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POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Report, 2012 | Docket No. ACR2012

PUBLIC REPRESENTATIVE COMMENTS
(February 1, 2013)

Respectfully submitted,

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Pursuant to the Commission's Notice in this proceeding,[1] the Public Representative hereby comments on the Postal Service's Annual Compliance Report (ACR2012) filed for fiscal year 2012 as prescribed by 39 U.S.C. 3652.[2]

The Postal Service's ACR is "to demonstrate that all products during the year complied with all applicable requirements of [title 39]." 39 U.S.C. 3652(a)(1). These comments address several matters including the Postal Service's (1) financial condition, (2) performance plans and strategic initiatives required by 39 U.S.C. 2803 and 2804, (3) CRA report for rate compliance, (4) worksharing, and (5) customer access to postal services.

I. FINANCIAL CONDITION

A. Introduction

Title 39 provides for a modern system of rate regulation implemented by the Commission to, among other things, "assure adequate revenues, including retained earnings, to maintain financial stability." 39 U.S.C. 3622(5). If the Commission finds

[1] Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, January 3, 2013.

[2] United States Postal Service FY 2012 Annual Compliance Report (ACR2012), December 28, 2012.

that the Postal Service failed to comply with Title 39 during the year under review, the Postal Accountability and Enforcement Act (PAEA), grants the Commission authority to exercise its discretion to remedy that noncompliance through the broad provisions of 39 U.S.C. 3662. Whether the Postal Service complied with the financial provisions of Title 39 must be weighed by the Commission in this proceeding.

If the Postal Service's obligations to pay into the retirement fund (RHBF) are not set aside for purposes of analyzing the Postal Service's compliance with the financial provisions of Title 39 and other sections of the law, the loss in FY 2012 amounted to $15.7 billion.[3] A review of the Postal Service's financial results, absent its retirement fund obligations and Workers Compensation Expenses, provides a picture of the Postal Service's financial results from operations. Without the burden of RHBF and Worker's Compensation Expenses, the loss was $2.4 billion in FY 2012 and the FY 2013 plan is to improve that slightly with a $2 billion loss.[4]

B. Sufficiency of Financial Reports

The Public Representative observes that the details in the Postal Service's report of its financial condition has waned. Only very brief information is provided in USPS-FY12-17 (Comprehensive Statement). The 2012 Annual Report to Congress, which includes the Comprehensive Statement has additional information. Some of the deficiencies of the report are discussed below. Additional information is reported in the Postal Services Integrated Financial Plan (IFP2013) filed with the Commission November 23, 2012 and available on the Postal Service's website and in its Form 10-K, filed November 15, 2012 pursuant to 39 U.S.C. 3654(a)(1)(b).

[3] USPS-FY12-17, FY 2012 Comprehensive Statement on Postal Operations (2012 Annual Report to Congress) at 20.

[4] United States Postal Service, Integrated Financial Plan FY 2013 (IFP2013), filed November 23, 2012, at 1.

C. Critical Working Capital Shortage

Financially, during FY 2012, the Postal Service continued its downward slide due to price cap restrictions and the RHBF payments that will continue until Congress grants legislative relief. Prior to FY 2012, the Postal Service had several years of net income losses.[5] The $41 billion of net losses over the previous six years were driven for the most part by $32 billion in mandated RHBF expenses. IFP2013 at 8. By FY 2012, it was unable to meet its accrued RHBF obligations of $11.1 billion accrued in FY 2011 and FY 2012.

The Postal Service's cash position remains at near critical levels. At the beginning of FY 2012, the Postal Service reported that even if the $11.2 billion retirement pre-funding due at the end of FY 2012 was not paid, and the credit limit of $15 billion was reached (both eventualities occurred), that by the end of September, 2012, it would have only $0.6 billion in cash.[6] The 2012 IFP concluded,

> This [$0.6 billion] is a dangerously low level of liquidity as it is equivalent to only three days of operating costs. It also assumes we are able to achieve our operating plan with significant cost reductions and no unforeseen drops in revenue. *Id.* at 6.

As things developed during FY 2012, the cash position could have been even worse than predicted. Some of the Postal Service's planned major cost savings and revenue generating plans did not materialize: moving to 5 day delivery, closing of as many as 3,650 post offices, and revival of its proposed rate increase to meet exigent circumstances. However, other positive factors aided its cash position when continuing programs eliciting significant cost savings assisted its financial position, They included realigning its network by closing plants, reducing some post office operating hours,

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[5] Recent losses have been (in billions): FY 2010--$5.505; FY 2009--$3.794; FY 2008--$2.806; FY 2007--$5.142. Section 701 Report, Analysis of the Postal Accountability and Enhancement Act of 2006, Postal Regulatory Commission, September 22, 2011 at 22.

[6] United States Postal Service 2012 Integrated Financial Plan (IFP2012), filed November 24, 2011.

easing service performance targets, and implementing several efficiencies in mail processing. Postal Service operations in FY 2012 lost $2.4 billion. IFP2013 at 1.

Although no relief from Congress was forthcoming, the Postal Service's cash situation at the end of FY 2012 was better than the predicted $0.6 billion in the FY 2012 IFP. The Postal Service cash position at the end of FY 2012 (beginning of FY 2013) was $2.1 billion, which is $0.8 billion higher than available at the start of FY 2012.[7] Although the cash at the end of FY 2012 was greater than estimated at the beginning of the fiscal year, it is not significantly greater, and the Postal Service again sees perilous cash shortages during FY 2013, continuing to deteriorate toward the end of FY 2013:

> [W]e expect to end the year [FY 2013] with only $0.8 billion of cash. This is a dangerously low level of liquidity as it is equivalent to less than four days of operating costs. IFP2013 at 6.
>
> Just a one percent error in our cash forecasting will result in a $1.3 billion adjustment to cash. The margin for error is slim—a commercial entity our size would typically have minimum liquidity sources totaling $7 to $10 billion to allow for sufficient variations to plan and to invest. *Id.* at 1.

The Postal Service explains that for 4 of 12 months in FY 2013 the Postal Service will have liquidity near or below $1 billion, 4 days of revenue/expenses. *Id*. at 7. That is, during October 2012 and during the second half of FY 2013, particularly March, August and September of 2013, liquidity will remain at near critical levels.

D. Cash Shortages Have Reduced Investments in Property and Equipment

The Postal Service's IFP2013 discusses its capital plan and the large reductions in capital commitments and capital cash outlays in recent years and for FY 2013. Outlays normally provide for necessary purchases of plant, equipment and infrastructure and support. The capital cash outlays are

[7] IFP2013 at 6; Annual Report to Congress 2012 at 20. The Annual Report indicates end of year cash of $2.3 billion, but the IFP notes $0.2 billion is restricted; thus the two reports are consistent.

planned for 2013 to be less than half of the reduced average capital cash outlays over a recent five year period (FY 2006-2010) when expenditures had already been reduced below historic norms.

The five year average capital cash outlay from 2006 through 2010 was $2.1 billion. In FY 2011 it fell to $1.2 billion; and in FY 2012 it fell further to $0.8 billion. The optimistic plan for capital cash outlays of FY 2013 is $1.0 billion, still less than one-half the recent 5 year average. IFP2013 at 5.

The 2013 capital commitment plan of $1.0 billion is well below average historical levels and reflects continuing efforts to conserve cash. Capital commitments are targeted toward projects with high investment returns. *Id.* In 2013, commitments for facilities are planned at $0.4 billion or approximately 40 percent of the total plan. This investment is primarily for facility infrastructure, including building modifications that are necessary to accommodate the ongoing plant consolidations and repairs of aging buildings. There are no plans to build new facilities. *Id.* The infrastructure and support category is planned at $0.4 billion, or approximately 40 percent of the total plan for capital outlays. *Id.* Capital cash outlays continue to decline from the levels of previous years to conserve cash. *Id.*

The IFP2013 Report indicates the Postal Service's infra-structure is likely deteriorating. At some point in the near future, needed outlays to replace old equipment will overwhelm amounts available in the budget and the Postal Service will require substantial repair of its physical assets beyond its ability to maintain adequate facilities. A reduced value of processing facilities equipment may be advantageous to those who may wish to absorb the mail handling and processing activities of the Postal Service, but it is disadvantageous to mailers and jeopardizes the continued successful operation of the Postal Service as a vital and significant national institution.

E. Request for Plan to Ensure Nondiscriminatory Service is Maintained in the Event of Service Disruptions Due to Cash Shortages

Although the Postal Service survived FY 2012 without running out of cash to operate, continuing operations for a second year at such low cash levels where small changes in cash requirements can quickly lead to an inability to met financial obligations, is risky, not only from a financial standpoint, but from the standpoint of potential service disruptions and the impact on mailers.[8] Unless the Postal Service is able to maintain sufficient working capital to pay its employees and suppliers, it will not only be unable to provide universal services, but its ability to provide effective and regular postal services will be in jeopardy.

In reviewing ACRs, the Commission is to review whether any service standards in effect during the year were not met. Service reductions or curtailments due to cash shortages during the year may be deemed noncompliance with service standards, particularly if they are discriminatory.

The PAEA requires that in providing services, the Postal Service shall not "make any undue or unreasonable discrimination among users of the mail, nor shall it grant any undue or unreasonable preferences to any such user." 39 U.S.C. 403(c). Of course, complaint procedures may be available to remedy claims of discrimination. However, if the Postal Service and its customers are not prepared for potential service disruptions, it will be little comfort to mailers if relief from discriminatory service disruptions is available through complaint proceedings only after they occur.

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[8] The impact of cash shortages on revenues could also be catastrophic: The impact on the public due to uncertainty of mail delivery and on suppliers such as truckers, box manufacturers, gasoline suppliers and utilities, as well as the hundreds of thousands of employees, is unknown. A delivery system with intertwined parts could, for all practical purposes, be reduced so substantially that if mail customers cannot rely upon mail delivery and thus flee the Postal Service in short order, most never to return, they would critically reduce the Postal Service's revenue stream. ACR2011, PR Comments, February 3, 2012, at 4.

In comments on the ACR2011, the Public Representative suggested the Commission should ensure that the Postal Service is preparing adequately for the eventuality that cash shortages may necessitate service disruptions. As a first step, the Public Representative suggested the Commission request the Postal Service provide the Commission with working capital estimates *by month* for the remainder of FY 2012. ACR2011, PR Comments, at 12. The Postal Service has now provided that information. IFP2013, Table (2013 Total Liquidity) at 7.

The Postal Service states that it is prepared for cash shortages. The Postal Service offers one unsupported sentence on this issue, “In the event of a projected liquidity shortfall, we will prioritize payments to our employees and suppliers to help ensure that the Postal System continues to operate in a quality manner.” IFP2013 at 7. The Commission should inquire further to ensure that in the event delivery times must be adjusted or curtailed to meet operational difficulties due to cash shortages, service will be maintained in a nondiscriminatory manner.[9] The Commission should request a description of the Postal Service’s priorities and plans for providing service across the Nation and across classes in the event cash shortages require services to be reduced.

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[9] The Public Representative in comments on the ACR2011 also requested the Commission to report whether the Postal Service is making payments to creditors within contractual terms; and, if not, to report the current level of delay, whether the extent of the delay is increasing; and to describe the Postal Service’s priorities and plans for payments creditors in the event of a cash shortage to fund operations, and to estimate the impact on each product and service. ACR2011, PR Comments at 12-13.

II. PERFORMANCE PLANS AND STRATEGIC INITIATIVES

A. 2012 Comprehensive Statement on Postal Operations (USPS-FY12-17)

The Postal Service's Comprehensive Statement on Postal Operations (Comprehensive Statement) is required by 39 U.S.C. 2401(e) to provide to the Committee on Governmental Affairs of the Senate and the Committee on Government Reform of the House of Representatives a comprehensive statement which addresses postal operations. Broadly, the comprehensive statement must address postal operations, including information on mail volumes, productivity, speed and reliability of its product base, and an analysis of how internal and external factors impact the Postal Service.[10] The Postal Service's 2012 Annual Report to Congress includes its Comprehensive Statement on Postal Operations, its Annual Performance Plan required by 39 U.S.C. 2803, and its Annual Performance Report, required by 39 U.S.C. 2804.[11] These Reports are provided to the Commission pursuant to the Commission's Rules. 39 CFR 3050.42.

The Commission is required to review the 39 U.S.C. 2803 and 2804 Reports to evaluate whether the Postal Service has met the goals established under sections 2803 and 2804, and may provide recommendations to the Postal Service related to the protection or promotion of public policy objectives of title 39. 39 U.S.C. 3653(d). Under

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[10] 39 U.S.C. 2401(e) requires "a comprehensive statement" relating to the following matters: (1) the plans, policies, and procedures of the Postal Service designed to comply with all of the provisions of section 101 of this title; (2) postal operations generally, including data on the speed; and reliability of service provided for the various classes of" mail and types of mail service, mail volume, productivity, trends in postal operations, and analyses of the impact of internal and external factors upon the Postal Service; (3) a listing of the total expenditures and obligations incurred by the Postal Service for the most recent fiscal year; for which information is available, an estimate of the total expenditures and obligations to be incurred by the Postal Service during the fiscal year for which funds are requested to be appropriated, and the means by which these estimated expenses will be financed; and (4) such other matters as the committees may determine necessary to ensure that the Congress is fully and currently consulted and informed on postal operations, plans, and policies.

[11] USPS-FY12-17 consists of selections from the 2012 Annual Report to Congress. The Comprehensive Statement is pages 25-32 of the Postal Service's 2012 Annual Report to Congress and the FY 2012 Annual Performance Report and FY 2012 Annual Performance Plan are pages 33-58 of the 2012 Annual Report to Congress.

sections 2803 and 2804 of title 39, the Postal Service is to prepare an annual performance plan covering each program activity in its budget.[12] The performance plan shall establish performance goals to define the level of performance to be achieved by each activity. The goals are to be objective, quantifiable and measureable unless the Postal Service decides to report in an alternative form as prescribed by section 2803. Thus, each program activity is to have a performance plan with goals (targets) that are measureable.

B. Provisions of Sections 2803(a) and 2804(d)(3) Are Not Met

The Public Representative believes that the Annual Performance Plan and Report prepared by the Postal Service for FY 2012 has *not* met the requirements of 39 U.S.C 2803(a) to cover "each program activity set forth in the Postal Service budget[.]" 39 U.S.C. 2803(a). The Postal Service is required to provide an in-depth explanation of the innovative strategies it employs. Under section 2804, the Postal Service is required to report its review and evaluation of its achievements towards its performance goals during the fiscal year and explain why goals were not met, as well as plans for meeting those goals. The Postal Service has again presented an unfocused superficial review that mentions only some of the FY 2012 initiatives undertaken and a few objective benchmarks for future progress.

The Postal Service is to (1) establish performance plans and goals for each program activity; (2) identify indicators of performance; and (3) report that information annually. The Commission's role is first to ensure the Postal Service's report has provided that information. Second it is to evaluate whether the Postal Service has met those goals established under sections 2803 and 2804 by comparing each performance indicator in a year against the performance target for that year. ACD2011 at 56. Third,

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[12] Sections 2303 and 2304 require the plans to be included in the Comprehensive Statement filed with Congress pursuant to section 2401(e) of title 39. The Postal Service does not include them in the Comprehensive Statement, but reports them separately within the Annual Report to Congress. *See* previous note.

in addition to determining whether there is compliance with sections 2803 and 2804, the Commission “may provide recommendations to the Postal Service related to the promotion of public policy objectives set out in [title 39].” *Id.*, 39 U.S.C. 3653(d).

The Commission found that the Postal Service’s ACR2011 met the requirements of section 2804 to report on program performance goals and indicators with the exception of section 2804(d)(3). That section requires an explanation of the Postal Service’s actions planned to achieve the performance goals in future years. This year’s ACR2012 report also fails to provide that information. The Commission cannot compare each performance indicator against targets for FY 2012 or for the future. The Commission must find, again, a failure to comply with sections 2803 and 2804(d)(3).

In the ACD2011, the Commission found that the Postal Service’s report reduced the amount of detail reported in prior years about its performance goals, indicators and strategic initiatives. The Commission recommended in the ACD2011 that future annual performance reports, plans and strategic initiative descriptions should at a minimum contain information detailed in the 2010 Comprehensive Statements on Postal Operations. Furthermore, the Commission found in ACD2011 that the Plan for 2012 did not cover each program activity in the Postal Service’s budget and so did not meet that statutory requirement. ACD2011 at 43; *See* 39 U.S.C. 2803(a).

In the 2011 Report and 2012 Plan, the Postal Service had three performance goals—Improve Service, Improve Financial Performance, and Improve Safety and Employee Engagement. ACD2011 at 45. These were evaluated with seven performance indicators with annual targets. *Id.*

1. Performance goal—Service

In last year’s ACR2011, the first goal, to improve Service, was measured only by First-Class Single-Piece Letters and Cards and delivery performance for overnight, 2 day and 3 day. No indicators for other classes or types of service were measured. Not only were the 2011 targets for on-time delivery not met for 2011, they were worse than the 2010 actual results. The targets for 2012 remained the same as the 2011 targets.

In its ACD2011, the Commission directed that three services, Express Mail, Priority Mail and Parcel Select, each previously included in the report for 2010, but eliminated in 2011 due to confidentiality concerns, should be provided under seal in the future. In addition, the Commission recommended adding service performance scores for other classes of market dominant mail, including Standard Mail, in future filings. ACD2011 at 57.

In the current ACR2012, the Postal Service continues to cite the strategic performance goals it has maintained since about 1993 when legislation passed directing such goals and reports. The Postal Service again reports performance for Single-Piece First-Class Mail.[13] The report includes a table with measures for the Service goal of Single-Piece First-Class Mail, including FY 2012 targets and FY2012 Actual. USPS-FY12-17.at 34. Those results are shown in Table 1, below. The Actual for FY 2012 does not coincide with the on-time results reported in another library reference, also included in Table 1. *See* USPS-FY12-29, Annual Report on Service Performance for Market Dominant Products. These inconsistencies should be explored.

Table 1

First-Class Single-Piece Mail Performance	**FY 2012 National Plan USPS-FY-17**	**FY 2012 National Actual USPS-FY12-17**	**FY 2012 National On-Time USPS-FY12-29**
Letters/Postcards			
Overnight	96.65	96.48	97.0
2-Days	94.15	94.84	95.6
3-5 Days	92.85	92.29	93.2

[13] This year, Single-Piece First-Class Mail parcels have been combined with Single-Piece First-Class cards, letters, and flats.

Results for the service reported are mixed, but reasonable. Service performance for Two-day mail exceeded the target by a good margin. Overnight and Three-day mail was only slightly below target in the USPS-FY-17 report, but is reported as exceeding the target in USPS-FY-29.

In its ACR2012, the Postal Service ignored the Commission's ACD2011 recommendation that performance goals for three services, Express Mail, Priority Mail and Parcel Select, should be provided under seal. The Postal Service does not include service performance scores for other classes of market dominant mail in the FY 2012 Annual Performance Report where it could more readily be applied to measure progress toward its Service performance goal. Rather, service performance scores are included in the more comprehensive library reference filed pursuant to Part 3055 of the Commission rules.[14]

2. Performance goal—Financial

In the ACR2011, the second goal, to improve financial performance, had two new indicators for 2011. Operating income (losses were targeted to increase to $3 billion in FY 2012) and deliveries per work hour (DPWH). Results for DPWH in 2011 for the first year of measurement were less than targeted, but targets were increased to 42.2, larger than the 2011 actual amount of 39.9.

The Commission pointed out in the ACD2011 that it had expressed concern in the previous ACD2010 that Operating Income fails to consider the very real costs of the Retirement Health Benefit Fund (RHBF) and Workers Compensation liabilities. In the ACD2011, it recommended that, in the future, these amounts should be taken into account as an expense of the organization in the Performance goals; otherwise the goal-setting process can be undermined. ACD2011 at 57.

[14] Annual Report on Service Performance for Market Dominant Products, USPS-FY12-29.

In this ACR2012, the Postal Service again excluded Worker's Compensation and RHBF amounts, explaining management feels their elimination "provides more meaningful insight into current operations." USPS-FY12-17 at 36. Although this part of the report would be more complete and immediately useful if the omitted data were included, inasmuch as the report is part of a larger comprehensive report to Congress which includes a detailed Financial Summary, there is minimal harm in the omission. *See* 2012 Annual Report to Congress at 20.

One stated reason for missing the DPWH target in FY 2011 was delays in the development schedule for the Flats Sequencing System (FSS) and workforce contractual barriers. The Postal Service foresaw difficulties in meeting its FY 2012 target because savings in the Network Rationalization Plan and Retail Access Optimization initiatives were delayed as well as increased workload. *Id.* at 47-48. In the ACD2011, the Commission again recommended returning to TFP as a performance indicator because it measures workload components such as collecting, processing, transporting and sequencing of mail for delivery. *Id.* at 57-58. The Commission also concluded that, assuming DPWH is retained, the Postal Service must explain in the future the actions it recommends for achieving the performance goal for DPWH. 39 U.S.C. 2804(d)(3). ACD2011 at 55.

In this ACR 2012, deliveries per workhour increased only slightly from 39.9 to 41. This was above FY 2011, but did not make the target of 42.2. The target for FY 2013 remains aggressive at 42.9. As recommended, the Postal Service includes TFP in its report. ACR2012 at 36-7. It is a longer term measure of productivity and has been increasing steadily about 20 percent per year for the three years since 2009.

3. Performance goal-Improve Safety and Employee Engagement

The third performance goal to improve safety and employee engagement has indicators for the reduction of OSHA illness and injuries and a survey of employees. The OSHA illness indicator did not meet its 2011 target. The Postal Service cited unusual winter weather as the cause. The 2012 target for illness and injury per 100 employees was for a slight improvement over the 2011 actual level and, in the ACR2011, the Postal Service said it was on target. The target level for the Voice of the Employee, which is the average percent of employees responding favorably to eight questions, was met in 2011 and the target was increased by 0.2 percent to 64.9 percent for 2012. *Id.* at 46. In the ACD2011, the Commission did not recommend any changes to the Safety and Employee Engagement Goal or to its indicators. *Id.* at 58.

In this ACR2012, the Postal Service reports a Voice of the Employee Survey score of 64.7 percent for FY 2012 which is the same as last year, but did not meet the target. Over 299,000 employees responded to the Postal Service's employee survey which is tabulated by a third-party vendor. Favorable responses are measured, but of the eight questions asked, some require rating by the employee, and thus the questions are subject to interpretation as to what is favorable. The underlying data is not provided. The questions do not ask about the employee's' job satisfaction, but rather the employee's views about the Postal Service's ability to perform its mission as an indicator of meeting its Workplace goal.

The OSHA illness and injury Rate decreased by 4 percent, significantly better than the plan level and FY 2011 actual level, and better than any year since at least 2008, but the Postal Service does not discuss the performance.[15] It institutes a target for FY 2013 of 1 percent below SPLY.

Overall, the discussion of goals does not approach discussing performance for each budget program required by section 2803.

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[15] FY 2011 was 5.67 percent; FY 2012 was 5.44 percent, and the FY 2012 target was 5.72 percent.

C. Strategic Initiatives

Strategic initiatives were introduced in the Annual Report filed by the Postal Service in ACR2010 to clarify the connection between performance goals and the actions needed to achieve them. ACD2011 at 49. Nine initiatives for three Performance Goals (Service, Financial and Workplace) and Results Indicators were first listed in the ACD2010 together with targets for the following year to assist in future evaluation.[16]

Unfortunately, the following report, ACR2011, provided less detail on strategic initiatives than the 2010 Comprehensive Statement. However, the Postal Service said that it expected the FY 2012 report to be more detailed. The Public Representative pointed out several shortcomings` of the ACR2011 report.[17] The Commission concluded the 2012 Comprehensive Statement should, at a minimum, provide the detail that was in the 2010 Comprehensive Statement; that is, illustrate the relationships between the strategic initiatives and the three performance goals. In addition, the Commission requested the results of indicators used to measure progress in meeting targets as well as the purpose of each strategic initiative, FY 2012 targets and results, and FY 2013 targets. This information is needed to evaluate progress for each strategic initiative. ACD2011 at 58.

The Postal Service has presented strategic initiatives to represent some, but not all, program activities in the budget. A few indicators have been devised by the Postal Service to measure the progress of some strategic initiatives, but indicators have not been devised for each program activity in its budget. Indicators have targets against which progress toward the programs and ultimately the goals are measured. The

[16] The nine strategic initiatives in the ACD2010 and ACR2011 were Intelligent Mail, Flats Sequencing System, Expand Access, Optimize Network, Flexible Workforce, Reduce Energy Use, Reduce Delivery Fixed Costs, Expand Products, Services, and Feature, and Address Overfunded Legacy costs. ACD2011 at 50.

[17] ACR2011, PR Comments at 30.

targets are supposed to be set and, by Commission rule, reported each year. The reports are to be included in the ACR. In the last two years, the Postal Service has failed to establish targets for several indicators to measure progress toward achieving its announced goals. Moreover, the Postal Service has failed to provide detailed information about its progress in each of its budgeted programs.

Where the Postal Service has not reported goals to meet the requirements of 2803(a), the Postal Service's reports may be measured against the more descriptive alternative requirements in section 2803(b). That is, it may describe a minimally effective program and a successful program to provide a range that will permit a determination whether the program activity's performance meets either criteria. The Postal Service must at least explain why it cannot express a performance goal for the activity. 39 U.S.C. 2803(b)(1)-(2).

The Postal Service is essentially ignoring statutory requirements established by Congress to provide the detail needed to measure progress towards its announced goals. The management does not seem to be measuring its progress in several budget and program initiative areas. If they are, they are not reporting them. For instance, it stated in response to Chairman's Information Request No. 1 that it has not analyzed the cost savings of its initiatives to reduce Periodicals flats losses.[18]

Even more than last year, the Public Representative is concerned with the quality of information presented in the Comprehensive Statement for strategic initiatives. The Postal Service has so reorganized its presentation of initiatives that it is difficult to determine which are strategic initiatives, and to which performance goals they relate, if any, because the lists of initiatives are not tied to the performance goals. Moreover, there are no indicators with the initiatives to measure the progress in meeting targets toward accomplishing the performance goals.

[18] 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.

A Table in the Performance Plan and Report (Strategic Change Initiatives), included below as Table 2, is divided into three parts. They are labeled initiatives and bear some resemblance to the strategic initiatives reported in previous years, but appear to be entirely new for this year. USPS-FY 2012-17 at 38.

One-third of the chart is headed "Workplace and Workforce Initiatives" (right column) relates to the Workplace performance goal. The five new initiatives listed under it bear no relationship to the initiatives cited under Workplace in the comparable FY 2010 and FY 2011 Reports. The second column is styled "Revenue Generation Programs" and may roughly contemplate the Financial Performance goal. It lists eight programs (apparently initiatives) which again bear no relationship to the initiatives of prior years. In fact, they are neither initiatives nor specific programs, but areas of management such as "pricing optimization" for which no metric could be applied and to which no planned or actual targets are attached. Even further afield, a third column, "Infrastructure and Operations Optimization," only peripherally relates to the third primary performance goal of Service. No mention is made of strategic initiatives to meet the Service goal. This third column includes 10 initiatives not heretofore mentioned. These are also unsuitable for targets and none are offered.

Table 2		
Infrastructure and Operations	Revenue Generation Programs	Work Place and Workforce Initiatives
Optimization	Shipping growth	Talent management and
Mail processing and transportation	Transaction mail preservation	Employee engagement
Delivery	Marketing mail growth	Dispute resolution
Facilities management and disposal	Global growth	Total labor cost
Financial and information systems	Digital and hybrid mail growth	Workforce optimization
Product visibility	Pricing optimization	Work Place and Workforce

Sustainability	Increasing sales force effectiveness	Talent management and development
Supply chain integration		Employee engagement
Commercial mail acceptance transformation	Customer experience	
Ongoing legislative and regulatory agenda		
Ongoing legislative and regulatory agenda		

There is a separate chart in the same Report styled "Cross-Portfolio Performance Metrics" with ten metrics showing variances from targets for FY 2012, but only two of the metrics (facility sq. ft. reduction and IMb adoption rate) match initiatives of the last two years that were being tracked as performance indicators to measure progress toward performance goals, and no targets for FY 2013 are included. USPS-FY12-17 at 39. While this chart includes variances for certain metrics of FY 2012 targets, only two lines relate to indicators to be compared with established performance goals.

In addition, the Report contains a sundry, descriptive list of about 20 programs, none of which include quantifiable targets or achievements. Identified are recent product development programs. *Id.* at 42-43. Also discussed subsequently in the Report are creative uses of the mails, mail preparation, addressing and acceptance initiatives. *Id.* at 44-46. These are all recent programs, but no measures of success or future targets are provided, nor do they include any indicator as a measureable accomplishment toward performance goals. While the list is interesting in its breadth, the success of the programs is unknown at the moment and, without performance indicators, unknowable in the future.

Thus, the Report does not comply with the statutory requirement for a level of performance achieved for each program activity (2803(a)(1)); does not express the goals in measureable form (2803(a)(2)); does not describe the processes, etc. needed to meet performance goals (2803(a)(3)); does not include indicators to access outcomes of each program (2803(a)(4)); does not have a basis for comparing the program with performance goals (2803(a)(5)); and does not describe the means to validate measured values (2803(a)(6)). Nor has the Postal Service demonstrated reason to use an alternative form of statement (2803(b)).

Thus, the Postal Service's report has scrapped mention of most all of its previous strategic initiatives. It has also scrapped the use of future targets for indicators for each strategic initiative to measure progress toward the performance goals required by section 2803. The report does not even attempt to provide the level of performance achieved by program activity as required by 39 U.S.C. 2803(a).

Alternatively, the Postal Service fails to comply with 2803(b) by not describing the range for a minimally effective program and a successful program, nor does it indicate why it is impractical to express a performance goal in any form for the program activity. These descriptions are necessary for Congress (and the Commission) to determine progress toward performance goals.

The Postal Service claims this is a "work in progress" and that "Management is developing performance metrics for the entire portfolio." *Id.* at 39. This broad brush approach to avoid detailing the success of its programs should not serve as a stone wall to avoid efforts to measure progress toward its performance goals. The fact remains the Postal Service has again failed to comply with the statutory requirements of section 2803(a) to an even greater extent than its failure in FY 2011.

The Postal Service has not demonstrated why it could not continue to provide the information it produced in FY 2010 pending the completion of redevelopment of its report. Surely, the Postal Service's management has the information regarding progress toward targets for the program initiatives it is undertaking to meet its performance goals. The Postal Service should provide that information pursuant to section 2803 as Congress has mandated that it should provide.[19]

III. SERVICE PERFORMANCE

The Postal Service outlines its service performance for each market dominant product in the Annual Report on Service Performance for Market Dominant Products. USPS-FY12-29. Upon inquiry from the Commission, the Postal Service recited the following steps taken in FY2012 that are continuing to improve service performance for various classes of mail.

1. "FSS Scoreboard" measures critical aspects of performance by site.
2. "Moving up the Ladder" increases processing on automated equipment.
3. New requirements for preparation of FSS bundles and pallets, reducing sacks, and modified requirements for Origin Mixed and Mixed ADC flats.
4. Relaxed drop ship requirements for FSS Scheme and certain FSS zone pallets.
5. Increased OCR capabilities with 198 new automated bundle sorters.
6. New Service Performance Diagnostics (SPD) to track mail in plant to be worked on.
7. Increased utilization of IMb analysis.
8. Network Rationalization Program.
9. Other ongoing projects to improve efficiencies.[20]

[19] Although some might contend the Commission's authority in this matter may be limited to recommending improvements in the reports when they are deficient, the reports to Congress are required, nevertheless, to be in compliance with 2803 and 2804 which represent a policy under title 39 to report performance. The Postal Service may not accept the Commission's recommendations to meet the law, but it does so at the peril of violating the Congress' requirement for explicit reports.

The Public Representative applauds the Postal Service's more recent focus to improve operations and service performance in the areas where service has not met the service standard targets and in some cases fallen far short of targets. In particular, these steps can benefit service for flats packages and periodicals where on-time performance has been relatively low.

A. First-Class Mail-Single-Piece Service Performance Measurement

During July 2012, the 4th quarter of FY 2012, new relaxed service standard rules became effective with a large reduction in the number of overnight service standard pairs and expanded Two-Day and Three-to-Five-Day service standard pairs. These relaxed rules no doubt assisted the Postal Service in meeting its percent-on-time targets for the year.

Single-Piece Letters/Postcards and Presort Letters/Postcards exceeded their FY 2012 targets for Overnight, Two-Day and Three-Five-Day performance pairs and improved substantially over their F2011 national performance for letters and postcards reported together. USPS-FY12-29, First-Class Mail.xls, FCM On Time Performance.

The results for First-Class parcels were similar to flats for Overnight and Two-Day service, but much better than flats for Three-to-Five Day, missing its target by about 5 percent rather than 10 percent. *Id*. In FY 2012, First-Class Parcels' performance improved over FY 2011 for Two-Day and Three-to-Five Day, but fell back slightly from 90.3 percent to 89.8 percent for overnight service, again even though service standards were relaxed. International Mail performance for both Outbound and Inbound Single-Piece First-Class mail using proxies fell a little short of its combined FY 2012 Overnight, Two-Day and Three-To-Five-Day targets, but Overnight mail exceeded both of the combined targets. *Id.*

[20] Responses of the United States Postal Service to Questions 1-9 and 12-15 of Chairman's Information Request, January 14, 2012, question 1.

The Postal Service claims that improvements over the course of the year were due to new diagnostic tools for flats and increased use of IMb barcode on letters and flats. However, as noted above, the improvements in the quarterly trends must be due in large part to the relaxation of delivery standards during the fourth quarter of 2012. Hopefully, the new diagnostic tools will improve on-time performance for FY 2013.

B. Standard Mail

For Standard Mail, FY 2012 is the first year all 4 quarters used Full Service IMb system data, and new diagnostics were implemented in June 2012. These new systems appear to have made spectacular improvements in on-time delivery of Standard Mail. For FY 2012, overall performance fell short by about 20 percentage points from the 90 percent targets in several categories such as Carrier Route, Flats, and Mixed Product Flats and short by about 10 percent from the 90 percent target for Letters and Mixed Product Letters. USPS-FY12-29, FY12ACRStandardMail.xls; and Service Performance ACRFY12.pdf.

The good news for Standard Mail is that the Postal Service cites very improved performance by the fourth quarter for each of these categories. While performance was in the 40 and 50 percent range early in the year for Carrier Route, Flats, and Mixed Product Standard Flats, it improved by the 3rd quarter to 88 percent for Carrier Route, and to about 85 percent on-time for Flats, even taking into account seasonal variations, it is a commendable achievement, particularly if the Postal Service can maintain and improve on that performance. *Id.*

It remains to be seen whether service has actually improved by these impressive percentages or if the improvements are due to better measurement techniques and different standards that now measure a level of service that has been provided all along. The Public Representative has no reason to believe the operational steps the Postal Service has taken have not improved service, but the improvements in on-time delivery that have eluded the Postal Service until now are unusually large over a short period of time. Anecdotal evidence may be necessary to understand the actual impact of the new performance scores.

C. Periodicals

Periodicals service on-time standards also increased during the 4th quarter of FY2012 after performance standard changes and a new measurement system was implemented. The Performance standard measurement is broad as it covers virtually all 3-Digit Zip areas. USPS-FY12-29, Service Performance ACRFY12.pdf at 14. Although it only measures 12 percent of all Periodicals, it measures a much larger percentage than in FY2011 and resulted in a significant drop in service performance in FY2012 over FY2011. *Id*. at 15. In FY 2011, the on-time performance was 75.5 percent. ACD2011 at 74. Whereas, for FY 2012, the overall on-time performance was only 68.7 percent. The measurement system no longer relies upon the external measurement systems of Red Tag and Del-Trak. It now relies on all eligible Full Service Intelligent Mail Periodicals. *Id.* at 15. However, some reduction in on-time performance measurement results could be ascribed to the use of automation scans that no longer measure categories that bypass automation such as carrier route bundles. *Id.* at 15-16.

The Postal Service appears to assert impressive increases in performance scores; much better than the overall result for FY 2012 of 68.7 percent on-time for all periodicals. *Id.* at 14. It notes increases from quarter 1 of 45.9 percent on-time up to 82.6 for the 4th quarter. *Id.* at 16. However, like Standard Mail, improvements from the 1st quarter to the 4th quarter were extremely large and are unlikely to be attributable only to seasonal conditions. The scores are gratifying. It appears new diagnostic tools and automation improved the scores. Hopefully they represent actual improvements in performance.

D. Package Services

Packages Services consists of 5 products. It either met or approached its FY 2012 service performance target of 90 percent for Single-Piece Parcel Post, Bound Printed Matter Parcels, Media Mail/Library Mail and Inbound Surface Parcel Post (at UPU rates) using Single-Piece Parcel Post with Delivery Confirmation as a proxy. *Id.* at 20. The performance score for Bound Printed Matter Flats of 54.3 percent fell substantially short of the 90 percent target. *Id.* at 19. As with the other classes, the Postal Service cites vastly improved 4th quarter service performance results of 67.2 percent, or 12.9 percent higher than percent reported for the entire year. *Id.* at 20. Again, the 4th quarter jump in performance score is attributed to new diagnostics quickly identifying service performance issues that is expected to continue. *Id.* at 21.

Another apparent reason for the jump in performance is the fact that End-to-End Bound Printed Matter Flats were only measured in quarter 1. *Id.* at 19. The reason why measurement stopped is not explained. The Commission should inquire further about the omission of End-to-End Bound Printed Matter from the measurements after the 1st quarter of FY 2012. This omission may have created an unwarranted service performance result for this product.

The Public Representative hopes the Postal Service is correct about its improvements in operations although a certain amount of success must be attributable to the reduction of service standards during the year.

E. Special Services

Special Services have met their service standards except for Address List Services due to a delay in processing that the Postal Service asserts has been corrected with retraining. *Id.* at 23, 26.

F. Conclusion of Service Performance

Overall, service performance is improving substantially due to the increased use of diagnostic tools as well as adjustments in FY 2012 extending the on-time service standards. The Public Representative reiterates the hope the improvements are realistic and sustainable. If so, for many products, the Postal Service has gone a long way in FY 2012 toward reaching service performance goals that are respectable and desirable levels to meet mailer demands.

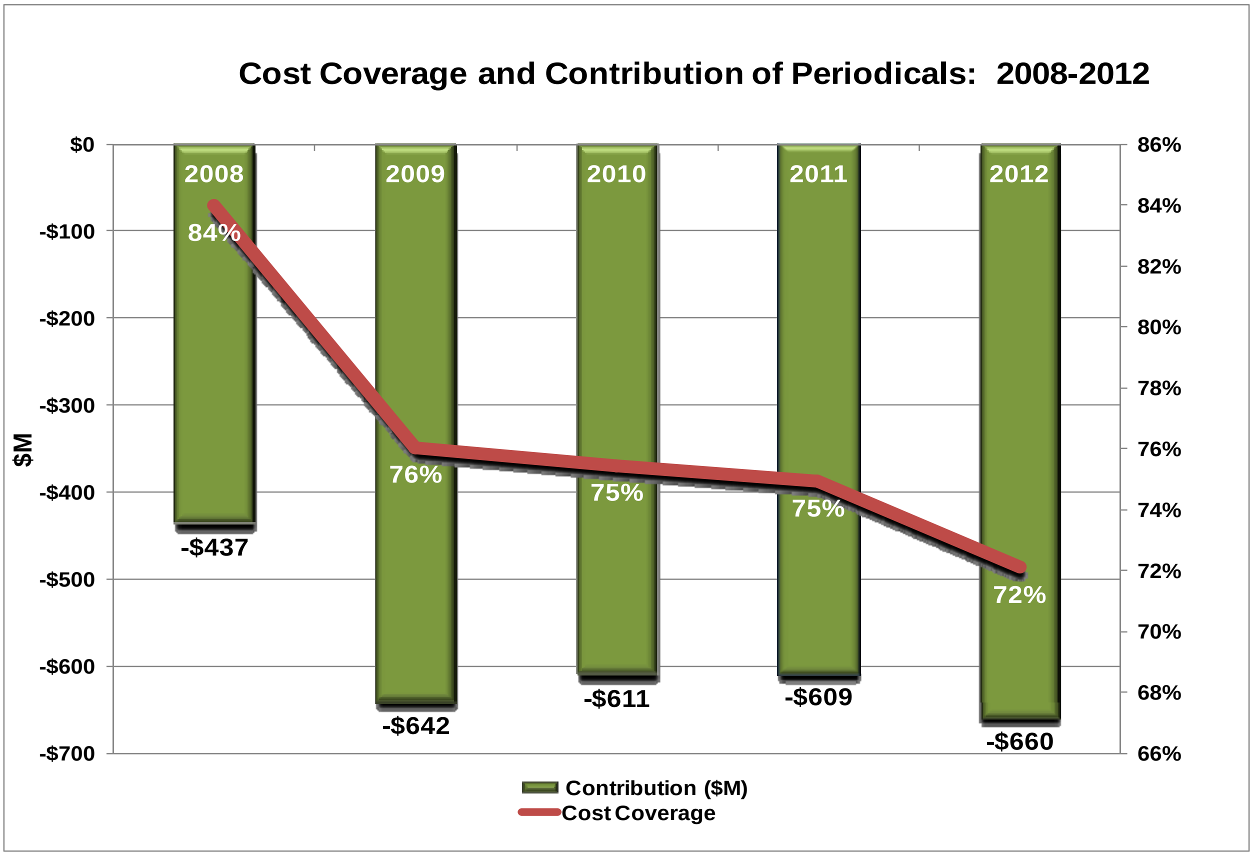
IV. MARKET DOMINANT PRODUCTS

A. Periodicals Cost Coverage

In recent years, Periodicals have consistently failed to recover their attributable costs, as shown in Chart 1, below. Once again, in FY 2012, Periodicals fell significantly short of recovering their attributable costs, falling short by $670 million, an additional $60 million short over last year and greater than any time in the five full fiscal years since implementation of the PAEA.[21] Over that five year span, the Periodicals class has failed to recover almost $3 billion ($2.959 billion) of its attributable costs, adding significantly to the Postal Service's financial difficulties.

[21] ACR2012 at 26.

Chart 1



Source: ACDs, 2008-2011; and ACR2012.

In FY 2012, Periodicals' cost coverage fell from 74.9 percent to 72.1 percent. These declines have occurred despite the Postal Service's claim that it has taken steps recommended in the *Periodicals Mail Study* to improve cost coverage. ACR at 26.

An information request by the Chairman asked about specific actions the Postal Service implemented to improve Periodicals' cost, how cost reductions were measured, and what was the impact of cost reductions upon service quality.[22] The Postal Service responded by listing eight practices it has undertaken that it believes will reduce costs of

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[22] Chairman's Information Request No. 1, question 1, January 4, 2013.

Standard Flats and Periodicals.[23] Only one action, Periodicals Processing Policy, was specific to Periodicals. The Postal Service's Periodicals Processing Policy is vague. It includes promoting actions such as:

- Improving origin and destination entry process;
- improving current service standards, container identification, and service visibility requirements;
- merging of mail classes to gain efficiency and reduce cost;
- improving dispatch and routing;
- consolidating facilities; and
- eliminating "Hot2C" practices (prioritized handling by list of publication titles).

Of these measures, only eliminating the Hot2C practices is a definitive action. The Postal Service's Response did not attempt to quantify Periodicals' or Standard Flats' cost savings, or the impact of cost saving efforts on service quality. *Id.* at 6.

It is commendable the Postal Service implemented so many cost savings measures, even if they were intended primarily for Standard Flats and only partially impact Periodicals to an unknown degree. But, to enable it to carry out its regulatory functions, the Commission should be informed by the Postal Service why the implementation of so many cost-saving measures resulted in an additional $60 million in negative contribution from Periodicals, the worst level since passage of the PAEA.

Therefore, the Public Representative respectfully requests the Commission to direct the Postal Service to further investigate and report why Periodical cost coverages continue to decline in spite of the implementation of cost saving and productivity improving efforts.

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[23] Responses of the United States Postal Service to Chairman's Information Request No. 1, Question 1, January 14, 2013.

B. Standard Mail Cost Coverage.

The Standard Mail class is the largest mail class by volume representing more than half (50.7 percent) of all Market Dominant mail volume and 27.2 percent of the total market dominant products contribution to institutional costs.[24] Standard Mail volumes declined in FY 2012 by 5.8 percent. In FY 2012 the cost coverage increased by 1.4 percent - from 147.6 to 149 percent.[25] The overall contribution of Standard Mail to institutional costs was $5.5 billion (compared to $15.5 billion for First-Class).[26]

Volumes for the majority of individual Standard Mail products also declined except for High-Density and Saturation Flats and Parcels and for Negotiated Service Agreement (NSA) mail, both Domestic and Inbound International. The Public Representative acknowledges the continuing increase in Standard Mail NSAs volumes and cost coverage which was very significant in FY 2012 (the product volume increased by almost 4.5 times). Standard Mail NSAs per piece cost coverage increased from 163.84 percent in FY 2011 to 189.74 percent in FY 2012 and per piece contribution to institutional cost increased by 15.2 percent. Effective June 6, 2011, the Postal Service revised Market Dominant NSAs for First-Class Mail and Standard Mail, and, as expected, such changes had a positive influence on product volumes and cost coverage. However, the share of Standard Mail NSA volumes compared to all Standard Mail is only 1.2 percent, and the observed positive tendency does not have any visible effect on overall Standard Mail class volumes and cost coverage.

The majority of Standard Mail products (except Standard Flats and Standard Not Flat-Machinables and Parcels) have over 100 percent cost coverage, ranging from 130.4 percent to 221.03 percent. Standard Flats and Standard Not Flat-Machinables

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[24] Calculated using data from USPS-FY12-1.

[25] USPS-FY12-1, USPS-FY11-1. In the two previous years it increased by 2.6 percent in FY 2011 and slightly declined by 0.2 percent in FY 2010.

[26] *Id.*

and Parcels provide negative contribution to the institutional costs which raises a concern about their compliance with Section 3622(c)(2) of title 39.

1. Standard Not Flat-Machinables and Parcels

In FY 2011, the Public Representative noted the favorable trend of increasing volumes, unit contribution and cost coverage of Standard Not Flat-Machinables and Parcels[27]. However, this year's statistics do not provide such a solid basis for optimistic conclusions, especially because on January 22, 2012, the former Not Flat-Machinables was moved from Standard Mail and added to the competitive product list as a "Parcel Select Lightweight," which is a part of Parcel Select mail.[28] In FY 2012, the volume of Standard Not Flat-Machinables and parcels declined by more than half (by 58.6 percent). Unit contribution fell by 15 percent and cost coverage slightly declined by 1.1 percentage points (from 85.4 percent to 84.3 percent).[29]

The Public Representative agrees with the Postal Service that this product now has a larger portion of Nonprofit Mail which would account for the decline in cost coverage. ACR2012 at.15. The Public Representative is heartened to learn the Postal Service will follow the directive of the Commission to continue attempting to increase coverage for Standard NFMs/Parcels. However, taking into account a significant change in product structure and volume decline, the Public Representative recommends that the Postal Service should carefully monitor cost coverage for that product in the near future and develop measures to foster an increase in the product cost coverage despite declining product volumes.

[27] ACR2011, PR Comments at 18.

[28] *See, i.e.*, *http://pe.usps.com/cpim/ftp/manuals/dmm300/453.pdf*

[29] Calculated using data from USPS-FY12-1 and ACD2011, at 112.

2. Standard Flats

In FY 2012, Standard Flats volumes declined by 12.4 percent, hastening the declining volumes observed in FY 2011 when product volumes decreased by 3.8 percent. However, Flats cost coverage has slightly increased from 79.26 to 80.73 percent. The increase of 1.4 percent in cost coverage breaks a steadily declining trend observed over three prior consecutive years from 94.4 percent in FY 2008 to just a little over 79 percent in FY 2011. The continuing negative contribution of Standard Flats to institutional costs shows a sign of improvement. Per piece contribution increased from a loss of 9.47 cents to a loss of 9.0 cents (an increase of approximately 5 percent), and the overall Standard Flats contribution to the institutional burden of the Postal Service decreased from $643 million to $532 million, or more than 17 percent. As the Postal Service argues, such an increase in cost coverage followed by the decrease in institutional loss is achieved "notwithstanding a 12.4 percent decline in volume in FY 2012." ACR2012 at 15.

The Public Representative acknowledges that the Postal Service continues to undertake multiple operational changes in order to reduce Standard Mail Flats costs, as directed by the FY 2010 ACD. ACD 2010 at.107. In the response to the Chairman's Information Request No. 1, the Postal Service provided the list of the improvements undertaken in FY 2012 in order to reduce costs, increase productivity and improve service.[30] Three costing methodology changes affected Standard Mail Flats costs in FY 2012; however, as the Postal Service reports, the effects of these changes were still minimal and provided only 0.09 cents (0.20 percent of 46.5 cents unit costs) for Standard Mail Flats.[31]

The Postal Service is very pessimistic in its projections in regard to the financial shortfall of Standard Mail Flats. As the Postal Service states, "given the product's low

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[30] 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 2a.

[31] *Id*. question 2b.

coverage and the limitations of the price cap system, the shortfall is unlikely to be eliminated by the end of 2016, when the Commission will commence a comprehensive review of the present regulatory system."[32] By 2016 the Postal Service still anticipates insufficient cost coverage. Based on recent projections on CPI-U from IHS Global Insight and assumptions about annual Standard Mail Flats, prices increase by 5 percent above CPI. The Postal Service calculates unit revenue and unit attributable cost for Standard Mail Flats equal to $0.408 and $0.465, respectively.[33]

In the 2011 Annual Compliance Determination (ACD), the Commission noted that the prices and fees for Standard Mail Flats remain out of compliance and directed the Postal Service to increase the cost coverage of the product "through a combination of the cost reductions and above-average price adjustments, consistent with the price cap requirements, until such time that revenues exceed attributable costs.[34] On October 11, 2012, the Postal Service filed the notice of price adjustments effective January 27, 2013 where it proposed to increase the prices for Standard Mail Flats up to the price cap (2.570 percent).[35] In Order No. 1541,[36] the Commission noted that the proposed price adjustments for Standard Mail Flats filed pursuant to 39 U.S.C 3622 and CFR part 3010, do not satisfy the prior directives of the FY 2010 ACD. In response to Order No. 1541, the Postal Service filed revised Standard Mail Flats prices that reflected an

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[32] *Id.* question 2c.

[33] Response of the United States Postal Service to Question 3 of Chairman's Information Request No. 4, January 28, 2013, question 3a.

[34] ACD2011 Report at 111.

[35] United States Postal Service Notice of Market-Dominant Price Adjustment (Adjustment Notice), October 11, 2012 at 19.

[36] Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, November 16, 2012, at 2 (Order No. 1541).

average price increase of 2.617 percent.[37] The Commission approved the revised rates in Order No.1573.[38]

The negative contribution continues to require other products to subsidize Standard Flats, and it is unlikely that cost improvements of the sort reported by the Postal Service's ACR this year will break the shortfall. The Commission should require the Postal Service to make a greater effort to reduce the costs of Standard Flats, and report the effect of these efforts in next year's ACR.

i. Postal Service models for Standard Flats

In its FY 2012 Annual Compliance Report, the Postal Service estimates Standard Mail Flats price increases of 5 percent above CPI for the years 2014-2016. The Postal Service continues to claim that continued above CPI-price increases for Standard Mail Flats would reduce the overall contribution and impair the Postal Service's ability to enhance its revenue in the long run due to the systemic declines in the volume of Standard Mail Flats and relatively stable volumes of other Standard Mail products.[39]

To support of these claims, the Postal Service filed a library reference with the report and 7 models produced by Christensen Associates.[40] These models compare Standard Mail contribution for different scenarios with various Standard Mail Flats price increase options. There are two types of models: 6 forward looking models and 1 backward looking model. Each forward looking, or prospective model, compares Standard Mail cumulative contribution to the institutional costs for two scenarios: one that assumes comparatively aggressive increases in prices for Standard Mail Flats in

[37] United States Postal Service Response to Order No. 1541, November 26, 2012 at 3.

[38] Order on Standard Mail Rate Adjustments and Related Mail Classification Changes (Order No. 1573).

[39] ACR2012 at 17-19; Notice of Market Dominant Price Adjustment; *see also*, Docket No. R2013-1, October 1, 2012 at 21-24.

[40] USPS-FY12-43.

upcoming years (Scenario 2) and the other that has more moderate price increases for Standard Flats (Scenario 1). The purpose of the models is to prove that in the long run, after 8 years, the cumulative contribution from the Standard Mail class, in general, is higher for the scenario with a moderate price increase for Flats (Scenario 1) than for the scenario with a more aggressive price increase for Flats (Scenario 2). In other words, in all prospective models, the models are claimed to demonstrate that a relatively moderate Flats' price increase scenario compares favorably (*i.e.,* provides higher cumulative contribution) compared to more aggressive price increase scenarios.

ii. Public Representative analysis of models

The Public Representative has analyzed the models from the point of view of the quality of the data used, applied assumptions, and performed calculations. The Public Representative also reviewed the results and the adequacy of the conclusions based on the models' results. The Public Representative acknowledges the simplicity and transparency of the models that allow the user to easily change the assumptions and perform sensitivity checks. As confirmed by the modelers, most of the assumptions, except the actual Docket No. R2013-1 Standard Mail Flats price increase, are hypothetical and could be modified. *Id.*

FY 2012 is the base period in all of the prospective models. As inputs, the models use data on volume, revenue and attributable cost for Standard Mail Flats and the rest of Standard Mail products, which is aggregated and labeled "All Other Standard Mail." [41] The Public Representative compared the data used as inputs for the model with the corresponding data filed in USPS-FY12-1, as well as the FY12 RPW summary report.[42] The Public Representative found a slight difference in all three types of data for "All Other Standard Mail" and in the attributable costs data for Standard Flats. The

[41] *Id*.

[42] USPS-FY12-1, FY 2012 Public Cost and Revenue Analysis (PCRA) Report; Revenue, Pieces and Weight Report for FY 2012, Quarters 1-3 Revised; and Quarter 4 - Market Dominant and Competitive Products Public Report, November 27 2002, FY2012_RPW_summaryreport_public.xls.

models exclude volumes from international inbound NSA Standard Mail. However, this small discrepancy would not change the modeling results.

Among 6 prospective models there are “V1” and “V2” type models that have “a”, “b” and “c” variations. The difference between “V1” and “V2” models of each variation is in an additional Flats price increase applied in Scenario 2 in comparison with Scenario 1. In “V1” models the Flats price premium reflects an additional 5 cents increase in the first two consecutive years (which is equal to a Flats price premium of 10.83 percent and 8.95 percent in the first and second year, respectively). In the “V2” models, the Flats price premium in Scenario 2 is 5.373 percent for the first three years.[43] The “a,” “b” and “c” variations differ in assumptions about either independent volume growth rates (“c” models vs. “a” and “b” models) or variability of attributable costs (“b” models vs. “a” and “c” models).

Review of the models shows that they are very sensitive to the change in independent growth rates for Flats and All Other Standard Mail. This is well illustrated by modelers in the “c” models where they changed assumptions about independent growth rates for Flats and All Other Standard Mail while keeping other assumptions like those in the corresponding “a” models. The Public Representative believes that growth rates assumed in “a” and “b” models better reflect current trends than growth rates applied in “c” models. The Public Representative also compared the assumptions applied in “V1” and “V2” models, and concludes that “V2” models apply more reasonable assumptions on Flats price premium for Scenario 2 than “V1” models.

For the reasons described above, the Public Representative selected “V2a” and “V2b” models for more detailed review. Based on review of these models, the Public Representative offers a few observations and conclusions for the Commission’s consideration.

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[43] USPS-FY12-43.

Under more realistic price elasticity assumptions, contribution impacts will be different and in favor of the more aggressive price increase scenario. All of the prospective models include own price elasticity of demand of -0.6 for Standard Flats and -0.4 for All Other Standard Mail (other aggregated Standard Mail products). The modelers confirm that these assumptions are hypothetical, and own price elasticities are not known for Standard Mail Flats separately.[44] In accordance with the recently filed FY 2012 Demand Analyses model, price elasticity of demand for all Standard Mail products is approximately -0.437.[45] In FY 2011 and FY 2010, the demand models' price elasticity for Standard Mail Flats was -0.335 and -0.286 respectively.[46] These data illustrate that over the observed years, the Standard Mail products have become more elastic, and it is reasonable to assume that this trend will likely to continue in the near future.

The prospective models produced by Christensen Associates assume that Flats are less elastic than All Other Standard Mail.[47] However, the Postal Service does not provide any documentation or calculations to support these assumptions. Without the additional proof, the Public Representative does not find this assumption justified. The Public Representative would strongly recommend the Postal Service provide the Commission with more solid evidence in support of the assumption that "All Other Standard Mail" is less elastic than Standard Flats.

As the Public Representative concludes, it is likely that both Flats and All Other Standard Mail would have the same or nearly the same price elasticities in each year during the 8-year period analyzed. Also, based on the observed elasticities for

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[44] USPS-FY12-43.

[45] Demand Analyses FY 2012 – Market Dominant. January 22, 2013.

[46] Demand Analyses and Volume Forecast Materials for Market Dominant Products. January 20, 2012; Market Dominant Products: USPS Demand Equation Estimation and Volume Forecasting Methodologies. January 20, 2011.

[47] USPS-FY12-43, Scenario Analysis for Standard Mail Contribution. Christensen Associates, December 27, 2012 at. 4.

Standard Mail from the FY 2010, FY2011 and FY2012 demand models, the Standard Mail products might become more elastic in the near future.

Based on the conclusions described above, the Public Representative has changed the models' assumptions regarding own-price elasticities for both Standard Mail Flats and All Other Standard Mail. Table 1 in Attachment 1 provides the comparison between cumulative contribution over 8 years in Scenario 1 and Scenario 2 for "V2a" and "V2b" models. It is easy to see that under the changed assumptions regarding own price elasticities, while maintaining all other assumptions over the 8-year period, the cumulative contribution in nominal prices in Scenario 2 is higher than in Scenario 1. (The difference is $28 or $19 million in models "V2a" and "V2b," respectively). Also, Scenario 2 shows that full cost coverage is achievable in year 7 with the "V2a" model, or almost achievable at 95 percent with the "V2b" model at the end of the 8-year time frame.

Assuming Standard Mail Flats volumes decline, above-cap price increases for Flats should be considered for a longer time period than under the assumption of no volume change. Christensen Associates[48] notes Scenario 2 of the "V2" models attempts to explore the suggestion of the Public Representative offered in Response to the Postal Service's price adjustment Notice of October 11, 2012.[49] In accordance with the Public Representative's proposal, in order to achieve full cost coverage for Standard Flats in a 3-year-period, the price increase should include an additional 5.373 percent above CPI during this time. Scenario 2 of the "V2" models assumes the suggested additional price increase for Standard Flats for the first three years, and thereafter, the price increase follows the CPI level. The Public Representative appreciates the attention of the Postal Service to the proposal, but

[48] USPS-FY-43. Scenario Analysis for Standard Mail Contribution. Christensen Associates, December 27, 2012, at 3.

[49] Public Representative Comments in Response to United States Postal Service Notice of Market Dominant Price Adjustments, November 1, 2012, at 17.

needs to clarify that the Public Representative's proposed price increases did not assume any volume decline.[50]

Models developed by Christensen Associates incorporate current declining volume trends for Standard Flats as well as price elasticities and cost variability, which illustrate the significant advantage of the models in comparison with those previously filed by the Postal Service in Docket No. R2013-1.[51] However, under the assumption of decreasing volumes for Flats, which is likely to continue, the suggested price increase for Flats would be slightly different than suggested by the Public Representative under stable Flats volume.

While all prospective models developed by Christensen Associates assume extensive price increases just for a few years, the Public Representative still proposes an above-average limited price-cap increase, but for a longer period time. Table 2 in Attachment 1 provides an illustration: here the Standard Flats price premium is 3.619 percent for the first 5 years in model "V2a" and 2.268 percent for 7 years in model "V2b." Scenario 2 appears to be better in both models: it allows Standard Flats to gain $15 or $31 million more in cumulative contribution after Year 8 (see results for models "V2a" and "V2b," respectively). This is achieved while other assumptions (including own price elasticities originally assumed in USPS-FY-43 models) are kept unchanged. This update of Flats price premium was done in accordance with the alternative suggestions expressed by the Public Representative in the Response.[52]

The findings described above are consistent with the Public Representative's claims regarding the insufficient speed of cost coverage increases,[53] and lead to the

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[50] *Id.*

[51] Docket No. R2013-1, Reply Comments of the Unites States Postal Service, November 9 2012, USPS-LR-R2013-1(7) Alt1.xls, USPS-LR-R2013-1(7) Alt2.xls and USPS-LR-R2013-1(7) Alt3.xls.

[52] Docket No. R2013-1, Public Representative Comments in Response to United States Postal Service Notice of Market Dominant Price Adjustments, November 1, 2012 at 17.

[53] *Id.* at 16.

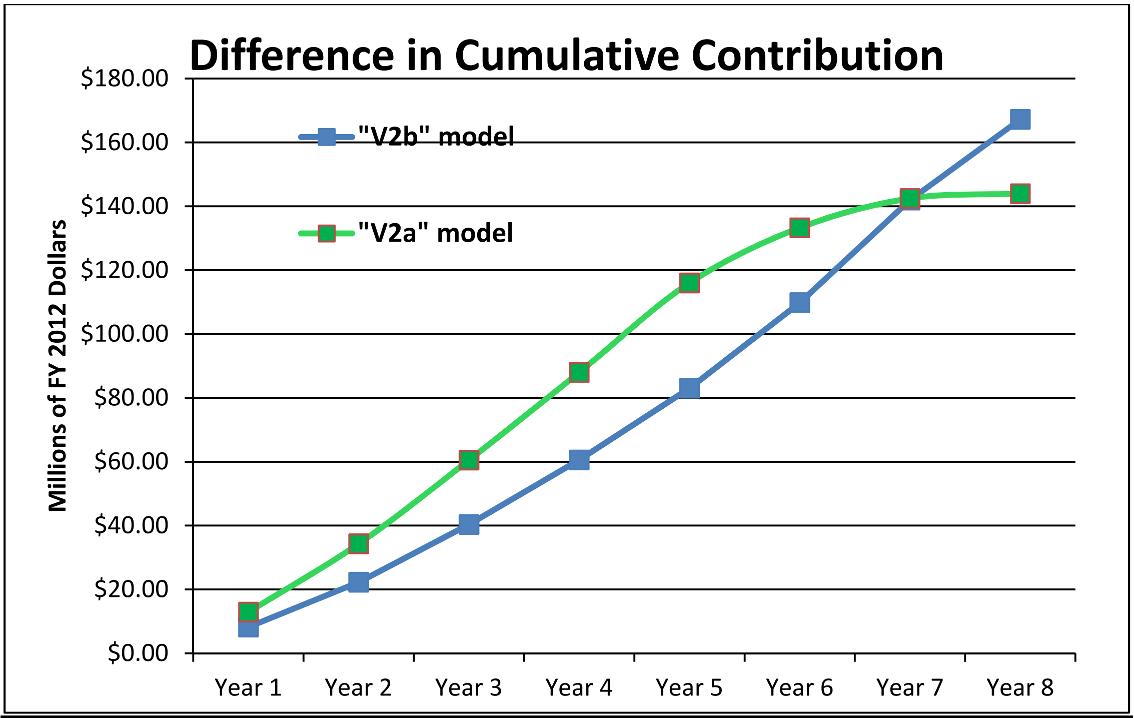
previously expressed suggestion that "the Commission must take the next step to move toward the 100 percent coverage within a reasonable time period,"[54] and bring the rates for Standard Mail Flats in compliance with title 39.

Real cumulative contribution vs. nominal cumulative contribution will provide more accurate results. In all of the prospective models, the Public Representatives has noticed certain methodological inaccuracies. The cumulative contribution presented in the models is the sum of the annual contributions calculated in each year of the 8-year period in nominal prices. In order to illustrate real contribution over 8-year time period, it would be more accurate to calculate each year's contribution in real prices (*i.e*. base year prices) and not in nominal prices. Also, after reviewing the calculations of cumulative contribution, it is not fully clear how the prices are recalculated. Annual revenue for Flats and All Other Standard Mail is recalculated each year in nominal prices (assuming inflation of 2.57 percent). The calculation of annual attributable costs does not include any inflation in the first year, while for the second and subsequent years a 2 percent growth rate is applied. The Public Representative presumes that this growth rate applies instead of inflation and accounts for both inflation of 2.57 percent and cost reduction (due to the increased efficiency, *i.e*., technology improvement) of -0.57 percent. The Public Representative has reworked the models and recalculated cumulative contribution in real, FY 2012 base-year prices, maintaining the other assumptions except modifying elasticities and Standard Flats price premiums as described above. The results are presented in Table 3 in Attachment 1 and in Chart 2 below. It is easy to see that cumulative contribution in constant prices calculated over an 8-year period is higher in Scenario 2 than in Scenario 1, and this difference is increasing.

[54] *Id.* at 14.

Chart 2

Difference in Real Cumulative Contribution between Scenario 2 and Scenario 1 under Changed Assumptions on Own Price Elasticity and Scenario 2 Standard Flats Price Premium (in FY 2012 dollars)



The Public Representative also reviewed the prospective model and found that the conclusions could be different under different elasticity assumptions. Also, the results of the prospective model are not expositive, since it focuses on the trade-off between Flats and Letters and ignores 35 percent of other Standard Mail in terms of volume. It does not appear to the Public Representative that the Postal Service will be able to bring Standard Flats into compliance in a reasonable period of time by continuing with the minimal annual above-average price increases. The Public Representative suggests that above-cap price increases or 2-3 percent for Standard Mail Flats would speed the movement toward 100 percent cost coverage and prevent further subsidization of Standard Flats by other Standard Mail products.

C. Worksharing

1. The Commission Should not Accept Unsettled Costs as a Reason to Permit Any Discount Above Avoided Cost

Section 3622(e)(2) of the PAEA requires the Commission to ensure that the Postal Service does not provide worksharing discounts that exceed the costs avoided by the Postal Service,[55] unless the discount at issue creates a problem(s) for the Postal Service or its customers. The Postal Service often cites one or more of these potential problems to justify a discount that exceeds avoided costs, arguing that immediately changing the discount would:

1. interfere with an incentive that would increase its operational efficiency and will eventually be phased out (39 U.S.C. 3622(e)(2)(A));
2. cause rate shock and the excess discount will be phased out over time (39 U.S.C. 3622(e)(2)(B));
3. be counter to the greater dissemination of mail with educational, cultural, scientific, or informational (ECSI) value (39 U.S.C. 3622(e)(2)(C)); or
4. impede the efficient operation of the Postal Service (39 U.S.C. 3622(e)(2)(D)).

In every ACR, the Postal Service has reported twenty or more, non-ECSI, passthroughs greater than 100 percent.[56] This year, it reports twenty-one such passthroughs.[57] The Postal Service relies upon justifications 1, 2, and 4, above, when passthroughs for non-ECSI mail are above 100 percent. In addition, it holds the general position that “section 3622(e) applies over the long term, as a principle guiding pricing over a series of price adjustments.”[58] The Commission has generally accepted the

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[55] This condition is often referred to as “passthroughs” greater than 100 percent.

[56] This discussion is limited to First Class, Standard, and Bound Printed Matter mail.

[57] *See* USPS-FY12-3, Worksharing Discount Table_Final.xls. There are also several measures of negative avoided costs.

[58] ACR2012 at 7.

justifications cited, and has accepted most passthroughs over 100 percent, with the "ECSI" exception, which is not relevant here. The Commission generally rejects passthroughs over 100 percent when the Postal Service cites section 3622(e)(2)(D) (impede efficient operation), but does not identify the specific operations that would be impeded if it were to reduce discounts.[59]

Now the Postal Service introduces a new argument that it should not be required to identify specific operations that would be affected if discounts were immediately reduced. It argues that passthroughs above 100 percent are often due to large, annual, swings in measured avoided costs. It argues that "it would be inefficient … to make significant changes to the discount while the measured costs are so unsettled."[60] A corollary argument is that the Postal Service should not be required to make an immediate change in the discount if avoided costs are beyond its control. Yet, it takes credit for reducing excessive passthroughs when avoided costs are reduced, and blames passthroughs that move further above 100 percent on an unexpected increase in avoided costs.[61]

2. Some Passthroughs Consistently Above 100 Percent Are Highly Correlated With Unsettled Measures Of Avoided Cost and the Postal Service Should Forecast Avoided Costs of Rate Elements Both With Modest CVs and Highly Correlated With Passthrough CVs.

The Public Representative has identified 27, non-ECSI, rate elements that have had passthroughs greater than 100 percent in 3 of the last 5 ACDs.[62] These rate

[59] *See, e.g.*, ACD FY2011 at 101.

[60] ACR FY2010 at 11.

[61] *Id.* at 10, 11, 12, 13, 20, 21, 22, 23, 24, and 30.

[62] Negative passthroughs were not included, nor were Periodicals, Media Mail or Library Mail. ACD FY2007 was not included since the Postal Service was regulated by the PAEA for only a small part of the fiscal year. The Public Representative used the passthroughs in the Commission's ACD Reports from 2008-2011. It obtained passthroughs for FY2012 from USPS-FY12--3, FY12.3.Worksharing Discount Table_Final.xls.

elements appear to comprise those that may never be consistently near a passthrough of 100 percent, unless the Postal Service undertakes a study to forecast avoided cost by rate element. Table 3, below, contains the avoided costs for the 27 rate elements with passthroughs over 100 percent for 3 of the last 5 ACRs.[63]

[63] This table is the basis for the charts shown in Attachment 2.

Table 3

Avoided Costs of the 27 Problematic Rate Elements

	Avoided Costs				
Rate Element	**2008**	**2009**	**2010**	**2011**	**2012**
FC Automation Mixed AADC Letters	4.5	4.6	4.6	3.4	4.5
FC Automation AADC Letters	2.2	2	2.1	2.4	2.6
FC Automation 3-digit Letters	0.3	0.3	0.2	0.4	0.6
FC QBRM Letters	2.3	2.5	1.4	0.8	1.7
FC Automation 3-digit Cards	0.2	0.1	0.1	0.2	0.3
FCAutomation 5-digit Cards	1.3	1.2	1.4	1.2	1.2
FC QBRM Cards	2.3	2.5	1.4	0.8	1.7
FC Automation ADC Flats BC	2.8	3.1	2.5	2.3	4.5
FC Automation 3-digit Flats	6.1	6.4	5.6	4.6	5.4
Std Nonautomation ADC Nonmachinable Letters	8.6	11.2	11.1	7.9	8
Std Nonautomation 3-digit Nonmachinable Letters	4.3	2.6	1.7	2.5	2.7
Std Nonautomation 5-digit Nonmachinable Letters	11.7	11.5	10.5	7.6	7.7
Std Automation Mixed ADC Flats BC	2.8	3.1	2.5	2.3	4.5
Std Automation 3-digit Flats	6.8	6.3	5.6	4.6	5.9
Std Nonautomation 5-digit Flats	9.7	8.5	8.2	7.8	5.8
Std BMC Machinable Parcels	19.6	21.8	40.2	36.2	30.8
Std 5-digit Machinable Parcels	37.5	41.3	69.8	59	45.4
Std BMC/NDC NFMs (Irregular Parcels)	96.5	98.4	23.7	23	3.08
Std ADC (NDC) Irregular Parcels	96.5	98.4	14.4	13	15.2
Std 3d Irregular Barcoded NFMs (Irregular Parcels)	96.5	98.4	27.7	36.7	34.6
Std Mixed BMC Machinable Barcoded Parcels	3.9	3.8	3.8	4.1	3.9
Std Mixed NDC/ADC Barcoded NFMs	3.9	3.8	3.8	4.1	3.9
Std NDC Irregular Barcoded Parcels	3.9	3.8	3.8	4.1	3.9
Std BPM Carrier Route Single Piece Flats	19.3	21.7	17.4	15.3	15.1
Std Basic, Carrier Route DBMC/DNDC Parcels / IPPs Drop	19.3	21.7	17.4	17	14.1
Basic, Carrier Route DSCF Parcels / IPPs Drop Ship	61.7	63	63.6	65.5	64.8
BPM Basic, Carrier Route DDU Parcels / IPPs Drop Ship	79.5	76.1	76.2	78.9	79.1

Sources: ACDs, FY2008-FY2011, and USPS-FY12-3- FY12.3.Worksharing Discount Table_Final.xls. Missing cells were estimated as the average of the known cell values for an element.

The Public Representative investigated the volatility of costs for these 27 hard to reduce passthroughs, whether or not the Postal Service had cited unsettled or volatile costs to justify a passthrough greater than 100 percent. It calculated the coefficients of variation for the avoided costs and passthroughs for the 27 passthroughs that were above 100 percent in 3 out of the last 5 ACDs. The correlation between them is only 24 percent, indicating a weak relation between the unit free measures of the volatility of each rate element's avoided costs with the volatility of its passthroughs over time. Table 4, below, compares the CVs of Passthroughs and Avoided Costs for the years between 2008 and 2012.

Table 4

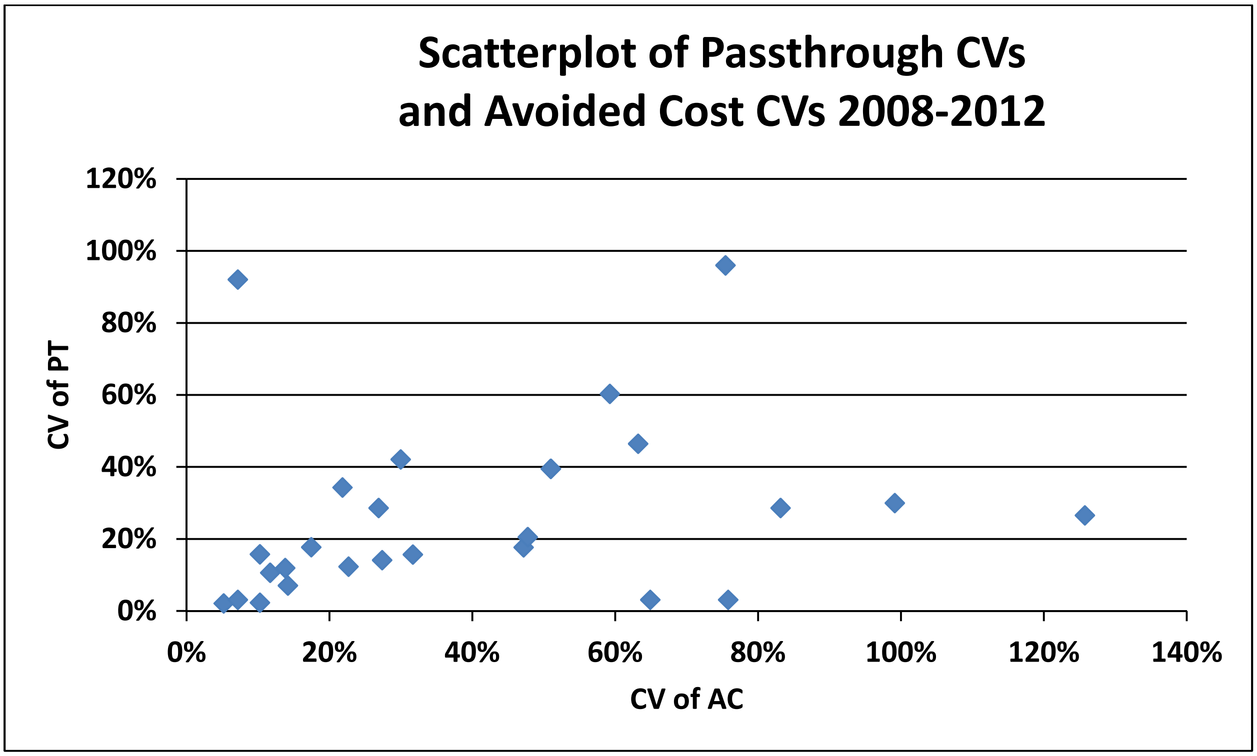
Comparison of the CV of Passthroughs and Avoided Costs Between 2008 and 2012

Rate Element	Passthro	Avoided Cost CV
FC Automation Mixed AADC Letters	13.8%	12%
FC Automation AADC Letters	11.7%	11%
FC Automation 3-digit Letters	30.0%	42%
FC QBRM Letters	51.0%	40%
FC Automation 3-digit Cards	63.2%	46%
FC Automation 5-digit Cards	14.2%	7%
FC QBRM Cards	51.0%	40%
Std Automation ADC Flats BC	26.9%	29%
Std Automation 3-digit Flats	22.7%	12%
Std Nonautomation ADC Nonmachinable Letters	47.2%	18%
Std Nonautomation 3-digit Nonmachinable Letters	21.8%	34%
Std Nonautomation 5-digit Nonmachinable Letters	47.8%	21%
Std Automation Mixed ADC Flats BC	83.1%	29%
Std Automation 3-digit Flats	27.4%	14%
Std Nonautomation 5-digit Flats	17.4%	18%
Std BMC Machinable Parcels	99.1%	30%
Std 5-digit Machinable Parcels	125.7%	27%
Std BMC/NDC NFMs (Irregular Parcels)	7.2%	92%
Std ADC (NDC) Irregular Parcels	75.4%	96%
Std 3d Irregular Barcoded NFMs (Irregular	59.2%	60%
Std Mixed BMC Machinable Barcoded Parcels	7.2%	3.1%
Std Mixed NDC/ADC Barcoded NFMs	75.8%	3.1%
Std NDC Irregular Barcoded Parcels	64.9%	3.1%
BPM Carrier Route Single Piece Flats	31.7%	16%
BPM Basic, Carrier Route DBMC/DNDC Parcels /	10.3%	16%
BPM Basic, Carrier Route DSCF Parcels / IPPs	10.3%	2%
BPM Basic, Carrier Route DDU Parcels / IPPs Drop	5.2%	2%
Correlation	**23.8%**	

Chart 3, below, shows the relation of Avoided Cost and Passthrough CVs for the 27 problematic rate elements. It ought to be more likely the Postal Service could calculate relatively accurate avoided costs for rate elements that exhibit a close correlation between their CVs and Passthroughs.

Chart 3

Avoided Cost CVs Plotted Against Passthrough CVs



There are 10 rate elements with Avoided Cost CVs approximately 40% or less which are highly correlated with their respective Passthrough CVs.[64] They are:

1. BPM Basic, Carrier Route DDU Parcels / IPPs Drop Ship
2. BPM Basic, Carrier Route DSCF Parcels / IPPs Drop Ship
3. Std Mixed BMC Machinable Barcoded Parcels

[64] There are many more rate elements than are used in this analysis. They were not included because they had not been above 100 percent for 3 of the last 5 ACRs, or because the passthroughs could be justified in reference to promoting educational, cultural scientific, or informational content.

4. FC Automation 5-digit Cards
5. FC Automation AADC Letters
6. FC Automation Mixed AADC Letters
7. BPM Basic, Carrier Route DBMC/DNDC Parcels / IPPs Drop Ship
8. Std Nonautomation 5-digit Flats
9. Std Automation ADC Flats BC
10. Std Nonautomation 3-digit Nonmachinable Letters

Chart 4 presents this relationship between Passthroughs and Avoided Cost CVs which are highly correlated. Because changes in avoided costs are the primary driver of changes in passthroughs, the Postal Service should be able to make relatively accurate forecasts of avoided costs when setting prices for these rate elements. By adjusting rates consistent with the forecast of avoided costs, this should allow the Postal Service to move 10 of the 27 problematic passthroughs much closer to 100 percent.

Chart 4

Coefficients of Variation for Passthroughs and Avoided Costs With A Correlation of 80%

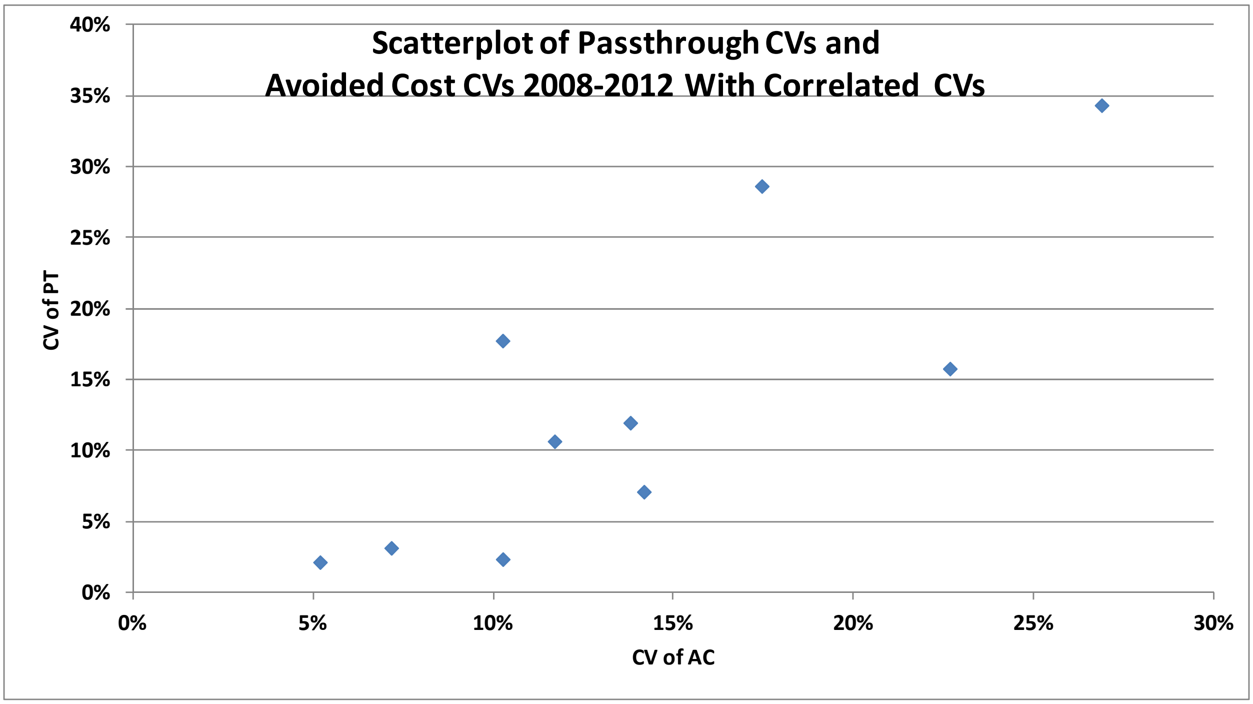


Chart 5 and Chart 6 below provide an example of the trend in avoided costs for 3 of these rate elements whose avoided cost and passthrough CVs are highly correlated.

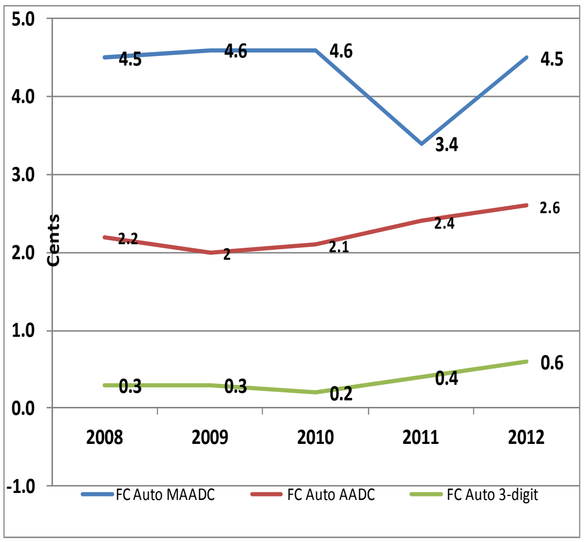
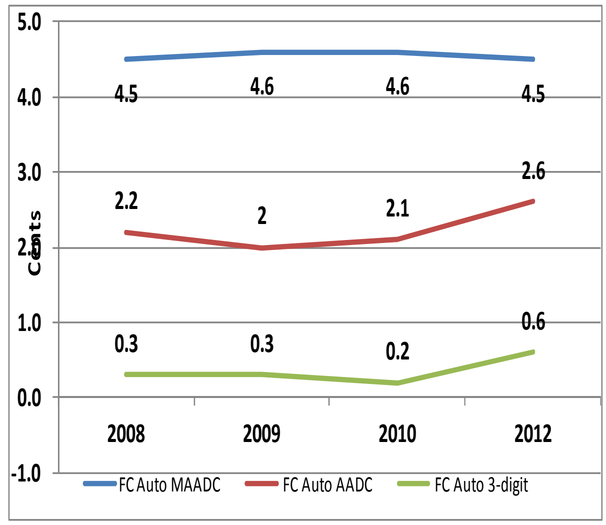
Chart 5 First Class Auto Letters Avoided Costs 2008-2012	Chart 6 First Class Auto Letters Avoided Costs 2008-2010,2012
	

Chart 5 shows that it should be possible to readily forecast the avoided cost of Automation 3-digit Letters and Automation AADC Letters. Chart 6 shows that simply removing the outlier year of 2011, or taking a moving average, it should be possible to accurately forecast avoided costs of Automation Mixed AADC Letters as well.

The Public Representative recommends the Commission request the Postal Service to forcast avoided costs when setting prices and passthroughs in order to move the approximately one-third of the rate elements which have consistently been above 100 percent much closer to 100 percent.

3. Conclusion of Worksharing

There have been over 20 non-ECSI passthroughs above 100 percent in each of the ACRs between 2008 and 2012. The Postal Service has claimed volatile avoided costs as a reason it is not able as well as unnecessary, to identify the specific operations that would be impeded when it cites 39 U.S.C. 3622(e)(2)(D)). The Public

Representative has investigated the volatility of avoided costs for the rate elements that regularly have discounts greater than avoided costs. The Public Representative agrees that volatile avoided costs have made it significantly more difficult for the Postal Service to develop prices that yield passthroughs close to 100 percent. However, the investigation demonstrated it should be relatively easy to forecast avoided costs for 10 rate elements, and it may be possible to model avoided costs for the 17 other rate elements that stubbornly remain above 100 percent. The Commission should request the Postal Service to forecast avoided costs for next year's rate case of general applicability for the 10 rate elements the Public Representative has identified in its Comments, so that it may make greater progress in setting discounts equal to avoided costs.

D. Special Services

Credit Card Authentication. The Public Representative reviewed the cost coverage of the Special Services, Ancillary Service, Change of Address Credit Card Authentication.[65] The public filing appears to indicate the cost coverage for that service may be unreasonably high for a market dominant product. Based on the two lines of basic public data provided by the Postal Service for that service, the revenues of $13,543,594 and expenses of $1,386,993[66] suggest the cost coverage for the service might be as high as 976 percent.[67] The public file indicates the expenses include credit card fees, payment switch fees, and call center support. However, the public file indicates a third party agreement reduces the revenue below the amount shown on the public data so that the cost coverage does not equate to Revenue divided by Expenses.

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[65] The title of this Special Service has been revised to Credit Card Authentication. Docket No. R2013-1, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, Order No. 1541, November 16, 2012.

[66] Expenses include credit card fees, payment switch fees, and call center support. USPS FY12-28 FY 2012 Special Cost Studies Workpapers – Special Services (Public Portion) at 2.

[67] $13,543,594/$1,386,993. *Id*. at COACreditCardPub2012.xls.

Non-public data for this service includes the reductions in revenue due to the third party agreement.[68] Taking the indicated nonpublic revenue reductions data at face value, the downward adjustments to revenue result in a cost coverage that the Public Representative believes to be reasonable and not out of line for a market dominant product.

V. COMPETITIVE PRODUCTS

A. Introduction

As required by 39 U.S.C. 3633(a), the Commission's regulations include three tests to ensure competitive products are not subsidized by market dominant products. 39 C.F.R. 3015.7. The regulations serve to:

- Prohibit subsidization of competitive by market dominant products—Section 3633(a)(1);
- Ensure that each competitive product covers its attributable costs—Section 3633(a)(2); and
- Ensure that, collectively, competitive products cover an appropriate share of the Postal Service's institutional costs—Section 3633(a)(3).

These requirements have led the Commission to adopt three tests: the cross subsidy test; the product cost coverage test; and the appropriate contribution test, respectively. The Public Representative finds that these tests, as defined by the Commission, have been met for competitive products in FY 2012.

B. Cross-Subsidy Test

In Order No. 399, the Commission approved the Postal Service's hybrid incremental cost methodology. Under this methodology, the Postal Service aggregates incremental costs for domestic competitive mail, attributable costs for international

[68] USPS-FY12-NP26.

competitive products using its hybrid cost methodology, and competitive group-specific costs.[69] This measure of incremental costs must be less than the revenues earned from competitive products.

The Public Representative has examined the relevant workpapers for the three elements comprising incremental competitive costs, and finds them to be accurate and unproblematic. The Postal Service calculates that the total incremental cost of competitive products was approximately $8.5 billion in FY 2012, and revenues from competitive products were approximately $11.4 billion. The nearly $3 billion by which competitive revenues exceeded competitive incremental costs convinces the Public Representative that even if the Commission finds minor errors or has minor differences with the specific calculations made by the Postal Service, it is very unlikely the impact will be large enough to cause the Postal Service to fail the cross subsidy test.

C. Product Cost Coverage Test

The product cost coverage test requires the revenues for each of the Postal Service's competitive product to cover its attributable costs. Nearly all competitive products earn revenues equal to or greater than their attributable costs. The exception is Inbound Air Parcel Post (at non-UPU rates). This product has traditionally failed the product cost coverage test, primarily because the Postal Service is bound by international agreements it entered into prior to the PAEA which remain in effect. The Commission has never found the Postal Service has failed the product cost coverage test for this single product. The Public Representative concurs.

[69] Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two through Twenty-Five), January 27, 2010, Proposal Twenty-Two (Order No. 399). Order No. 399 established that instead of incremental costs, international competitive mail would use attributable costs calculated according to the Postal Service's hybrid cost methodology.

D. Appropriate Contribution Test

The appropriate contribution test requires competitive products to collectively contribute to the recovery of at least 5.5 percent of total institutional costs -- the share the Commission has determined to be an appropriate contribution by the Postal Service's competitive products.[70] The Postal Service presents calculations that show institutional costs equaling nearly $41 billion in FY 2012, 5.5 percent of which would be approximately equal to $2.2 billion. The Postal Service reports that it earned net revenues from competitive products slightly higher than $3.0 billion -- $0.8 billion above the 5.5 percent contribution required by the Commission, thereby satisfying the appropriate contribution test. ACR2012 at 43.

The Public Representative concludes that the Postal Service was in compliance with Section 3633(a) of the PAEA in FY 2012.

VI. CUSTOMER ACCESS

A. Introduction

The Postal Service is required to provide data on customer access in its Annual Compliance Reviews, according to Section 39 C.F.R. 3055.91. It has provided very general and highly aggregated data pertaining to customer access. The Postal Service should provide more disaggregated and informative data about post office closings and suspensions, village post offices, and wait-time-in-line in future Annual Compliance Reports.

B. Post Office Retail Facilities

The Postal Service has provided some data on several aspects of customer access in USPS-FY12-33, but the data does not have sufficient level of detail to

[70] The Commission determined that 5.5 percent is an appropriate contribution when it implemented 39 C.F.R. § 3015.7(c). The Commission has recently re-affirmed this share is appropriate. *See*, Docket No. RM2012-3, Order No. 1449, August 23, 2012.

properly evaluate customer access, including those customers that might suffer disproportionately from reductions in each type of access.[71]

1. Closed and Suspended Retail Facilities

The Postal Service provides information on the number of Post Offices closed during the year and the number remaining open by the end of the year, as well as the number of suspensions. It closed 180 post offices and 57 stations and branches in FY 2012. At the end of FY 2012, there were 26,700 post offices, 4,905 stations and branches, and 647 carrier annexes. Also, at the end of FY 2012, there were 100 suspensions of post offices in effect and 24 suspensions of stations and branches. ACR2012 at 37 The Postal Service data on Post Office closings and suspensions is aggregated to the regional level, and are only useful to evaluate the average impact of closings or suspensions on residential and business customers.[72]

2. Expiring Leases For Leased Retail Facilities

The Postal Service should file a Leased Facilities Report as part of its Annual Compliance Report. It should list all Post Office Stations and Branches operating at the beginning and end of the Fiscal Year, by location, type of office, hours of operation, whether it was a POStPlan Office in Docket No. N2012-2, whether the lease expired, and reasons therefore.

The Postal Service collects this data in its "Leased Facilities Report," and makes it available on its website.[73] This Report includes data on leased facilities, by location, type of facility, type of lease and/or ownership, origin and closing date of the lease. It

[71] The data provided by the Postal Service are generally an average of different types of customer access by geographic area. The Postal Service provides inadequate explanation of the wait-time-in-line data, so it is not possible to determine whether it is based on accepted statistically correct methodology.

[72] USPS-FY12-33, PostOfficesFY2012.xls. The number of beginning and end-of-year Post Offices is provided.

[73] *http://about.usps.com/who-we-are/foia/leased-facilities/report.htm*.

periodically removes one version, and provides updated information with the next version. Unfortunately a previous report and the updated report do not consistently contain the same fields. This, in turn, prevents period-to-period analysis. For example, the data contained in the November 19, 2012 Leased Facilities Report includes the field "New Level," indicating the number of hours the Post Office is currently open as a result of a POStPlan implementation. Subsequent Leased Facilities Reports eliminate this field.

A list of post offices slated for a POStPlan review, and the number of hours (or Level of Post Office) implemented as a result of the review, would allow tracking the progress of POStPlan, and tracking the change in hours of operation due to the current status of POStPlan implementation.

A recent internet blog discussing Post Offices suspended due to lease terminations supports the need to include two additional data fields in the Leased Facilities Report.[74] It identifies several post offices that were to receive a POStPlan review, but were suspended on grounds the Postal Service is unable to renew the lease.[75] The Postal Service has said that a Post Office receiving a POStPlan review could be closed because of lease negotiations, but it assured the Commission it did not plan on using lease negotiations as a pretext to close Post Offices.[76] The blog post raises the concern whether the Postal Service developed such a plan after its remarks in Docket No. N2012-2.

The Commission should monitor the reasons Post Offices have been closed during the Fiscal Year. The Public Representative recommends adding a field to the Leased Facilities Report which would indicate whether a Post Office was suspended or

[74] *See* "Constructively closed: The emergency suspensions continue," January 8, 2013, *http://www.savethepostoffice.com/constructively-closed-emergency-suspensions-continue*.

[75] The primary purpose of POStPlan was to reduce hours to match reduced demand without closing or suspending a Post Office.

[76] Docket No. N2012-2, Advisory Opinion On Post Office Structure Plan at 49.

closed during the year. The Postal Service should also add another field indicating the reason the Post Office was suspended or closed.

3. Village Post Offices

The Postal Service reports that 55 Village Post Offices (VPOs) were opened in FY 2012, "[t]o help mitigate the effect of closures of post offices and stations and branches." ACR2012 at 37. The 55 new village post offices are listed in Table 5.

Table 5

List of Village Post Offices In FY 2012

Name	City	ST	ZIP	Open date
Red's Hop N	Malone	W	98559-9897	August 12,
Nixons Grocery -	Brant	MI	48614-2502	October
Twining Market	Twining	MI	48766-9664	October
Black River Party	Onaway	MI	49765-8516	October
Star Market -	Star Tannery	VA	22654-2213	October
Glenn Hardware	South Haven	MI	49090-9528	November
Quail Valley VPO	Menifee	CA	92587-9015	November
Sherry's	Doe Run	M	63637-3219	November
Macdonough's	Keene Valley	NY	12943-9998	December
Steptoe VPO	Steptoe	W	99174-3017	March 2,
DJ's General	Bigelow	AR	72034-9998	April 2,
Sherwood Party	Sherwood	MI	49089-9998	April 3,
George Gielczyk	Filer City	MI	49634-0074	April 4,
Lake City VPO	Lake City	PA	16423-1812	April 16,
Shauck VPO	Shauck	OH	43349-0211	April 20,
The Barn Feed &	Lester	AL	35647-3425	April 25,
McWilliam	McWilliam	AL	36753-0088	May 3,
Mariah Hill VPO	Mariah Hill	IN	47556-0200	May 4,
Long Lake VPO	Long Lake	MI	48743-0013	May 15,
South Branch	South Branch	MI	48761-9637	May 15,
Buckman VPO	Buckman	M	56317-9998	May 24,
Sacul VPO	Sacul	TX	75788-0102	May 24,
Leopold VPO	Leopold	IN	47551-9999	June 22,
Tomahawk VPO	Tomahawk	KY	41262-8841	June 26,
Bellville VPO	Bellville	GA	30414-0082	June 27,
Fairgrove VPO	Fairgrove	MI	48733-0259	June 30,
Kendleton VPO	Kendleton	TX	77451-9998	July 6,
Cornell VPO	Cornell	MI	49818-9541	July 13,
Connie S.	Elk River	ID	83827-0185	July 19,
Sedalia/Lynnville	Sedalia	KY	42079-9644	July 19,
Grant VPO	Grant	CO	80448-9998	July 20,
Arlington VPO	Arlington	IN	46104-0215	July 20,

Clarksburg VPO	Clarksburg	IN	47225-9998	July 23,
Wingate VPO	Wingate	IN	47994-9998	July 28,
Moline VPO	Moline	MI	49335-0260	August 1,
Fairview VPO	Pembroke	KY	42266-9998	August 6,
Cromwell VPO	Cromwell	KY	42333-9998	August 7,
Kirksey VPO	Murray	KY	42071-7619	August 8,
Lummi Nation	Ferndale	W	98248-9998	August 10,
William E.	Argyle	MI	48410-7703	August 13,
Norton	Prospect	KY	40059-7545	August 15,
San Diego VPO	San Diego	CA	92102-1134	August 28,
New Richmond	New	IN	47967-9998	August 28,
Tensed VPO	Tensed	ID	83870-4902	August 30,
Saratogo VPO	Saratoga	IN	47382-9998	August 30,
Scotland VPO	Scotland	GA	31083-0197	August 31,
Preston VPO	Preston	KY	40360-8506	August 31,
Copalis Crossing	Copalis	W	98536-9998	August 31,
Dragon's Den -	Oldham	SD	57051-0243	Septembe
Rosston VPO	Rosston	TX	76263-9998	Septembe
Delong VPO	Delong	IN	46922-0667	Septembe
Tippecanoe VPO	Tippecanoe	IN	46570-9998	Septembe
Hartford VPO	West	VT	05048-9998	Septembe
Burlington VPO	Burlington	IN	46915-0206	Septembe
Spiceland VPO	Spiceland	IN	47385-9998	Septembe
Big Laurel VPO	Big Laurel	KY	40808-9998	Septembe

Source: *http://about.usps.com/news/electronic-press-kits/expandedaccess/vpo-list.htm*, viewed on January 7, 2013.

The Postal Service opened an additional 50 Village Post Offices between October 2012 and January 2013, listed in Table 6 below. The Postal Service hopes to open a total of 400 Village Post Offices in FY 2013. ACR 2012 at 37 VPOs will be located in community, business, town hall, or government centers.[77]

[77] United States Postal Service Village Post Office—Fact Sheet, July 2011.

Table 6

Village Post Offices Added From September 30 to December 14, 2012

Name	City	ST	ZIP	Open date
Watauga VPO	Watauga	TX	76148-3023	October 17, 2012
Dunmor VPO	Dunmor	KY	42339-2025	October 19, 2012
Hawks VPO	Hawks	MI	49743-0112	October 22, 2012
Campbellsburg VPO	Campbellsburg	IN	47108-9998	October 26, 2012
Poole VPO	Sebree	KY	42455-9998	October 26, 2012
Chula Vista VPO	Chula Vista	CA	91909-9998	October 30, 2012
Plummers Landing	Plummers Landing	KY	41081-9998	October 31, 2012
Climax VPO	Climax	GA	39834-2782	November 1, 2012
Thompson VPO	Thompson	MO	65285-2301	November 2, 2012
Stinnett-Hoskinston	Hoskinston	KY	40844-9998	November 8, 2012
Yeaddiss VPO	Yeaddiss	KY	41777-9998	November 8, 2012
Asher-Warbranch	Asher	KY	40803-9998	November 9, 2012
Krypton VPO	Krypton	KY	41754-9998	November 9, 2012
Trufant VPO	Trufant	MI	49347-5101	November 13, 2012
Doty VPO	Doty	WA	98539-0405	November 14, 2012
Exline Country VPO	Exline	IA	52555-8034	November 15, 2012
Swayzee VPO	Swayzee	IN	46986-9770	November 15, 2012
Preble VPO	Preble	IN	46782	November 16, 2012
Rhineland VPO	Rhineland	MO	65069-9998	November 16, 2012
Fishers Hill VPO	Fishers Hill	VA	22626-9447	November 16, 2012
Glenwood VPO	Glenwood	IN	46133-9998	November 19, 2012
Brownsville VPO	Knoxville	MD	21758-1132	November 20, 2012
Rice VPO	Rice	VA	23966-9998	November 20, 2012
Coral VPO	Coral	MI	49326-9567	November 21, 2012
Bolivia VPO	Bolivia	NC	28422-9998	November 21, 2012
Olin VPO	Statesville	NC	28625-1598	November 26, 2012
Corunna VPO	Corunna	IN	46730-9998	November 27, 2012
Manquin VPO	Manquin	VA	23106-9998	November 27, 2012
Mattaponi VPO	Mattaponi	VA	23110--9998	November 27, 2012
Phenix VPO	Phenix	VA	23959-2916	November 27, 2012
Sandy Hook VPO	Sandy Hook	VA	23153-2227	November 27, 2012
Forest City/Harris	Forest City	NC	28043-8016	November 28, 2012
Quicksburg VPO	Quicksburg	VA	22847-1432	November 28, 2012
Norman VPO	Norman	NC	28367-9998	November 29, 2012
Grayling VPO	Grayling	MI	49738-3857	November 30, 2012
Hickory VPO	Hickory Grove	SC	29717-9998	November 30, 2012
Roundhill VPO	Roundhill	KY	42275	December 3, 2012
Shelbyville VPO	Shelbyville	IN	46176-1756	December 10, 2012
Tyner VPO	Tyner	IN	46572-3404	December 11, 2012
Suches VPO	Suches	GA	30572-1405	December 12, 2012
Dugger VPO	Dugger	IN	47848-0278	December 12, 2012
Linden VPO	Linden	IN	47955-8066	December 12, 2012
Muldraugh VPO	Muldraugh	KY	40155-1104	December 12, 2012

Collinsville VPO	Hamilton	OH	45013-9715	December 12, 2012
Cannelton VPO	Cannelton	IN	47520-9998	December 14, 2012
Dubois VPO	Dubois	IN	47527-0146	December 14, 2012
Mt Hope VPO	Mt Hope	KS	67108-8804	December 14, 2012

Source: *http://about.usps.com/news/electronic-press-kits/expandedaccess/vpo-list.htm*, viewed on 1/7/2013.

The Postal Service did not include data on VPO locations in USPS-FY12-33, yet data on the number of VPOs is available on its website.

The Public Representative believes that VPOs could provide a satisfactory alternative method for customer access to important retail services no longer available from closed Post Offices. A recent Postal Services Press Release informs that Village Post Offices will provide mail collection boxes, post offices boxes, stamp sales, and prepaid Priority Mail flat rate boxes and envelope sales and receipts. A village post office would not provide other services, such as passport registration, money orders, and non-uniform parcel shipping.[78] Yet, after reviewing the Postal Services' web site, the Postal Operations Manual (POM), the DMM, and performing general Internet searches, it is not clear to the Public Representative whether every VPO must offer all of the above-mentioned services. If the service available differs from VPO to VPO, the Commission may wish to request the Postal Service to annually provide a list of VPOs by location, the Post Office(s) each serves to replace, and service offerings.

4. Wait-Time In Line

Wait-time in line is important to individuals and small business mailers when extended waits in line will drive them to the Postal Service's competitors or they forego mailing altogether. The discussion and data the Postal Service has provided on the time customers wait in line to receive service at a Post Office is flawed and unsatisfactory. The Postal Service only reports national and regional averages of wait-time. It does not provide the information needed to determine whether it has conducted

[78] U.S. Postal Service, "Village Post Offices," Fact Sheet, at *http://about.usps.com/news/electronic-press-kits/expandedaccess/assets/pdf/Fact-sheet-12-12-12.pdf*.

a scientific survey using appropriate sample structure and size for an acceptable degree of accuracy and margin of error.

The Postal Service says Residential, Small Business, and Large Business customers were selected at random for a survey, but the selection process is not explained.[79] The percentage of returned usable questionnaires from each segment seems lower.[80] The return rates by customer segment were approximately: residential — 14 percent, small business — 8 percent, and large business — 8 percent. Although many political polls with similar return rates are considered accurate, it is not possible to determine whether these return rates accurately represent the experience of each segment without information about the sample design and sample properties.

Another problem with the survey appears to be that not all survey answers were used to calculate average wait time. The data provided by the Postal Service has 6 wait-in-line time intervals respondents were able to select. Assuming that all usable questionnaires included a response to this question, the wait-in-line time would have been 3.8 minutes for residential customers and 4.1 minutes for small businesses. This does not match the Postal Service's claim that the average national wait-in-line time was 2 minutes and 34 seconds. USPS-FY112-33, WaitTimeInLineFY2012.xls. Because the average wait-in-line time that the Postal Service reported is less than the time calculated using all of the "usable" questionnaires, it appears as if unusable questionnaires were included in the answer to the wait-in-line question. The Public Representative can only conclude that the average wait-in-line times provided by the Postal Service are unreliable and the Commission cannot determine whether the reported wait times in Post Office lines are accurate.

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[79] Preface, USPS Market Dominant Product Customer Experience Measurement (CEM) Survey Instruments And Results, USPS-FY12-38.

[80] The Postal Service says that usable questionnaires were "sufficiently complete to be analyzed and have their results reported. " *Id.* But, the Postal Service does not identify the specific criteria used to determine usable questionaires, or even if there were consistent criteria used.

The Commission should require the Postal Service to explain its survey design and methodology, and why it is reliable. If the survey does not meet scientific survey standards commonly accepted in the field of survey research, the Commission should require the Postal Service to submit such a proper survey with the next ACR.

Such a survey should include questions that elicit the following types of information:

1. When you arrived between 8 a.m. and 10 a.m., which of the six time intervals did you wait in line?
2. When you arrived between 10 a.m. and noon, which of the six time intervals did you wait in line?
3. When you arrived between noon and 2 p.m.4 p.m., which of the six time intervals did you wait in line?
4. When you arrived between 4 p.m. and closing which of the six time intervals did you wait in line?
5. How many times during the year have you left the Post Office because the line was too long?
6. If you have left the Post Office because you felt the wait in line would be too long, did you usually go to a Postal Service competitor?
7. How often do you use competitors for service to avoid wait times in line at the Postal Service?

C. Collection Points

1. Collection Point Data Is Too Aggregated

Collection points permit customers to drop-off single-piece First-Class Mail into collection boxes in residential neighborhoods, collection boxes in business districts, lobby drops inside Post Offices, and drops into blue boxes outside Post Offices.[81] The

[81] These are the type of Post Offices most likely to be used by residential customers. Other collection points include “Firm,” “Airport,” and “Other.” *See* USPS-FY12-45.

Postal Service's discussion is limited to a single sentence which allows one to deduce there were 2,362 fewer collection boxes available at the end of FY 2012 than FY 2011.[82] ACR 2012 at 37.[83] USPS-FY12-33 provides data on the percentage change in collection points for 7 regions – a highly aggregated measure of the percentage change in collection points.[84] The Public Representative believes that if collection point data were provided by ZIP Code, it could be matched with census data. This would link collection points to a wide variety of demographic variables. The Commission could use it to determine the impact of collection point reductions on at-risk populations.

Finely disaggregated data show greater variation than highly aggregated data. Consequently, disaggregated data is more likely to identify at-risk populations because at-risk populations have characteristics different than the average. The charts below illustrate this point by comparing the dispersion of percentage change in collection points in USPS-FY12-33 with USPS-FY12-45 by Region and State using the same scale. It is clear that with finer disaggregation a large number of states have seen percentage declines in collection points substantially below the regional averages.

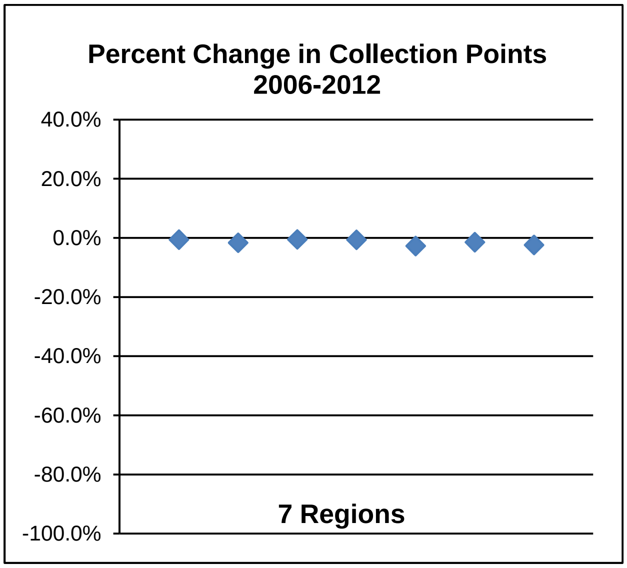
[82] The Public Representative has focused on collection points in residential and business areas, and collection points inside or outside of Post Offices. These collection points provide the best information on consumer access to this aspect of Postal facilities.

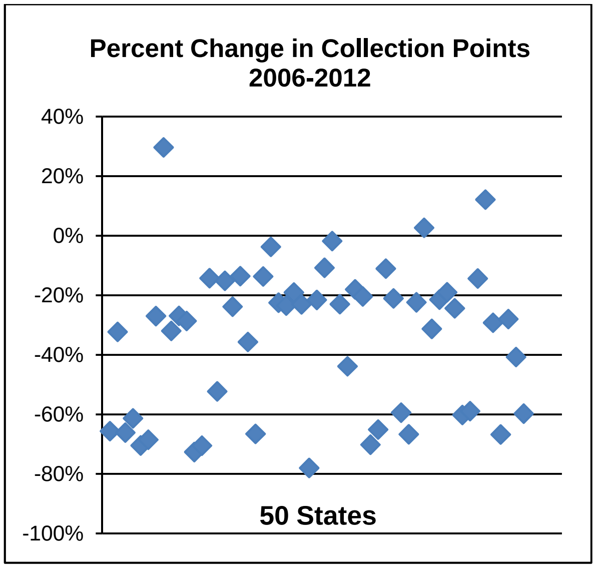
[83] USPS-FY12-33, CollectionBoxesFY2012.xls provides a little more detail, showing the reduction in collection boxes in each of seven regions of the country.

[84] The regions are Capital Metro, Eastern, Great Lakes, Northeast, Pacific, Southern, and Western.

Chart 7

Comparison of Highly Aggregated and Moderately Disaggregated Data





2. Collection Point Reduction Percentages By State And Territory

The Public Representative has compared the percentage reduction of Postal Service collection points in residential and business areas, Post Office lobbies and outside Post Offices by State for the years between 2006 and 2012. The data is presented in Table 7.[85] State-level disaggregation shows that reductions are substantial in non-contiguous areas of the United States. This analysis illustrates the value of timely access to the more disaggregated data the Public Representative has recommended. It is reasonable to presume that these reductions will impact most the elderly, medically fragile, and the disabled.[86]

[85] Cells shaded red, in Table 7 below, represent the states with the 5 highest percentage reductions in collection points. Cells shaded green represent the states with 5 lowest percentage reductions or even percentage increases in collection points. Time does not permit analysis of collection point data at the more disaggregated ZIP Code level.

[86] With more time, the Public Representative could have matched the ZIP Code level field to census data which identified ZIP Codes, demographic groups, and location status (Metropolitan, Urban, Suburban, and Rural) with substantial reductions in collection boxes. Doing so would provide a relatively accurate determination of the impact of collection point reduction on at-risk groups.

Table 7
Percentage Change in Collection Points Between 2006 and 2012

STATE	BUSINESS	POST OFFICE LOBBY	POST OFFICE OUTSIDE	RESIDENTIAL	TOTAL
AK	-66%	-48%	-76%	-76%	-66%
AL	-47%	-3%	-11%	-72%	-32%
AR	-65%	-66%	-66%	-78%	-66%
AZ	-52%	-70%	-74%	-54%	-61%
CA	-70%	-69%	-80%	-68%	-70%
CO	-64%	-69%	-76%	-67%	-69%
CT	-20%	-1%	-36%	-33%	-27%
DC	177%		-32%	-40%	30%
DE	-21%	83%	-11%	-41%	-32%
FL	-35%	13%	-22%	-39%	-27%
GA	-44%	6%	-21%	-72%	-29%
GU	-76%	200%	-84%	-100%	-73%
HI	-65%	-58%	-84%	-65%	-71%
IA	-15%	-7%	-10%	-45%	-14%
ID	-51%	-39%	-62%	-67%	-52%
IL	-17%	-14%	-13%	-19%	-15%
IN	-26%	-6%	-16%	-43%	-24%
KS	-24%	-5%	-12%	-39%	-14%
KY	-40%	-2%	-26%	-75%	-36%
LA	-67%	-61%	-69%	-84%	-67%
MA	-5%	0%	-20%	-15%	-14%
MD	-4%	35%	-20%	-20%	-4%
ME	-18%	-18%	-13%	-46%	-22%
MI	-23%	20%	-20%	-38%	-23%
MN	-24%	-2%	-8%	-37%	-19%
MO	-28%	-18%	-19%	-23%	-23%
MP	-100%	-80%	-71%		-78%
MS	-38%	51%	-30%	-75%	-22%
MT	-28%	14%	-15%	-52%	-11%
NC	-21%	173%	-23%	-37%	-2%
ND	-34%	-9%	-13%	-74%	-23%
NE	-32%	-50%	-54%	-54%	-44%
NH	-15%	0%	-19%	-31%	-18%
NJ	-20%	330%	-14%	-38%	-20%
NM	-69%	-65%	-74%	-81%	-70%
NV	-58%	-7%	-88%	-47%	-65%
NY	-21%	46%	-14%	-16%	-11%
OH	-26%	-6%	-15%	-39%	-21%
OK	-39%	-60%	-73%	-79%	-59%
OR	-62%	-60%	-73%	-73%	-67%
PA	-16%	-5%	-12%	-36%	-22%
PR	-9%	2150%	-10%	-12%	3%
RI	-31%	77%	-31%	-38%	-31%
SC	-32%	4%	-11%	-56%	-21%
SD	-35%	-6%	-8%	-47%	-19%
TN	-35%	6%	-10%	-90%	-24%
TX	-49%	-66%	-67%	-73%	-60%
UT	-56%	-41%	-72%	-66%	-59%
VA	-32%	168%	-12%	-50%	-14%
VI	-12%		-4%		12%
VT	-20%	-36%	-22%	-47%	-29%
WA	-62%	-64%	-78%	-69%	-67%
WI	-34%	-5%	-11%	-59%	-28%
WV	-23%	-4%	-17%	-44%	-41%
WY	-62%	-54%	-61%	-70%	-60%
Grand Total	**-42%**	**-33%**	**-50%**	**-44%**	**-42%**

*MP is the abbreviation for Northern Mariana Islands.
Source: USPS Collection Point Management System, 2006, 2010, 2012

Table 7, above, provides several interesting observations. For example:

- The largest overall reduction in collection points was in three locations in non-contiguous states, or U.S. Commonwealths.
  - The Northern Mariana Islands (MP) saw a 78 percent decline in total collection points, and a 100 percent decline in collection boxes located in business districts.[87]
  - Guam (GU) saw a 73 percent decline in total collection points, primarily driven by a reduction in residential collection boxes.
  - Hawaii (HI) saw a 71 percent decline in total collection points, due to a roughly equal reduction in residential, business, Post Office collection boxes, and Post Office lobby drops.
- California and New Mexico each saw a 70 percent reduction in collection points.
  - California's reduction was mostly driven by the reduction in residential collection boxes.
  - New Mexico's reduction was driven equally across residential, business, Post Office boxes, and Post Office lobby drops.
- The largest percentage increase in collection points occurred in the District of Columbia primarily due to increases business districts. This substantial increase offsets reductions in residential areas, and may be a response to an increase in delivery points in the business district.

- In States where total collection points increased, or had low reductions (Maryland, North Carolina, Puerto Rico, and the Virgin Islands), there were substantial increases in lobby drops, but decreases in residential and business district collection boxes. Post Office lobby drops are often open after business hours, giving residential customers an alternative collection point, but they are a poor substitute for residential or business district collection boxes for the medically frail, elderly, or disabled.

Further analysis, matching ZIP Code level fields to census data, identifying ZIP Codes, demographic groups, and location status (Metropolitan, Urban, Suburban, and

[87] Business collection boxes may be used by businesses, but larger ones probably rely upon mailroom, customer lobby, and other collection points. Business collection boxes are regular blue collection boxes in business districts. Residential customers are likely to put their mail in business collection boxes before, during, and just after work hours.

Rural) with substantial reductions in collection boxes could begin to provide a relatively accurate picture of the impact of collection point reduction on at-risk groups.

D. Conclusion of Customer Access

Timely and reliable access to retail facilities is necessary in order for the Postal Service to remain a viable service provider. The Postal Service has not provided reliable, or sufficiently disaggregated, data for the Commission and other parties to determine whether it is providing timely and reliable access to Postal Service facilities. The Pubic Representative requests the Commission to adopt the above recommendations so the Commission may determine better the level of access to retail services.

VII. NONPOSTAL SERVICES-PHILATELIC SALES REVENUE TREATMENT

Revenue for the market dominant nonpostal service, Philatelic Sales, for FY 2012 was $10,647,495. ACR2012 at 46. In its ACD2010, the Commission directed the Postal Service to report Nonpostal Services with Other Revenue. USPS-FY12-9 at 121, referencing. ACD2010, at 152. The revenue is now reported in the FY12 RPW report with Other Mailing Services. *Id.*

The Postal Service has previously acknowledged that some of the postage purchased from Philatelic Sales is used for mailing rather than retained as a collecible. It is not clear whether any of the revenue from Philatelic Services is accounted for as postage revenue or whether any of the postage revenue is included in the calculation of Postage in the Hands of the Public (PIHOP). A report by the Postal Service's OIG does not mention Philatelic Sales revenue as a source of PIHOP.[88] The Public Representative suggests the Commission clarify this question.

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[88] Office of the Inspector General, United States Postal Service, Audit Report – Postage in the Hands of the Public Liability Estimate, Report Number FT-AR-11-006, January 6, 2011

VIII. CONCLUSION.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

Respectfully submitted,

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Attachment 1

Christensen Associates Scenario Analysis for Standard Mail Contribution under Modified Assumptions

Table 1

Cumulative Contribution in Prospective "V2" Models under Modified Assumptions on Own Price Elasticity for Flats and All Other Standard Mail

			"V2a" model – **100 %** actual variability of attributable costs				
	Own Price Elasticity of Demand		**Cumulative Contribution ($ Million)**		**Difference ($ Million)**	**Cost Coverage**	
	Flats	Other	Scenario 1	Scenario 2	Scenario 2 minus Scenario 1	Scenario 1	Scenario 2
Year 1	-0.44	-0.44	$5,873	$5,893	$20	82.8%	87.3%
Year 2	-0.54	-0.54	$11,966	$12,019	$53	83.3%	92.5%
Year 3	-0.59	-0.59	$18,242	$18,332	$90	83.8%	98.0%
Year 4	-0.64	-0.64	$24,830	$24,937	$106	84.2%	98.6%
Year 5	-0.69	-0.69	$31,807	$31,911	$103	84.7%	99.1%
Year 6	-0.74	-0.74	$39,113	$39,201	$88	85.2%	99.7%
Year 7	-0.79	-0.79	$46,681	$46,744	$63	85.7%	**100.2%**
Year 8	-0.84	-0.84	$54,597	$54,625	**$28**	86.1%	**100.8%**

			"V2b" model – **90 %** actual variability of attributable costs				
	Own Price Elasticity of Demand		**Cumulative Contribution ($ Million)**		**Difference ($ Million)**	**Cost Coverage**	
	Flats	Other	Scenario 1	Scenario 2	Scenario 2 minus Scenario 1	Scenario 1	Scenario 2
Year 1	-0.44	-0.44	$5,845	$5,863	$17	82.1%	86.2%
Year 2	-0.54	-0.54	$11,885	$11,931	$46	81.7%	90.2%
Year 3	-0.59	-0.59	$18,083	$18,162	$79	81.5%	94.5%
Year 4	-0.64	-0.64	$24,590	$24,683	$93	81.4%	94.4%
Year 5	-0.69	-0.69	$31,496	$31,586	$90	81.5%	94.5%
Year 6	-0.74	-0.74	$38,734	$38,809	$75	81.7%	94.8%
Year 7	-0.79	-0.79	$46,230	$46,281	$52	82.0%	**95.0%**
Year 8	-0.84	-0.84	$54,080	$54,099	**$19**	82.2%	**95.3%**

Source: USPS-FY12-43, StdProspectiveV2a.xlsx ("Version 2a") and StdProspectiveV2b.xlsx ("Version 2b"). The Public Representative modified assumptions on own price elasticity on demand for both Standard Mail Flats ("Flats") and All Other Standard Mail ("Other") and kept other assumptions unchanged.

Table 2

Cumulative Contribution in Prospective "V2" Models under Modified Assumptions on Standard Flats Price Premium for Scenario 2

	Own Price Elasticity of Demand		Flats Price Premium for Scenario 2	Cumulative Contribution ($ Million)		Difference ($ Million)
	"V2a" model – **100 %** actual variability of attributable costs					
	Flats	Other		Scenario 1	Scenario 2	Scenario 2 minus Scenario 1
Year 1	-0.6	-0.4	3.19%	$5,873	$5,887	$13
Year 2	-0.6	-0.4	3.19%	$11,966	$11,998	$32
Year 3	-0.6	-0.4	3.19%	$18,242	$18,292	$50
Year 4	-0.6	-0.4	3.19%	$24,831	$24,893	$63
Year 5	-0.6	-0.4	3.19%	$31,807	$31,875	$68
Year 6	-0.6	-0.4	0%	$39,113	$39,173	$60
Year 7	-0.6	-0.4	0%	$46,681	$46,724	$43
Year 8	-0.6	-0.4	0%	$54,597	$54,612	**$15**
	"V2b" model – **90 %** actual variability of attributable costs					
	Own Price Elasticity of Demand		**Flats Price Premium for Scenario 2**	**Cumulative Contribution ($ Million)**		**Difference ($ Million)**
	Flats	Other		Scenario 1	Scenario 2	Scenario 2 minus Scenario 1
Year 1	-0.6	-0.4	2.268%	$5,845	$5,853	$8
Year 2	-0.6	-0.4	2.268%	$11,885	$11,903	$18
Year 3	-0.6	-0.4	2.268%	$18,083	$18,111	$29
Year 4	-0.6	-0.4	2.268%	$24,590	$24,626	$36
Year 5	-0.6	-0.4	2.268%	$31,496	$31,536	$40
Year 6	-0.6	-0.4	2.268%	$38,734	$38,775	$41
Year 7	-0.6	-0.4	2.268%	$46,230	$46,270	$40
Year 8	-0.6	-0.4	0%	$54,080	$54,111	**$31**

Source: USPS-FY12-43, StdProspectiveV2a.xlsx ("Version 2a") and StdProspectiveV2b.xlsx ("Version 2b"). The Public Representative modified the assumptions on Flats Price Premium for Scenario 2 and kept other assumptions unchanged.

Table 3

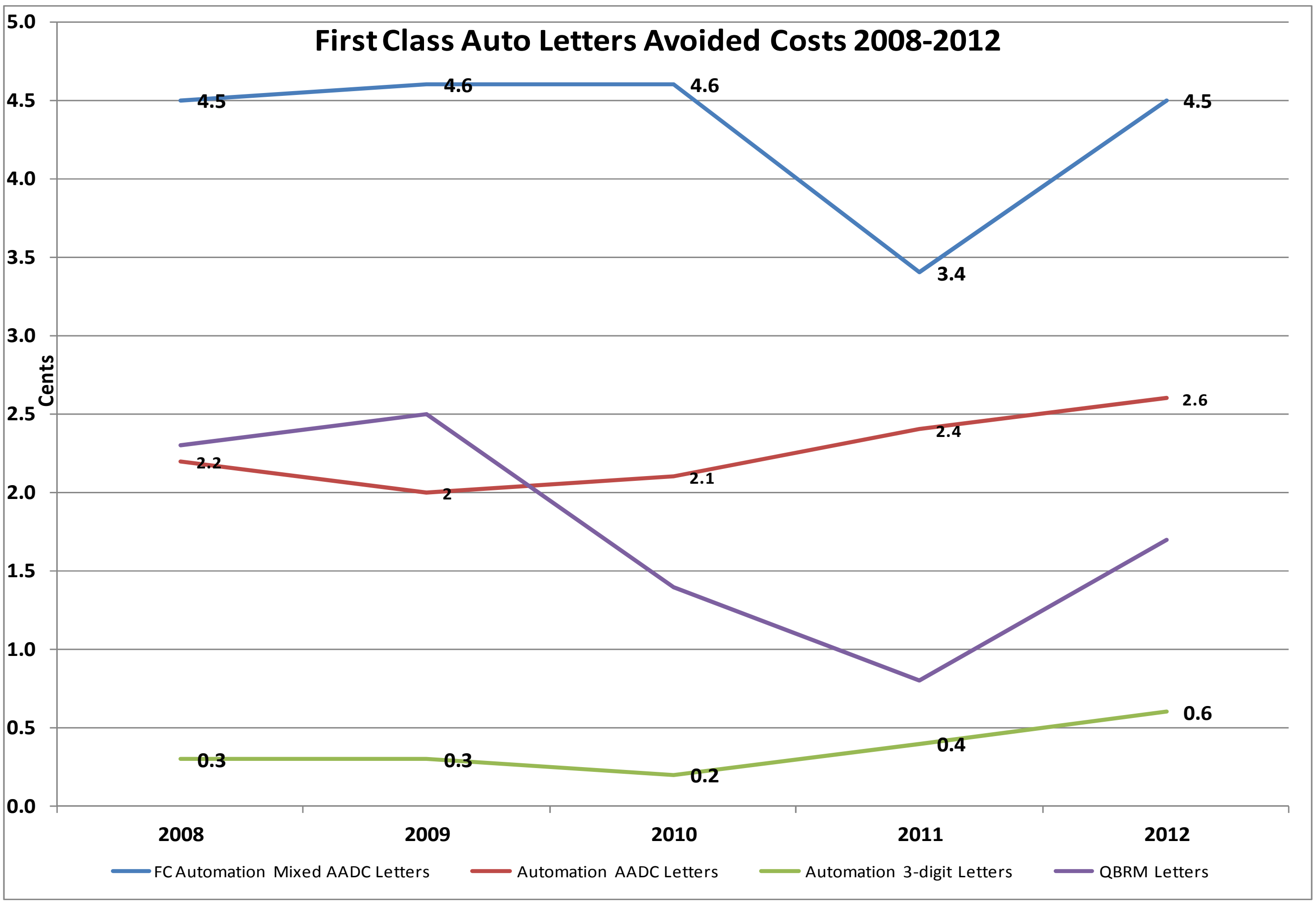
Cumulative Real Contribution (in base-year prices) in Prospective "V2" Models under Modified Assumptions on Own Price Elasticity and Scenario 2 Standard Flats Price Premium

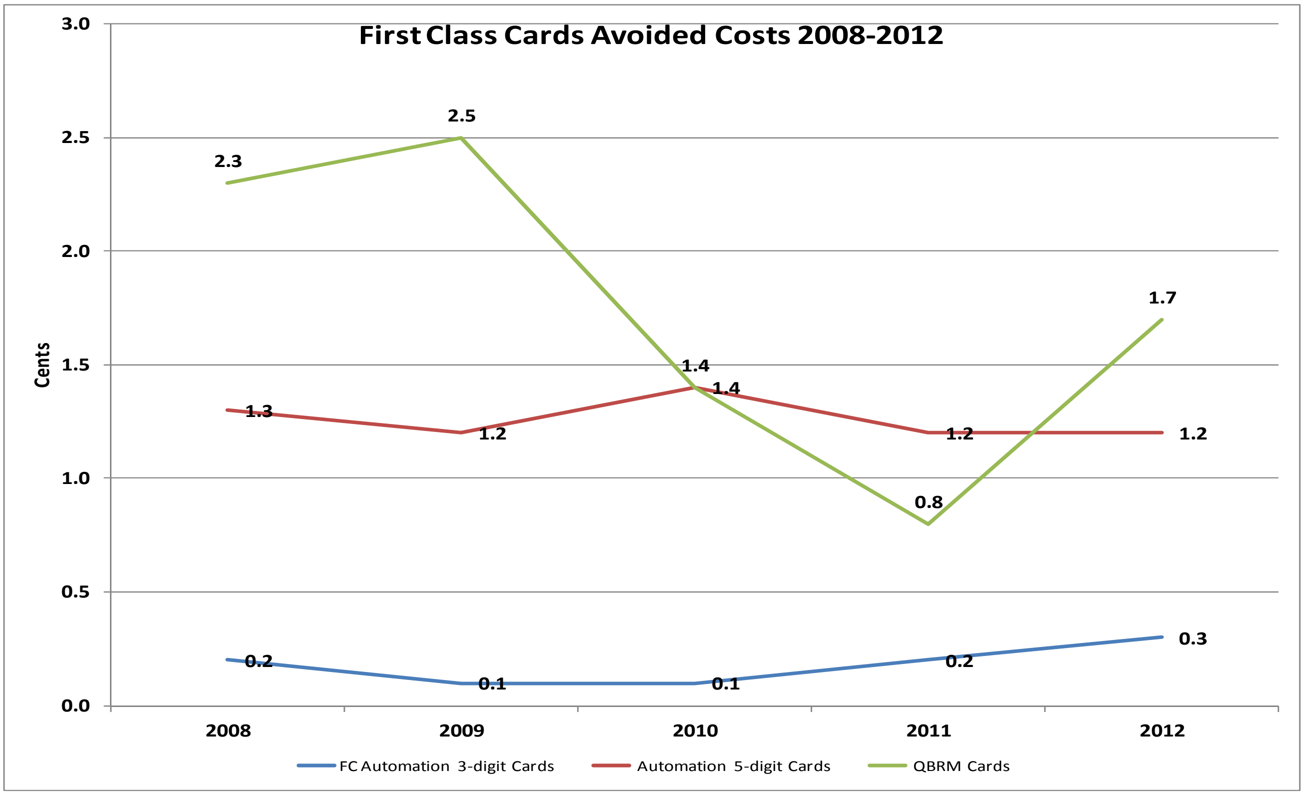
	Own Price Elasticity of Demand		**"V2a"** model – **100 %** actual variability of attributable costs			
			Flats Price Premium for Scenario 2	**Cumulative Contribution (FY 2012 $ Million)**		**Difference (FY 2012 $ Million)**
	Flats	Other		Scenario 1	Scenario 2	Scenario 2 minus Scenario 1
Year 1	-0.44	-0.44	3.19%	$5,452	$5,465	$13
Year 2	-0.54	-0.54	3.19%	$10,979	$11,013	$34
Year 3	-0.59	-0.59	3.19%	$16,540	$16,600	$61
Year 4	-0.64	-0.64	3.19%	$22,241	$22,329	$88
Year 5	-0.69	-0.69	3.19%	$28,136	$28,252	$116
Year 6	-0.74	-0.74	0%	$34,162	$34,295	$133
Year 7	-0.79	-0.79	0%	$40,254	$40,397	$142
Year 8	-0.84	-0.84	0%	$46,474	$46,618	**$144**
	Own Price Elasticity of Demand		**"V2b"** model – **90 %** actual variability of attributable costs			
			Flats Price Premium for Scenario 2	**Cumulative Contribution (FY 2012 $ Million)**		**Difference (FY 2012 $ Million)**
	Flats	Other		Scenario 1	Scenario 2	Scenario 2 minus Scenario 1
Year 1	-0.44	-0.44	2.268%	$5,424	$5,432	$8
Year 2	-0.54	-0.54	2.268%	$10,899	$10,922	$22
Year 3	-0.59	-0.59	2.268%	$16,386	$16,426	$40
Year 4	-0.64	-0.64	2.268%	$22,012	$22,072	$61
Year 5	-0.69	-0.69	2.268%	$27,843	$27,926	$83
Year 6	-0.74	-0.74	2.268%	$33,809	$33,919	$110
Year 7	-0.79	-0.79	2.268%	$39,840	$39,981	$142
Year 8	-0.84	-0.84	0%	$46,004	$46,171	**$167**

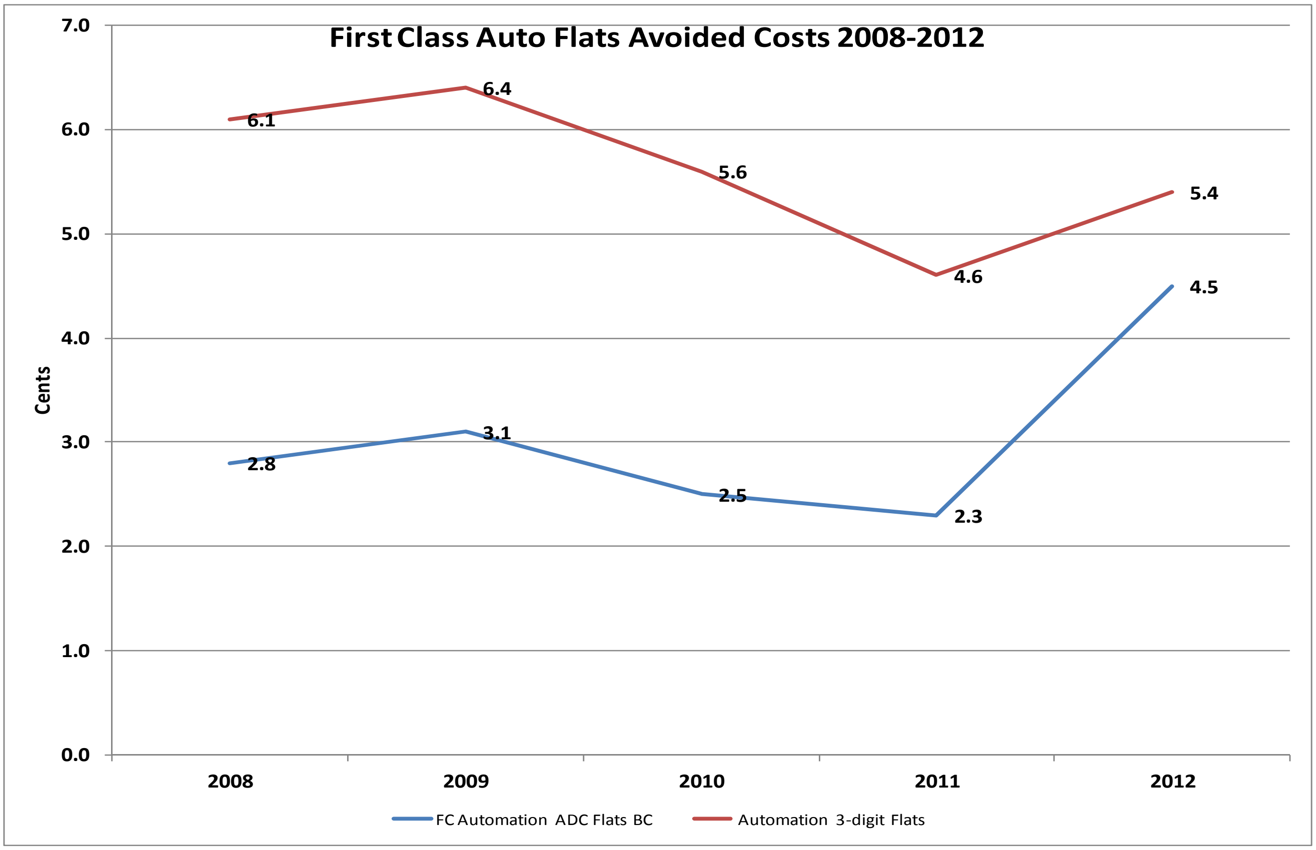
Source: USPS-FY12-43, StdProspectiveV2a.xlsx ("Version 2a") and StdProspectiveV2b.xlsx ("Version 2b"). The Public Representative modified the assumptions on own price elasticity for "Flats" and "Other" and also the assumptions on Flats Price Premium for Scenario 2. Other assumptions are kept unchanged. The cumulative contribution is recalculated here in base-year prices.

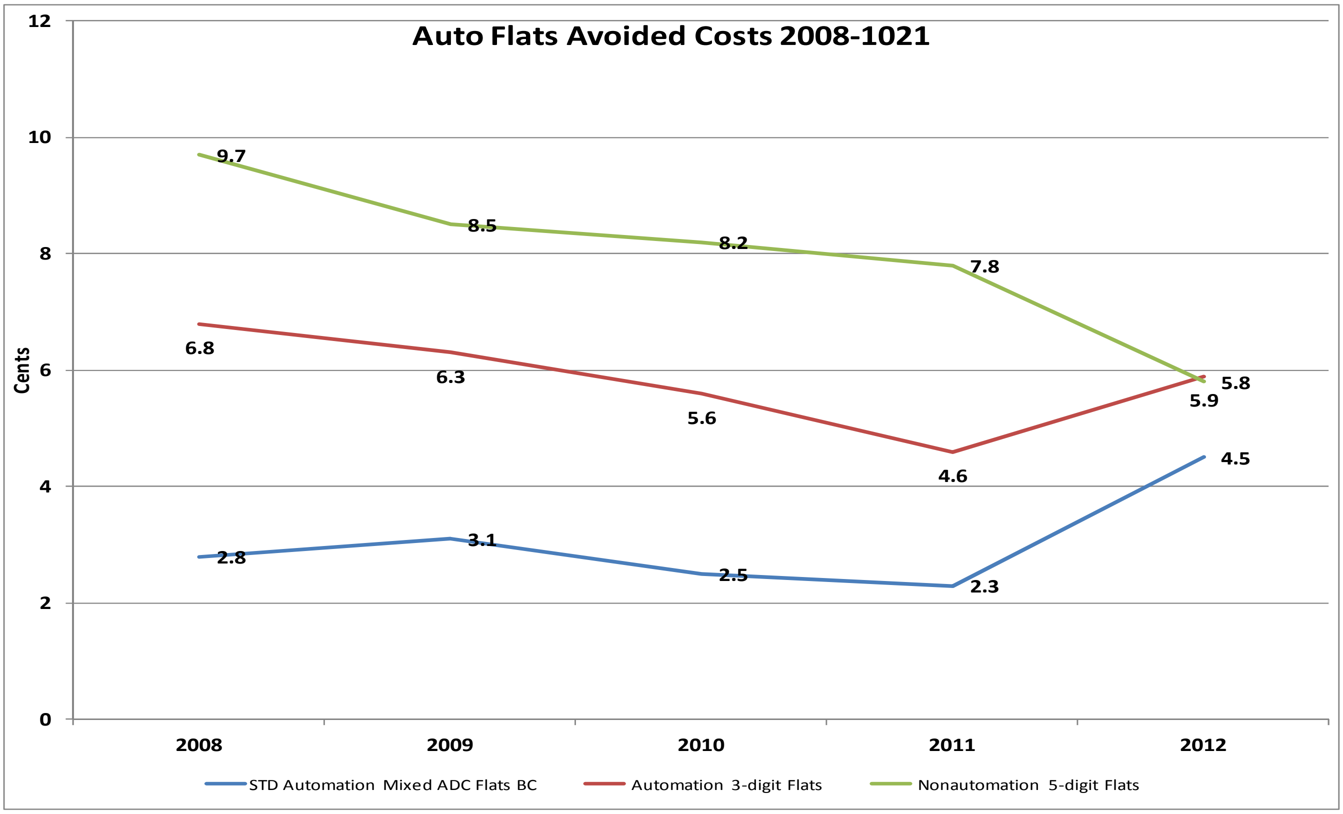
Attachment 2

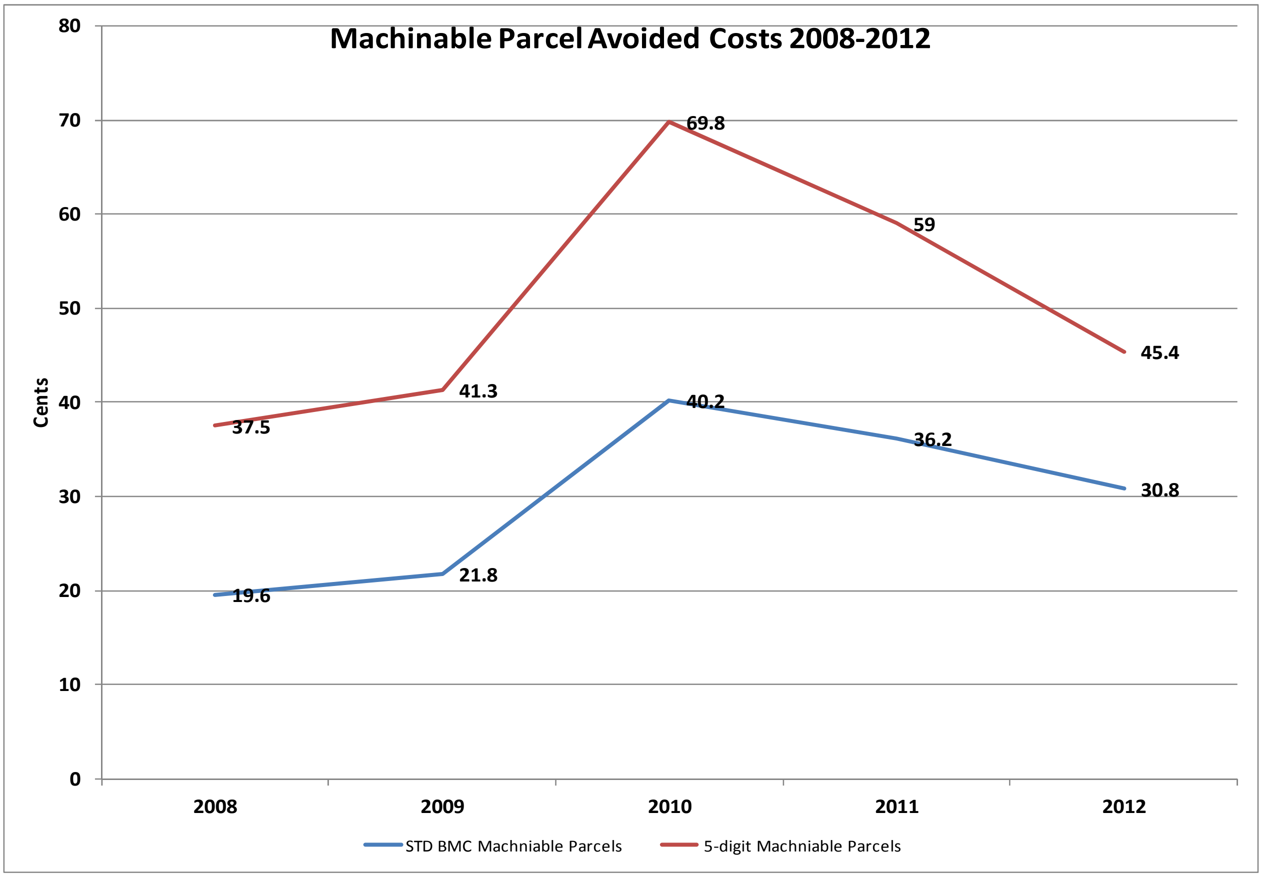
Charts of Avoided Costs Between 2008 and 2010 for Rate Elements that have had Passthroughs Above 100 Percent for 3 of the Last 5 Acrs

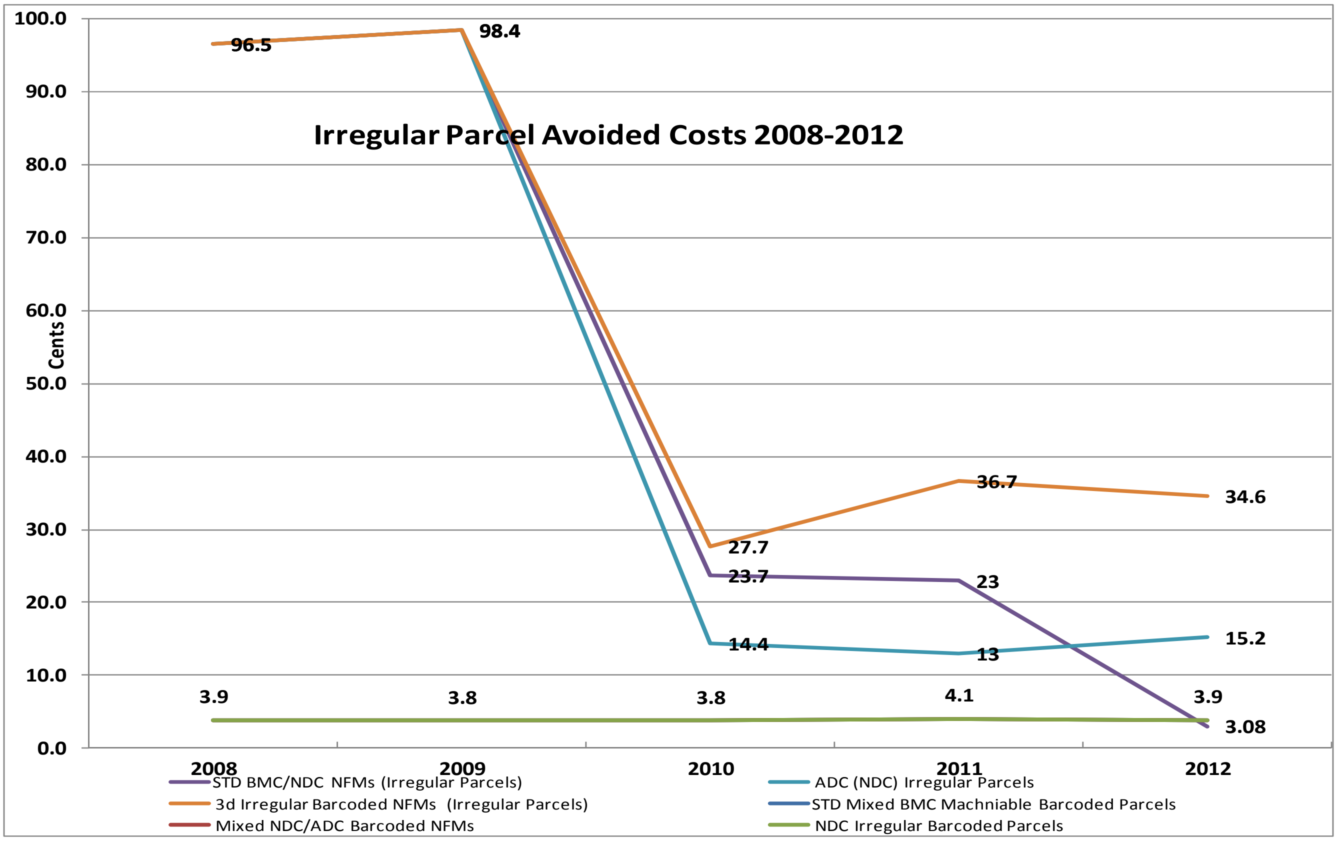


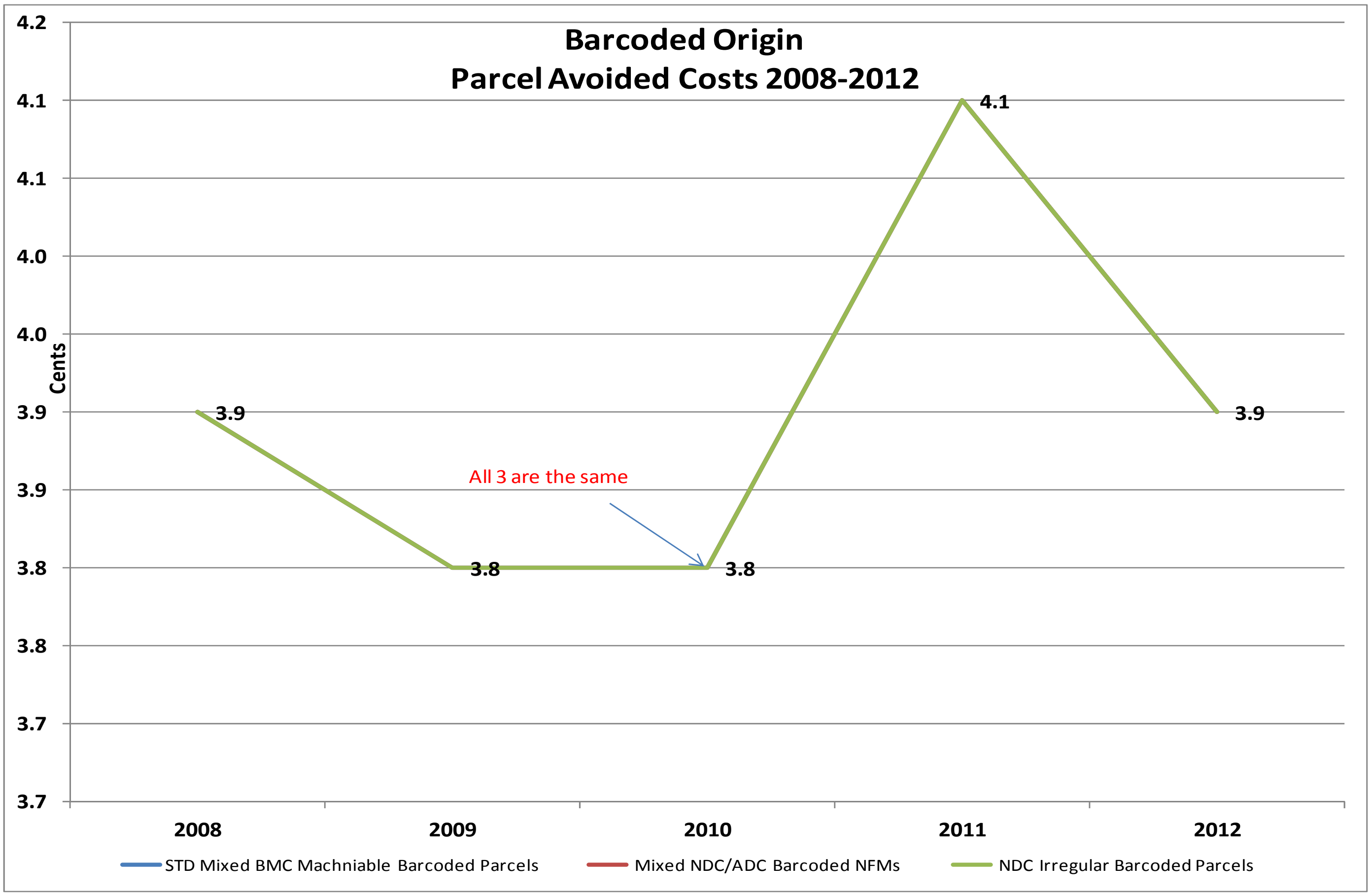

First Class Cards Avoided Costs 2008-2012
Cents
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2.3
2.5
1.4
0.8
1.7
1.3
1.2
1.4
1.2
1.2
0.2
0.1
0.1
0.2
0.3
2008
2009
2010
2011
2012
FC Automation 3-digit Cards
Automation 5-digit Cards
QBRM Cards

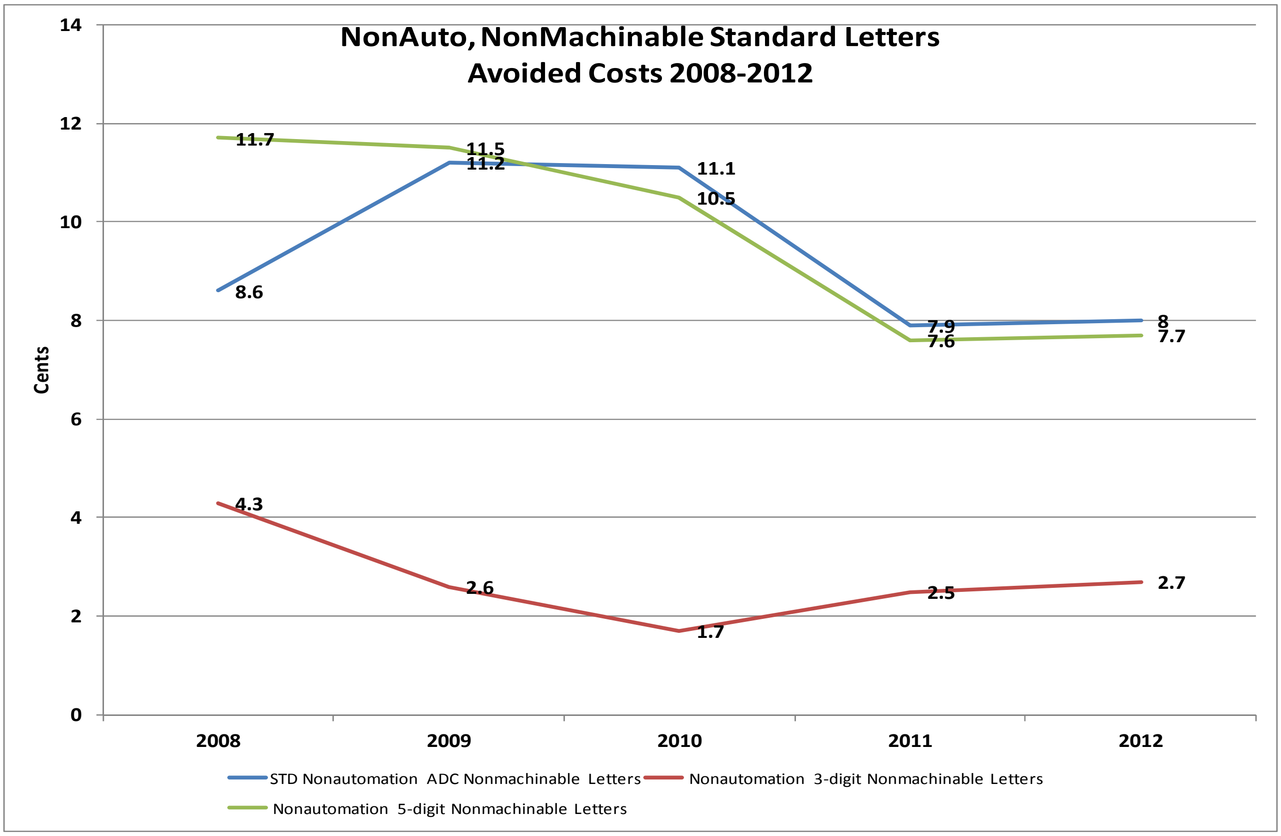

First Class Auto Flats Avoided Costs 2008-2012
Cents
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2008
2009
2010
2011
2012
6.1
6.4
5.6
4.6
5.4
2.8
3.1
2.5
2.3
4.5
FC Automation ADC Flats BC
Automation 3-digit Flats

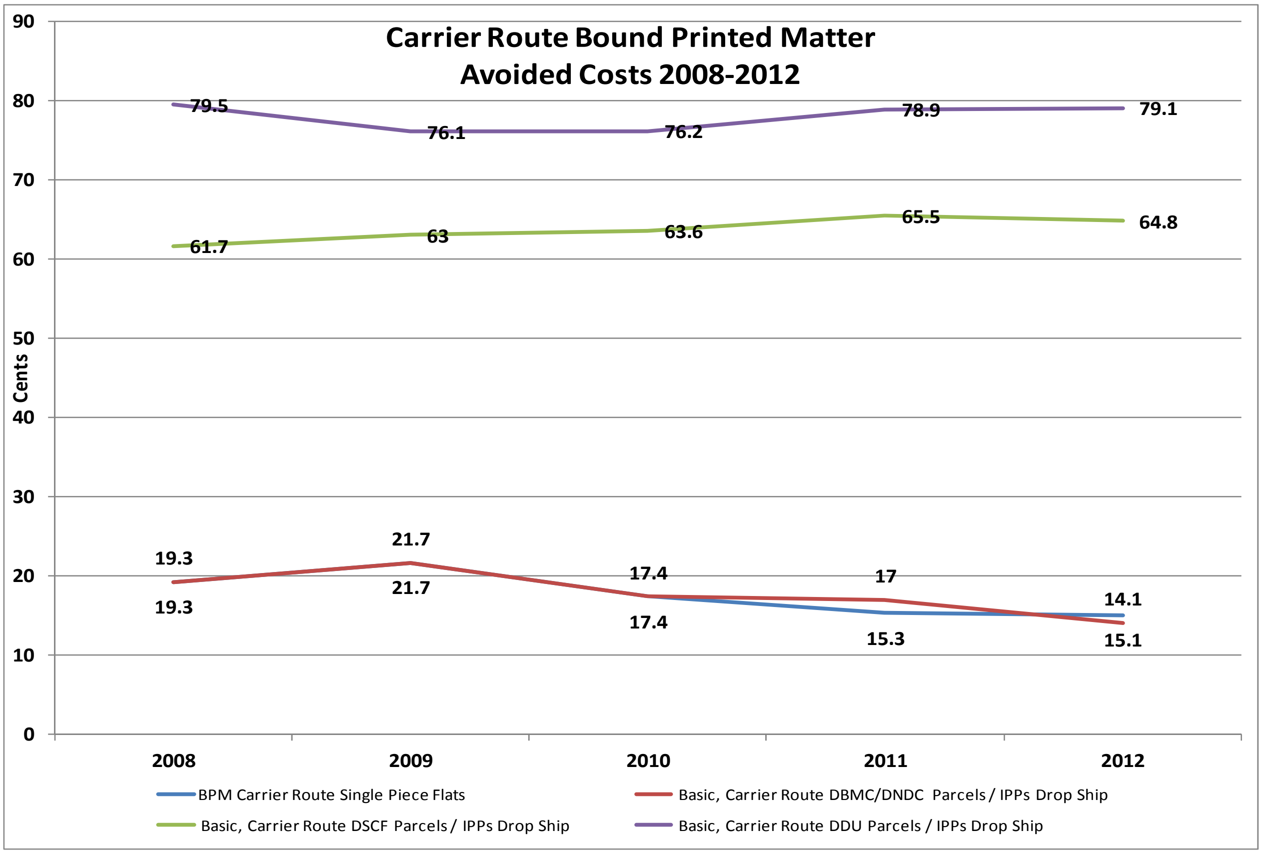

Auto Flats Avoided Costs 2008-1021
Cents
12
10
8
6
4
2
0
2008
2009
2010
2011
2012
9.7
8.5
8.2
7.8
5.8
6.8
6.3
5.6
4.6
5.9
2.8
3.1
2.5
2.3
4.5
STD Automation Mixed ADC Flats BC
Automation 3-digit Flats
Nonautomation 5-digit Flats


Machinable Parcel Avoided Costs 2008-2012
Cents
80
70
60
50
40
30
20
10
0
2008
2009
2010
2011
2012
69.8
59
45.4
41.3
37.5
40.2
36.2
30.8
21.8
19.6
STD BMC Machniable Parcels
5-digit Machniable Parcels


Irregular Parcel Avoided Costs 2008-2012
Cents
100.0
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
96.5
98.4
27.7
36.7
34.6
23.7
23
14.4
13
15.2
3.9
3.8
3.8
4.1
3.9
3.08
2008
2009
2010
2011
2012
STD BMC/NDC NFMs (Irregular Parcels)
ADC (NDC) Irregular Parcels
3d Irregular Barcoded NFMs (Irregular Parcels)
STD Mixed BMC Machniable Barcoded Parcels
Mixed NDC/ADC Barcoded NFMs
NDC Irregular Barcoded Parcels


Barcoded Origin
Parcel Avoided Costs 2008-2012
Cents
4.2
4.1
4.1
4.0
4.0
3.9
3.9
3.8
3.8
3.7
3.7
3.9
3.8
3.8
4.1
3.9
All 3 are the same
2008
2009
2010
2011
2012
STD Mixed BMC Machniable Barcoded Parcels
Mixed NDC/ADC Barcoded NFMs
NDC Irregular Barcoded Parcels


NonAuto, NonMachinable Standard Letters
Avoided Costs 2008-2012
Cents
14
12
10
8
6
4
2
0
2008
2009
2010
2011
2012
11.7
11.5
11.2
11.1
10.5
8.6
7.9
7.6
8
7.7
4.3
2.6
1.7
2.5
2.7
STD Nonautomation ADC Nonmachinable Letters
Nonautomation 3-digit Nonmachinable Letters
Nonautomation 5-digit Nonmachinable Letters


Carrier Route Bound Printed Matter
Avoided Costs 2008-2012
Cents
90
80
70
60
50
40
30
20
10
0
2008
2009
2010
2011
2012
79.5
76.1
76.2
78.9
79.1
61.7
63
63.6
65.5
64.8
19.3
21.7
17.4
17
14.1
19.3
21.7
17.4
15.3
15.1
BPM Carrier Route Single Piece Flats
Basic, Carrier Route DBMC/DNDC Parcels / IPPs Drop Ship
Basic, Carrier Route DSCF Parcels / IPPs Drop Ship
Basic, Carrier Route DDU Parcels / IPPs Drop Ship