

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2017

Docket No. ACR2017

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-10 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 5, issued on January 19, 2018. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Nabeel R. Cheema.
Chief Counsel, Pricing & Product Support

Eric P. Koetting

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1101
(202) 277-6333
eric.p.koetting@usps.gov
January 26, 2018

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

1. In previous ACRs, the Postal Service provided the "FSS Scorecard," which measures critical aspects of Flats Sequencing System (FSS) performance at each processing location.¹ The FSS Scorecard was not provided in the Postal Service's FY 2017 ACR.
 - a. Please provide the FY 2017 FSS Scorecard.
 - b. Please provide a comparison of FSS performance from FY 2013 to FY 2017 and discuss the effectiveness of the FSS Scorecard in improving FSS performance.

RESPONSE:

- a. The Postal Service continued to use the FSS Scorecard to measure certain aspects of FSS performance in FY 2017. The FY 2017 FSS Scorecard is provided below:

Performance Metric	FY17
Throughput per hour (pph)	8,111
Delivery Point Sequence (DPS)	54.71%
Mail Pieces At-Risk	5.83%
Leakage	20.10%

Sources:

Throughput per hour: WebEOR

DPS%: EDW

At-Risk%: MIRS

Leakage%: Informed Visibility FSS Leakage Visualization

The Postal Service expanded the FSS Scorecard in FY 2017, developing the FSS Leakage Visualization report within the Informed Visibility platform. This report identifies mailpieces that were FSS candidate pieces, but were processed on other automation equipment or dispatched to the delivery unit as working volume. FSS candidate mailpieces are

¹ See, e.g., United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016, at 28 (FY 2016 ACR).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

identified by mail class, entry discount type, container sortation level, last scan machine type, mailer name, and day of week. The Postal Service uses the FSS Leakage data to identify opportunities to increase the number of mailpieces processed in FSS sortation by Area and FSS facility. By reducing FSS leakage, the Postal Service projects that the DPS percent will increase in future years, meaning there will be an increase in the number of pieces destinating in FSS zones that were sorted to DPS using FSS for city carrier delivery. For FY 2017, the FSS leakage was 20.10 percent.

- b. A comparison of FSS Scorecard results from FY 2013 to FY 2017 is provided below. Note that FSS Leakage has been omitted because it was developed in FY 2017.

Performance Metric	FY13	FY14	FY15	FY16	FY17
Throughput per hour (pph)	8,985	8,746	8,840	8,326	8,111
Delivery Point Sequence (DPS)	57.90%	58.57%	59.99%	56.73%	54.71%
Mail Pieces At-Risk	5.84%	6.15%	5.34%	5.67%	5.83%

*Sources:
Throughput per hour: WebEOR
DPS%: EDW
At-Risk%: MIRS*

While the FSS Scorecard performance metrics have fluctuated from FY 2013 to FY 2017, the scorecard has been effective in measuring critical aspects of FSS performance at each processing location. The scorecard

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

is distributed weekly to Headquarters, Area, and Field managers. Each Area is responsible for hosting weekly teleconferences to review FSS performance with their facilities. As explained in response to part a. above, the Postal Service developed the FSS Leakage Visualization report in FY 2017.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

2. The Postal Service states that the increase in USPS Marketing Mail Flats “was due in part to the migration of [FSS] pieces from Flats to Carrier Route Flats as a result of the Docket No. R2017-1 price change.” FY 2017 ACR at 15. Please identify the other factors that contributed to the increase in USPS Marketing Mail Flats costs.

RESPONSE:

The Postal Service believes the classification change to FSS Carrier Route pieces was the primary cause of the increase in USPS Marketing Mail Flats costs during FY 2017. Other factors that contributed to the increase in USPS Marketing Mail Flats costs include a 1.1 percent increase in the average mail processing wage rate over FY 2016, and the productivity declines exhibited by several MODS operation groups relevant to USPS Marketing Mail Flats processing in FY 2017 over SPLY, notably AFSM 100 sorting (down 7 percent overall), FSS (down 3 percent), and automated bundle sorting (down 1 percent).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

3. The FY 2010 ACD directed the Postal Service to provide a statement that included "the estimated timeline for phasing out [the flats product] subsidy."² Please provide a timeline of when the Postal Service anticipates the USPS Marketing Mail Flats product will have a cost coverage at or above 100 percent.

RESPONSE:

The Postal Service is not able to estimate such a timeline. While the Postal Service has provided a schedule of future above-CPI price increases, the product's unit cost changes year-to-year, and CPI is also unpredictable, particularly over the long term.

The Postal Service remains committed to taking measures to improve the product's cost coverage. On January 21, 2018, the Postal Service increased prices for USPS Marketing Mail Flats well above the average increase for USPS Marketing Mail products overall (2.167 percent for Flats versus 1.936 percent for USPS Marketing Mail overall).

² Docket No. ACR2010, Annual Compliance Determination, March 29, 2011, at 107.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

4. The Postal Service states that additional bins for bundle sorting machines have reduced the need for secondary sortation. FY 2017 ACR at 27. Please provide an estimate of the cost reduction resulting from this decreased need for secondary sortation.

RESPONSE:

At this time, the Postal Service cannot provide an estimate of the cost reduction resulting from fewer secondary sorts in FY 2017 for two main reasons. First, the estimated cost of a bundle sortation activity is measured in the USPS Marketing Mail flats cost models provided in folder USPS-FY17-11. The costs reported in these models are an aggregate of primary (for mailer-entered mail) and secondary (for downstream operations) sortation costs. In most operations, the distinction between primary and secondary sort cannot be made for all bundles.

Second, the Postal Service's deployment of the additional bins on automated equipment occurred throughout FY 2017, during which time facilities were continuously optimizing machine configurations. Because the configurations were routinely in flux, the Postal Service was not able to conduct a systematic analysis of bundle sortation reductions. Nevertheless, the Postal Service is able to recognize that such reductions reduce or eliminate the need for secondary bundle sortation.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

5. In the FY 2016 Annual Compliance Determination, the Commission stated “the Postal Service should explore and implement opportunities to further reduce the unit cost of Standard Mail Parcels and report on those opportunities and results in the FY 2017 Annual Compliance Report.”³ Please identify and explain any efforts by the Postal Service to reduce the unit cost of USPS Marketing Mail Parcels in FY 2017.

RESPONSE:

There were no specific efforts to reduce the unit cost of USPS Marketing Mail Parcels in FY 2017. However, the deployment of additional bins on APBS machines reduced the number of sortation, which likely resulted in lower costs. Note that, compared with letter-shaped and flat-shaped pieces, parcel-shaped pieces are a relatively small fraction of total Marketing Mail volume, and the opportunities to achieve substantial overall cost improvements are correspondingly more limited.

³ Docket No. ACR2016, Annual Compliance Determination, March 28, 2017, at 59.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

6. Please refer to the operational changes designed to reduce flats costs. See FY 2017 ACR at 25-31.
- a. Please confirm that all of the operational changes discussed were also in effect during FY 2016. If not confirmed, please identify the operational changes not in effect in FY 2016.
 - b. Please explain if the Postal Service is undertaking any new operational changes in FY 2018 to reduce flats costs. If new operational changes are planned, please discuss those changes.

RESPONSE:

- a. Not confirmed; all operational changes discussed in the FY 2017 ACR were not in effect during FY 2016. The operational initiatives discussed in the Postal Service's FY 2017 ACR that occurred exclusively in FY 2017 are as follows:
 - The bin expansion of the APPS fleet, addition of 7 SPSS and 3 APBS, and removal of 50 AFSSM 100 machines from processing plants (page 27)
 - The transition from the Service Performance Diagnostics tool system to the Informed Visibility System (page 28)
 - The 6 Lean Six Sigma projects and 13 initiatives undertaken as part of the Lean Mail Processing program (page 29)
 - The addition of attributes such as job number, CRID, and daily data to the internal dash board designed to help address bundle breakage (page 30)

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

- Development of Bundle Leakage data, and tracking of 5-Digit and Carrier Route Bundles with pieces scanned on the AFSM 100 (page 31)
- b. The Postal Service is planning to undertake new operational changes in FY 2018 to reduce flats costs. Initial plans are to remove 13 AFSM 100s nationwide. The AFSM reduction is projected to increase productivities and consolidate sortation to minimize handling units. The Postal Service is examining whether additional opportunities exist to further reduce the AFSM 100 fleet nationwide.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

7. Please refer to Library Reference USPS–FY17–NP31, January 12, 2018, files “ChIR 1 Q2 - QS Link - Final 2016.pdf” and “ChIR 1 Q3 - QS Link - YTD 2017.pdf,” and Library Reference USPS–FY16–NP31, January 13, 2017, files “ChIR.3.Q.8 - UPU QS Link Performance December 2015_Redacted.pdf” and “ChIR.3.Q.9. - UPU QS Link Performance November 2016_Redacted.pdf.” Please explain the decline in Inbound Letter Post service performance from CY 2016 to CY 2017 (year-to-date).

RESPONSE:

As shown in documents cited in this question, although the CY 2017 (year-to-date) on-time performance percentage is lower than the CY 2016 percentage, the CY 2017 (year-to-date) percentage is higher than the CY 2015 percentage and is also higher than the average of the CY 2015 and CY 2016 percentages. It should be noted that the CY 2017 percentages could have been affected by miscommunication that resulted in the Postal Service prematurely ending its relationship with IPC as provider for QLMS measurement at start of 2017 without arranging for an alternative provider to begin sampling. This resulted in no provider or valid sample size information from January through the first week of March 2017.

The following contributed to the service performance decline during CY 2017 in comparison to CY 2016:

- The Postal Service received heavy inbound volume from various foreign posts throughout the year that commingled Letters and Flats together with Small Packets, which impacted operational flows; different mail products are processed in separate mail processing facilities (this causes mail backflows from one site to another).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

- In 2017, as a result of operational realignments, the Postal Service reallocated letter mail processing equipment from the Chicago International Service Center (ISC) to a domestic processing facility to enable operational efficiencies.
- Natural disasters plagued the nation and impacted Postal Service operations; Hurricanes Harvey, Irma, and Maria devastated Texas, Florida, and the Caribbean, and northern California wildfires ravaged the state, impacting the San Francisco ISC mail processing and customer service operations in late August through the end of October.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

8. Please refer to the Postal Service's response to question 2 of Commission Information Request No. 2 in Docket No. ACR2008,⁴ in which the Postal Service summarized the major differences between the Universal Postal Union Quality Link Measurement System and International Mail Measurement System. Please provide an updated summary of the differences between these systems.

RESPONSE:

The Universal Postal Union (UPU) Quality Link Measurement System (QLMS) differs from the International Mail Measurement System (IMMS) in various aspects described below, including with respect to the third-party provider conducting the sampling; mail flows measured; measurement period; geographical areas measured; origin countries measured; granularity of results; the means of measurement; and the calculation of performance.

Third-party provider conducting sampling

QLMS testing during CY 2016 and CY 2017 was conducted by TNS, a subcontractor for the International Post Corporation. IMMS testing is conducted by IBM, similar to domestic EXFC sampling.

Mail flows measured

QLMS measures inbound international letter mail flows. IMMS measures both inbound and outbound letter mail flows.

⁴ Docket No. ACR2008, Responses of the United States Postal Service to Questions 2-12 of Commission Information Request No. 2, February 6, 2009, question 2.

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 5

Measurement period

QLMS is a calendar year measurement spanning January through December. IMMS is a fiscal year measurement from October through September.

Geographical areas measured

QLMS measures the service to seven U.S. metropolitan areas receiving international mail. The design of the sampling follows the criteria set forth by the UPU. During CY 2016 and CY 2017, those areas included New York, Miami, Chicago, San Francisco, Los Angeles, Washington, DC, and Boston. The IMMS measures service in virtually all 3-digit ZIP Code areas, with the sample volume designed to meet statistical precision targets for inbound and outbound scores for each postal area. The sample volumes within each area are based on historical mail volumes.

Origin countries measured

QLMS measures inbound mail flows for the U.S. from all countries participating in the Quality Link to Terminal Dues. IMMS measures inbound and outbound mail flows for a small number of countries, which represented about 85% of the total inbound First-Class Mail volume in FY 2017.

Granularity of results

QLMS reports a single on-time performance using domestic service standards from test item arrival at an International Service Center (ISC) to delivery destination. IMMS reports service by 2-Day, 3/5-Day service standards and combined, with results

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 5

available at the postal area and national levels for inbound, outbound, and inbound/outbound combined.

Means of measurement and calculation of performance

The QLMS measurement uses Radio Frequency Identification (RFID) capture of signals emitted from transponders within test letters to document movement of mail in the ISCs and downstream facilities. IMMS relies on Intelligent Mail Bar-codes and sortation data on USPS letter processing equipment to track performance. QLMS measures transit time vs. service standard from the arrival at the ISC to receipt by the receiving panelist. IMMS measures transit time vs. service standards from the first processing on automated letter sorting equipment at the ISC to receipt by the panelist for inbound mail. IMMS measures transit time vs. service standards for outbound mail from deposit at a collection point through final processing on letter sorting equipment at the ISC.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

9. Please refer to the Postal Service response to Chairman's Information Request No. 1, question 5.⁵
- a. Please file revised financial workpapers for the Inbound Market Dominant PRIME Tracked Service Agreement (Docket Nos. R2017-3 and MC2017-71). These revised workpapers should reflect actual volume and participating countries data, as discussed in the Response to CHIR No. 1, question 5.
 - b. Please provide details regarding the expected improvements in the net financial position or operations of the Postal Service. The expected improvements in the net financial position of the Postal Service must reflect actual volume and participating countries data, as discussed in the Response to CHIR No. 1, question 5.

RESPONSE:

Please see the response filed under seal as part of USPS-FY17-NP35, which consists of text filed as an attachment to the Preface, plus two Excel files.

⁵ Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 1, January 12, 2018, question 5 (Response to CHIR No. 1).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

10. Please refer to Library Reference USPS–FY17–NP2, December 29, 2017, folder “ICRA Core Files,” Excel file “Inputs.xls,” tab “Product-Specific Costs,” row 32.
- a. Please confirm that the product-specific costs of the PRIME agreements are specific to each agreement and not a general cost for participation in PRIME. If not confirmed, please explain why the Postal Service distributed these costs among these products.
 - b. Please explain why this cost is non-additive.

RESPONSE:

- a. Not confirmed. The Product-Specific cost shown in Library Reference USPS–FY17–NP2, December 29, 2017, folder “ICRA Core Files,” Excel file “Inputs.xls,” tab “Product-Specific Costs,” row 32 is the membership fee paid by the Postal Service to PRIME. The total membership fee is allocated among the three PRIME agreement products to be consistent with the treatment established in the financial models that accompanied the filings to establish the three products.

The first product, Inbound Market Dominant Express Service Agreement 1, which is the subject of Docket No. R2011-6, included the entire membership fee because it was the only PRIME agreement to which the Postal Service had acceded at the time of filing. The second product, Inbound Market Dominant Registered Service Agreement 1, which is the subject of Docket No. R2016-6, shared one-half of the membership fee with the first agreement based on the rationale that the fee should be allocated among the two PRIME agreements to which the Postal Service

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

had acceded at the time of filing. The third product, Inbound Market Dominant PRIME Tracked Service Agreement, which is the subject of Docket No. R2017-3, shared one-third of the membership fee with the other two products based on the rationale that the fee should be allocated among the three PRIME agreements to which the Postal Service had acceded at the time of filing.

- b. This cost is non-additive because the PRIME cost was inadvertently omitted from the sum that is subtracted from Library Reference USPS–FY17–NP2, December 29, 2017, folder “ICRA Core Files,” Excel file “Inputs.xls,” tab “Product-Specific Costs,” cell J4. There are two impacts that would result from adding back the PRIME cost into the sum.

One, the Other Costs in cell H60 of Library Reference USPS–FY17–NP2, December 29, 2017, folder “ICRA Core Files,” Excel file “Reports (Unified).xls,” tab “A Pages Summary” would decrease by the amount of the PRIME membership fee.

Two, Inbound Single-Piece First-Class Mail Product Specific Costs in cell H32 of Library Reference USPS–FY17–NP2, December 29, 2017, folder “ICRA Core Files,” Excel file “Reports (Unified).xls,” tab “A Pages (md)” would increase by the amount of the PRIME membership fee.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 5**

The impact is less than one-tenth of a percent change in Other Costs and less than one-hundredth of a percent change in total Inbound Single-Piece First-Class Mail costs.