Postal Regulatory Commission
Submitted 2/12/2018 4:11:47 PM
Filing ID: 103757
Accepted 2/12/2018

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 1-4 OF CHAIRMAN'S INFORMATION REQUEST NO. 14

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 14, issued on February 5, 2018. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 12, 2018

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 14

1. Please refer to Responses to CHIR No. 5, question 7,[1] and Library Reference USPS–FY17–NP31, January 12, 2018, file "ChIR 1 Q3 - QS Link - YTD 2017.pdf." The Postal Service states that it "prematurely ended its relationship with the [International Post Corporation (IPC)] as provider for QLMS measurement at [the] 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." Response to CHIR No. 5, question 7. However, in file "ChIR 1 Q3 - QS Link - YTD 2017.pdf," the Postal Service provides monthly service performance results for January and February 2017. Please provide the source of the service performance data used in QLMS for the months of January and February 2017. If the Postal Service cannot provide a source, please explain how the service performance for January and February 2017 was calculated.

RESPONSE:

The source of the service performance results for the months of January and February 2017 is the same as that of the monthly reports issued for the remainder of the year. The Universal Postal Union (UPU) issues the QS Link Report, which is the Quality Link to Terminal Dues. Although the miscommunication described in the Postal Service's response did indeed result in no provider or valid sample size information from January through the first week of March 2017, the International Post Corporation had some results for January and February. January results were likely for test pieces inducted toward the end of December 2016. February results were from test pieces inducted at the re-start of measurement in mid-February, when IPC resumed its role as provider through the end of CY 2017. However, the sample sizes during January and February were not numerous enough to be statistically valid on their own. The numbers of

[1] Responses of the United States Postal Service to Questions 1-10 of Chairman's Information Request No. 5, January 26, 2018 (Responses to CHIR No. 5).

samples increased during the remainder of the calendar year, which ensured that the annual total was based on a statistically valid sample size.

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 14

2. Please refer to Library Reference USPS-FY17-29, December 29, 2017, file "FY17-29 Service Perf Report.pdf" (Service Performance Report). The Postal Service states that it relies "on the data for their domestic analogs from EXFC (for Flats) and USPS Tracking (for Parcels)." Service Performance Report at 3. Please specify which parcel products are used to produce performance estimates for International Mail Measurement System.

RESPONSE:

The International Mail Measurement System uses domestic First-Class Package Service – Retail (previously known as the Single-Piece First-Class Mail® Parcels product) as a proxy to produce performance estimates for the parcels.

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 14

3. Please refer to Library Reference USPS-FY17-11, December 29, 2017, Excel file MM flats.xls, tab "FY VOLUME CARRIER ROUTE" and Library Reference USPS-FY16-11, December 29, 2016, Excel file STD flats.xls, tab "FY VOLUME CARRIER ROUTE."

a. Please confirm that Library Reference USPS-FY17-11, Excel file MM flats.xls, tab "FY VOLUME CARRIER ROUTE" contains additional data in rows 24 through 30 compared to Library Reference USPS-FY16-11, Excel fiel STD flats.xls, tab "FY VOLUME CARRIER ROUTE." If confirmed, please provide a narrative that explains the purpose of the additional data in Library Reference USPS-FY17-11, Excel file MM flats.xls, tab "FY VOLUME CARRIER ROUTE."

b. Please provide a narrative that explains how the additional data in Library Reference USPS-FY17-11, Excel file MM flats.xls, tab "FY VOLUME CARRIER ROUTE" is used in the model.

c. Please explain the rationale for not using the additional data from the tab in Library Reference USPS-FY17-11, Excel file MM flats.xls, tab "FY VOLUME CARRIER ROUTE" cells F25:J29 and cells F35:J35 in Library Reference USPS-FY17-11, Excel file MM flats.xls, tab "ENTRY PROFILE CARRIER ROUTE."

d. Please explain the rationale for not using the additional data from the tab in Library Reference USPS-FY17-11, Excel file MM flats.xls, tab "FY VOLUME CARRIER ROUTE" cells F25:J29 and cells F35:J35 in Library Reference USPS-FY17-11, Excel file MM flats.xls, tab "BUNDLE SORT CR."

RESPONSE:

a. Confirmed. The additional data in rows 24-30 Excel file 'USPS-FY17-11 MM flats.xls', tab "FY VOLUME CARRIER ROUTE" provide estimates of the characteristics of mail prepared in FSS bundles that pays Carrier Route rates. In addition, rows 34-36 provide characteristics of mail prepared in FSS bundles paying Carrier Route Basic on Carrier Routes pallet rates. It was necessary to include these volumes in USPS-FY17-11 because these are volumes that migrated to the Carrier Route product in FY 2017. In FY 2016, these volumes would have been in the Flats product paying FSS rates.

b. The additional data in USPS-FY17-11, Excel file 'USPS-FY17-11 MM flats.xls', tab "FY VOLUME CARRIER ROUTE" are used to calibrate the modeled costs to CRA costs. This is done in tab "CR CRA ADJ UNIT COSTS", cell F24.

c.-d. The additional data cited from USPS-FY17-11, Excel file 'USPS-FY17-11 MM flats.xls', tab "FY VOLUME CARRIER ROUTE" cells F25:J29 and cells F35:J35 were not used in tabs "ENTRY PROFILE CARRIER ROUTE" and "BUNDLE SORT CR" because, as explained next, the Postal Service retreated from a preliminary determination to incorporate such data into the model.

In Docket No. R2018-1, the Postal Service originally presented a version of the Marketing Mail Flats model which retained the logic of the Docket No. ACR2016 model (and which the Postal Service thus believed did not involve a change in methodology), but weighted the modeled costs of FSS mail with non-FSS mail within each rate element to calculate avoided costs. In Docket No. R2018-1, the Commission did not use the new Postal Service model, but instead used the model from Docket No. ACR2016 for cost avoidance purposes. [2] The Commission's decision in Docket No. R2018-1 to use the ACR 2016 model resulted in the Postal Service using that model as well in the corresponding filing in Docket No. ACR 2017 (i.e., USPS-FY17-11). For that reason, while the data in question are still in the file, they do not feed into the model.

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[2] *See* Response of the United States Postal Service to Chairman's Information Request No. 1, Docket No. R2018-1 (Oct. 19, 2017), at Response to Question 7 (filing a revised version of Attachment B, which replaced the weighted cost estimates for six Marketing Mail workshare categories with their avoided costs from the FY 2016 ACR).

However, the Postal Service is still of the view that weighting the modeled costs of FSS mail with non-FSS mail within each rate element to calculate avoided costs is appropriate and would constitute an improvement. The Marketing Mail Flats model originally filed in Docket No. R2018-1 used the modeled costs of 5-Digit rated mail in FSS bundles on non-FSS-Scheme pallets to proxy for CR rated mail in FSS bundles on non-FSS-Scheme pallets. Carrier Routed mail in FSS-bundles tends to come from denser mailings and, therefore, tends to be containerized in finer presorted containers. For this reason, the Postal Service believes that using the entry profile for Carrier Route rated FSS mail provides more accurate estimates of the processing costs of this mail.

However, the current inclusion or omission of these data does not have any material effect on the measured cost avoidances. To illustrate, the cost avoidances that result from including the data in Excel file 'USPS-FY17-11 MM flats.xls', tab "FY VOLUME CARRIER ROUTE" cells F25:J29 and cells F35:J35 in tabs "ENTRY PROFILE CARRIER ROUTE" and "BUNDLE SORT CR," and creating tabs for CR FSS SCHEME and CR FSS OTHER mail, can be seen in the attached Excel file ChIR.14.Q.3.USPS-FY17-11.MM.Flats.xls.

The table below compares the Summary table from the Docket No. ACR2017 model with the ChIR14 model provided in the attached Excel file. The Postal Services believes the ChIR14 model is an improvement and adheres to Commission methodology. However, the overall changes to cost avoidances would be relatively small, primarily because of the CRA adjustment factor effects.

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 14

Comparison of Mail Processing Unit Costs between USPS-FY17-11 and Revised Model filed in response to ChIR 14, Q3.

COMPARISON CHART		ACR2017	CHIR14 Q3
FROM CR CRA ADJ UNIT COSTS SHEET		**Mail Proc**	**Mail Proc**
Rate Category	FSS Zone / Non-FSS Zone	**Unit Cost**	**Unit Cost**
Carrier Route		4.50	4.52
Carrier Route - CRTS Pallet		2.48	2.48
Carrier Route - FSS Other		14.36	14.27
Carrier Route FSS Scheme		13.62	13.67

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 14

4. The Postal Service states that "[b]undle breakage performance from FY 2016 to FY 2017 increased by 9.4 percent." FY 2017 ACR at 29-30. Please provide supporting data that show the 9.4 percent increase in bundle breakage performance.

RESPONSE:

Upon further review of its bundle breakage performance data, the Postal Service identified inconsistencies in reporting due to variability of machine types included in the reports, and bundle breakage logic. Consequently, the Postal Service has identified a more accurate method of retrieving bundle breakage performance data and has standardized its process for reporting these data to the Commission. As a result of using the revised method, the data have changed, and the Postal Service provides the below table to support an increase in bundle breakage performance of 8.2 percent from FY 2016 to FY 2017.

FY	Total Bundles	Intact Bundles	Broken Bundles	%Broken
2017	492,575,354	478,693,351	13,882,003	2.82%
2016	497,658,730	484,698,111	12,960,619	2.60%

These data represent bundles processed on the Automated Package Processing System (APPS) and Automated Parcel and Bundle Sorter (APBS) using 3-scan logic. In previous reports, in addition to the APPS and APBS, the bundle breakage data included the Passive Adaptive Scanning System (PASS), which are located in delivery units and do not indicate broken bundles in processing. The Postal Service, therefore, filtered out the PASS data from the bundle breakage performance report that produced the results reported above. In

addition, the Postal Service relied on 3-scan logic instead of the previously relied upon 2-scan reports, because the latter method inflates the incidence of bundle breakage by creating false positive results by recording a broken bundle when a mail service provider redistributes pieces into smaller bundles that differ from the information supplied in their electronic documentation (eDoc). The Postal Service has determined that 3-scan logic is more accurate and should be used for bundle breakage performance reports.