter 6 at 181.*

## STATUS OF KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2014 ACD)

### Periodicals Pricing Efficiency:

- *In the FY 2015 ACR, the Postal Service shall provide a detailed analysis of the cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation. FY 2014 ACD, Chapter 2 at 16.*
  - In the FY 2015 ACR, the Postal Service explains the design of Periodicals workshare discounts without providing any quantitative analysis of the cost and contribution impact. *See FY 2015 ACR at 46.*
- *In the FY 2015 ACR, the Postal Service shall provide a report on its progress in improving Periodicals pricing efficiency. FY 2014 ACD, Chapter 2 at 17.*
  - In the FY 2015 ACD, the Commission finds that the Postal Service failed to meaningfully address the FY 2014 ACD directive that it report the cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation and on its progress in improving pricing efficiency. The Commission therefore directs the Postal Service to file a report within 120 days of issuance of this ACD. FY 2015 ACD, Chapter 2 at 23-24.

### Inbound Letter Post Service Performance:

- *The Commission directs the Postal Service to report within 90 days of issuance of this ACD on its plans to improve on-time service performance scores for Inbound Letter Post. In its report, the Postal Service shall identify systemic problems preventing on-time service performance scores from achieving the UPU quality-of-service target each year and its plans to address these problems. FY 2014 ACD, Chapter 3 at 55.*
  - The Postal Service identified numerous systemic problems preventing on-time service performance. The most significant problems include: insufficient time to process sacked letters prior to dispatch; increasing percentages of test letter and flat mail arriving from foreign posts in sacks versus trays; ground handler

backlog causing induction delays; and timing issues related to the transportation of letters and flats due to traffic.<sup>342</sup>

- The Postal Service plans to address these problems by: working within UPU to ensure that service expectations for inbound mail are consistent with actual practice; working to develop amendments to the Letter Post Regulations to require that posts use proper receptacles; adding an additional day of service for sacked letter and flat volume; changing its transportation schedules to account for traffic; piloting several initiatives at the JFK International Service Center to (ISC) expedite the handling of sacks; and continuing to work with the Port Authority, Customs and Border Patrol (CBP), airlines, and ground handlers to alleviate backlog and improve induction of mail at the JFK ISC.<sup>343</sup>

#### Valassis NSA Collection Fee:

- *Accordingly, the Postal Service shall report the information required by Order No. 1448 to be filed within 60 days of the end of each contract year. That information includes, but is not limited to, information regarding the payment of the \$100,000 transaction fee/penalty. Order No. 1448 at 41; FY 2014 ACD, Chapter 3 at 62.*
- The Postal Service collected the \$100,000 transaction fee on September 21, 2015. FY 2015 ACR at 54. The Valassis NSA has completed its final contract year; therefore, no action is necessary.

#### Royal PostNL NSA:

- *The Commission finds that the NSA with Royal PostNL did not comply with 39 U.S.C. § 3622(c)(10)(A). The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the following: the factors that caused the Royal PostNL NSA cost coverage at the UPU terminal dues to exceed the cost coverage at the negotiated rates; the extent to which the Postal Service incorporated knowledge of these factors into its financial model for the successor NSA that was the subject of Docket No. R2015-3; and whether the successor NSA with Royal PostNL will improve the Postal Service's net financial position during FY 2015. FY 2014 ACD, Chapter 3 at 57.*

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<sup>342</sup> Docket No. ACR2014, Responses of the United States Postal Service to Commission Requests for Additional Information in the FY 2014 Annual Compliance Determination, June 25, 2015, question 1 (June 25, 2015, Responses to FY 2014 ACD).

<sup>343</sup> June 25, 2015, Responses to FY 2014 ACD, question 1.

- On June 25, 2015, the Postal Service filed Library Reference USPS-FY14-NP42 under seal showing its analysis of the Royal PostNL NSA. The Postal Service represents that compared to the respective 2013 and 2014 UPU terminal dues rates, the cost coverage of the negotiated rates actually exceeded the cost coverage of the UPU rates in FY 2014.<sup>344</sup>
- The Postal Service states that the successor NSA will improve the Postal Service's net financial position and filed a financial model in Docket No. R2015-3 showing this.<sup>345</sup>
- *The Commission finds that the Royal PostNL NSA (Docket No. CP2013-24) did not satisfy 39 U.S.C. § 3633(a)(2). Moreover, the negotiated rates do not comply with 39 U.S.C. § 407(a) because such rates distort competition. For the successor NSA with Royal PostNL in Docket No. CP2015-18, the Commission directs the Postal Service to report within 90 days of issuance of this ACD on the financial model's projected change in cost compared with the actual change in cost for mail processing, delivery, and other costs, and whether the successor NSA is expected to cover costs during FY 2015. The Postal Service shall provide financial workpapers to support any statements or analysis in its report. FY 2014 ACD, Chapter 4 at 82.*
- On June 25, 2015, the Postal Service filed Library Reference USPS-FY14-NP42 under seal, which contains an updated financial model for the Royal PostNL NSA filed in Docket No. CP2015-18.<sup>346</sup> With respect to cost coverage, the Postal Service contends the model reflects current expectations based on FY 2014 costs rather than the initial FY 2013 costs. The Commission finds that all Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 satisfied 39 U.S.C. § 3633(a)(2) in FY 2015. *See* FY 2015 ACD, Chapter 4 at 90.

#### IMTS—Outbound and IMTS—Inbound Products:

- *For FY 2014, the Commission finds that the IMTS—Outbound and IMTS—Inbound products do not comply with 39 U.S.C. § 3633(a)(2). The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the feasibility of developing attributable costs for both products based on alternatives to the IOCS methodology. In*

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<sup>344</sup> June 25, 2015, Responses to FY 2014 ACD, question 2.

<sup>345</sup> *See* Docket No. R2015-3, United States Postal Service Notice of Type 2 Rate Adjustment, Notice Filing Functionally Equivalent Agreement and Application for Nonpublic Treatment, November 14, 2014.

<sup>346</sup> June 25, 2015, Responses to FY 2014 ACD, question 3.

*its report, the Postal Service should discuss the feasibility of conducting engineering studies or utilizing costs from other Special Services with similar functions, such as domestic Money Orders. In addition, the Commission considers a price increase for the IMTS—Outbound product to be one option the Postal Service may want to implement to reduce current losses. FY 2014 ACD, Chapter 4 at 76.*

- In Docket No. RM2015-13, the Commission approved a revised costing methodology for IMTS—Outbound and IMTS—Inbound.<sup>347</sup>
- The Postal Service explained in its response that it continues to have difficulties with meeting this Commission Directive.<sup>348</sup> It stated that the “difficulties are not confined to the nature of the estimation method used to develop the estimates of costs for Inbound IMTS and Outbound IMTS separately, but also encompass the lack of information related to the very volumes of transactions associated with the three types of transactions comprising IMTS: outbound paper money orders, inbound paper money orders, and the wire transfer service of Dinero Seguro. Without reliable estimates of volumes, even the use of unit costs from the possible sources that the Commission recommended -- engineering studies or other Special Services with similar functions – would not result in reliable costs for IMTS.” *Id.* The Postal Service proposed using Federal Reserve Board data to improve the volume estimates. *Id.*

#### Inbound Air Parcel Post:

- *The Commission concludes that the entry of inbound air parcels post from EPG member countries is inconsistent with 39 U.S.C § 407(a)(2). The Commission therefore recommends that the Postal Service pursue additional improvements in on-time service performance through implementation of the EPG continuous improvement plan so as to improve the financial results for Inbound Air Parcel Post (at non-UPU rates) during FY 2015. The Commission directs the Postal Service to negotiate compensatory rates within the EPG-Agreement or extricate itself from the Agreement. FY 2014 ACD, Chapter 4 at 81.*
- The Postal Service provided notice to the EPG members prior to June 30, 2015, of its withdrawal from the Agreement.

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<sup>347</sup> See Docket No. RM2015-13, Order No. 2825.

<sup>348</sup> Docket No. ACR2014, Responses of the United States Postal Service to Commission Requests for Additional Information in the FY 2014 Annual Compliance Determination, June 30, 2015, question 4 (June 30, 2015, Responses to FY 2014 ACD).

- Termination of the agreement for the Postal Service will enter into force on June 30, 2016.<sup>349</sup>

First-Class Mail Flats Service Performance:

- *This is the fourth consecutive year that First-Class Mail Flats did not meet service performance targets. In addition, service performance has not improved since FY 2011. The Commission directs the Postal Service to improve service for First-Class Mail Flats in FY 2015 or to provide an explanation in the FY 2015 ACR for why efforts to improve service performance results for First-Class Mail Flats have been ineffective and detail what changes it plans to make to improve service performance. FY 2014 ACD, Chapter 5 at 104.*
- The Postal Service did not improve service for First-Class Mail Flats in FY 2015. The Postal Service was also required to detail what changes it plans to make to improve results. The Postal Service's response merely stated that it would emphasize the processing of First-Class Mail Flats and increase standardization of the handling of special sort assignments. Library Reference USPS-FY15-29 at 9. Given that special sort assignments make up only 3.2 percent of First-Class Mail Flats volume, this response was inadequate to show that the Postal Service has plans in place to successfully address First-Class Mail Flats' service performance.
- The Postal Service's responses to CHIRs did provide more detail but mostly did not differentiate its FY 2016 plan from its ineffective FY 2015 actions. Stating it will largely take the same approach to improving First-Class Mail Flats service in FY 2016, the Postal Service did not adequately explain why these changes will be more effective in FY 2016 after 4 years of not meeting targets. Instead, it proposed a vague network-wide mitigation plan, which substantially overlapped with FY 2015 efforts and did not offer comprehensive insight to its corrective actions by, for example, providing information at the district and facility levels.
- For these reasons, the Commission takes further action in accordance with these findings in Chapter 6 of the FY 2015 ACD. *See* FY 2015 ACD, Chapter 5 at 109; *id.* Chapter 6 at 162-163, 180-181.

Standard Mail High Density and Saturation Letters, High Density and Saturation Flats/Parcels, and Letters

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<sup>349</sup> June 30, 2015, Responses to FY 2014 ACD, question 5.

- *The Commission commends the Postal Service for making significant strides in service performance results for Standard Mail High Density and Saturation Letters, High Density and Saturation Flats/Parcels, and Letters. In FY 2014, these products met, exceeded, or were near annual service performance targets. Although Standard Mail Parcels represent only 0.1 percent of all Standard Mail, the Postal Service is required by statute to report service performance results for all products. The Commission directs the Postal Service to provide these results in the FY 2015 ACR. FY 2014 ACD, Chapter 5 at 109.*
  - The Postal Service provided service performance results for all of these products as part of Library Reference USPS-FY15-29.

Standard Mail Carrier Route and Flats Service Performance:

- *Standard Mail Carrier Route and Flats continue to fall well short of intended annual performance targets. The Commission directs the Postal Service to improve service for these products in FY 2015 or to explain in the FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve service performance. FY 2014 ACD, Chapter 5 at 109.*
  - Although the service performance result for Standard Mail Carrier Route improved slightly in FY 2015, it remained 9 percentage points below target. Because the results for Standard Mail Carrier Route remain substantially below target, further action is necessary. Further action for Standard Mail Carrier Route is discussed in Chapter 6 of the FY 2015 ACD. *See* FY 2015 ACD, Chapter 5 at 114; *id.* Chapter 6 at 162-163, 180-181.
  - The Postal Service did not improve service for Standard Mail Flats in FY 2015. Although the Postal Service discussed some changes it plans to make to improve performance for Standard Mail Flats, the Commission finds the response insufficient to address consecutive years of failure to meet Standard Mail Flats service performance targets. Similar to the response provided to the First-Class Mail Flats directive, the response proposed is a vague network-wide mitigation plan, which does not offer comprehensive insight to planned Postal Service corrective actions at the district and facility levels. As further explained in Chapter 6 of the FY 2015 ACD, the Postal Service's current mitigation plans are insufficient and inadequate to repair systemic problems facing flats mailpieces.

- Consequently, because service performance did not improve in FY 2015, the Commission finds further action is necessary. *See* FY 2015 ACD, Chapter 5 at 122; *id.* Chapter 6 at 162-163, 180-181.

#### Periodicals Service Performance:

- *The Postal Service again did not meet its delivery performance targets for its Periodicals product. The Commission directs the Postal Service to improve service for Periodicals in FY 2015 or to explain in its FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve performance.* FY 2014 ACD, Chapter 5 at 111-12.
  - The Postal Service did not improve service for Periodicals in FY 2015. In the ACR, the Postal Service mentions several plans, including employee training, revising of processing procedures, and utilization of WIP cycle time, but does not provide further detail. In responses to CHIRs, the Postal Service discusses several other plans, but for the most part, does not differentiate its FY 2016 plan from its ineffective FY 2015 actions.
  - Stating it will largely take the same approach to improving Periodicals service in FY 2016, the Postal Service does not adequately explain why these changes would be more effective in FY 2016. Instead, it proposes a vague network-wide mitigation plan, which substantially overlaps with FY 2015 efforts and does not offer insight to its corrective actions by, for example, providing information at the area and facility levels. For these reasons, the Commission takes further action in accordance with these findings in Chapter 6 of the FY 2015 ACD. *See* FY 2015 ACD, Chapter 5 at 128; *id.* Chapter 6 at 162-163, 180-181.

#### BPM Flats Service Performance:

- *Results for BPM Flats remain the lowest among Package Service products and have decreased since FY 2013. The Commission views the Postal Service's previous strategies to increase performance results as largely ineffective. It directs the Postal Service to improve performance for BPM Flats in FY 2015 or include a discussion of its FY 2015 strategies to increase results and measureable volume in its FY 2015 ACR.* FY 2014 ACD, Chapter 5 at 114.
  - The Postal Service did not improve service for BPM Flats in FY 2015. The Commission acknowledges the unique characteristics of BPM Flats mail and the

challenges these characteristics create during processing. The Postal Service's mitigation plan relies heavily on the strategy proposed for other flats and its successful implementation. Nonetheless, the service performance results for BPM Flats did not improve in FY 2015 and was 44.8 percentage points from the target. As a result, the Commission directs further action in Chapter 6 of the FY 2015 ACD. *See* FY 2015 ACD, Chapter 5 at 131; *id.* Chapter 6 at 162-163, 180-181.

## STATUS OF KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2013 ACD)

### Further Derivation of Elasticity for Standard Mail Products:

- *The Commission appreciates the Postal Service's efforts to derive elasticity estimates as recommended in the FY 2012 ACD. Having these elasticity estimates would provide for a more realistic assessment of the impact of price changes on volume and total contribution. Therefore, the Postal Service should continue its efforts to derive elasticity estimates for Standard Mail products. FY 2013 ACD, Chapter 3 at 55.*
  - The Commission closed Docket No. RM2014-5 on February 26, 2016.<sup>350</sup>
  - The Postal Service, in its FY 2015 Market Dominant Demand Analysis filed with the Commission on January 20, 2016, implemented a number of changes to its demand and forecasting methodology.<sup>351</sup>

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<sup>350</sup> *See* Docket No. RM2014-5, Order No. 3100, Order Closing Docket, February 26, 2016.

<sup>351</sup> *See* Market Dominant - United States Postal Service's Demand Equation Estimation and Volume Forecasting Methodologies, January 2016, January 20, 2016.

# Appendix C: Commenters

## 2015 Annual Compliance Determination

Commenter	Comment Citation	Citation Short Form
Amazon Fulfillment Services, Inc. (AFSI)	Reply Comments of Amazon Fulfillment Services, Inc., February 12, 2016	Amazon Reply Comments
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association, February 2, 2016	ACMA Comments
	Reply Comments of the American Catalog Mailers Association, February 12, 2016	ACMA Reply Comments
American Consumer Institute Center for Citizen Research (ACI)	Comments of the American Consumer Institute Center for Citizen Research, February 2, 2016	ACI Comments
Americans for Tax Reform (ATR)	Comments on Annual Compliance Report, February 2, 2016	ATR Comments
Association for Postal Commerce (PostCom)	Initial Comments of the Association for Postal Commerce, February 2, 2016	PostCom Comments
	Reply Comments of the Association for Postal Commerce, February 12, 2016	PostCom Reply Comments
Association of Magazine Media (MPA)	Initial Comments of the Association of Magazine Media, February 2, 2016	MPA Comments
	Reply Comments of MPA—The Association of Magazine Media, February 12, 2016	MPA Reply Comments
Greeting Card Association (GCA)	Reply Comments of the Greeting Card Association, February 12, 2016	GCA Reply Comments
National Association of Presort Mailers (NAPM)	Comments of the National Association of Presort Mailers, February 2, 2016	NAPM Comments

Commenter	Comment Citation	Citation Short Form
National Postal Policy Council (NPPC)	Comments of the National Postal Policy Council, February 2, 2016	NPPC Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc., February 2, 2016	Pitney Bowes Comments
	Reply Comments of Pitney Bowes Inc., February 12, 2016	Pitney Bowes Reply Comments
Public Representative (PR)	Public Representative Comments, February 2, 2016 (REVISED February 17, 2016). See Notice of Errata to Public Representative Comments Filed February 2, 2016, February 17, 2016.	PR Comments
Stamps.com	Reply Comments of Stamps.com, February 12, 2016	Stamps.com Reply Comments
Taxpayers Protection Alliance (TPA)	Comments on Annual Compliance Report, February 1, 2016	TPA Comments
United States Postal Service (USPS)	Reply Comments of the United States Postal Service, February 12, 2016	USPS Reply Comments
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (Valpak)	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments on the United States Postal Service FY 2015 Annual Compliance Report, February 2, 2016	Valpak Comments
	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Reply Comments on the United States Postal Service FY 2015 Annual Compliance Report, February 12, 2016	Valpak Reply Comments

# Appendix D: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AADC	Automated area distribution center
ACD	<i>Annual Compliance Determination</i>
ACMA	American Catalog Mailer Association
ACR	<i>Annual Compliance Report</i>
ADC	Area distribution center
AFSM	Automated Flats Sorting Machine
APWU	American Postal Workers Union
BPM	Bound Printed Matter
BSN	Business Service Network
CAGU	Citizens Against Government Waste
Carlson	Douglas F. Carlson
CEM	Customer Experience Measurement
C.F.R.	Code of Federal Regulations
CHIR	Chairman's Information Request
CI	Customer Insights
CPI	Consumer price index
CPI-U	Consumer price index for all urban consumers
CPO	Community Post Office
CPU	Contract postal unit
CRA	Cost and Revenue Analysis
DDU	Destination delivery unit
DFSS	Destination Flats Sequencing System
Discover	Discover Financial Services
DNDC	Destination network distribution center
DSCF	Destination sectional center facility
ECSI	Educational, cultural, scientific or informational (value)
EMS	Express Mail Service
EPG	E-Parcel Group
EXFC	External First-Class Measurement
FedEx	Federal Express Corporation
FSS	Flats Sequencing System
FY	Fiscal Year
GCA	Greeting Card Association
GEPS	Global Expedited Package Service

Acronym/Abbreviation	Meaning
GREPS	Global Reseller Expedited Package Service
ICRA	International Cost and Revenue Analysis
iMAPS	Intelligent Mail Accuracy and Performance System
IMb	Intelligent Mail barcode
IMMS	International Mail Measurement System
IMTS-Inbound	International Money Transfer Service-Inbound
IMTS-Outbound	International Money Transfer Service-Outbound
Mixed ADC	Mixed area distribution center
MPA & ANM	Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers
IOCS	In-Office Cost System
NAPM	National Association of Presort Mailers
NDC	Network distribution center
NPPC	National Postal Policy Council
NSA	Negotiated service agreement
NTU	National Taxpayers Union
PAEA	Postal Accountability and Enhancement Act
PHI	PHI Acquisitions, Inc.
Pitney Bowes	Pitney Bowes Inc.
POS	Point of Sale
PostCom	Association for Postal Commerce
PTS	Product Tracking System
PR	Public Representative
Progressive	Progressive Direct Mail Advertising
QBRM	Qualified Business Reply Mail
SASP	Seamless Acceptance and Service Performance
SFS	Stamp Fulfillment Services
TPA	Taxpayers Protection Alliance
UFMS	Upgraded Flats Sorting Machine
UHCC	Utah Hispanic Chamber of Commerce
U.S.C.	United States Code
UPS	United States Parcel Service
UPU	Universal Postal Union
Valassis	Valassis Direct Mail, Inc.
Valpak	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
VPO	Village Post Office

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