

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2018

Docket No. ACR2018

CHAIRMAN'S INFORMATION REQUEST NO. 3

(Issued January 11, 2019)

To clarify the basis of information provided by the Postal Service in its FY 2018 Annual Compliance Report (ACR), filed December 28, 2018,¹ the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than January 18, 2019.

Special Services

1. Please refer to the Postal Service's discussion of the Special Services product Customized Postage in Docket No. ACR2018. FY2018 ACR at 42. Please provide a timeline for when the Postal Service expects the revised authorization for Customized Postage vendors to be complete, when it intends to collect all applicable fees and revenue, when it can expect any additional payments, and when this information will be submitted to the Commission.

¹ United States Postal Service FY 2018 Annual Compliance Report, December 28, 2018 (FY 2018 ACR).

Commission Flats Directives

2. In its FY 2018 ACR, the Postal Service asserts that “[w]here possible, [it] has developed key metrics to monitor and gauge the operational impact of changes, specifically related to flat mail processing.” FY 2018 ACR at 26. Later in the same section, the Postal Service asserts that “[i]n FY 2018, [it] continued to add sortation bins to the [Automated Parcel and Bundle Sorter (APBS)] APBS and [Automated Package Processing System (APPS)] APPS fleet.” *Id.* at 28. Please identify the “key metric(s)” used to monitor and gauge the operational impact of adding bins to the APBS and the APPS machines for flat mail processing. If the Postal Service is unable to identify such a metric, please identify the general metric used to gauge the operational impact of the adding bins to the APBS and APPS machines. If the Postal Service is unable to identify any metric to monitor the operational impact of adding bins to the APBS and APPS machines, please explain why the Postal Service is unable to identify a metric.
3. The Postal Service states that “[i]n FY 2018. . . . a new flats bundle and package sorter was introduced—the Enhanced Package Processing System (EPPS).” *Id.* at 27. The Postal Service explains that one EPPS machine was added in FY 2018, and that it “intends to add an additional EPPS in FY 2019.” *Id.* at 28 n.37.
 - a. Please provide the volume of bundles and the volume of packages processed on the EPPS machine in FY 2018. In addition, provide all volume data related to the classes, products, and shapes of mail processed on the EPPS machine in FY 2018.
 - b. Please provide the number of packages processed per hour for the EPPS machine in FY 2018.
 - c. Please provide the number of bundles processed per hour for the EPPS machine in FY 2018.

- d. The Postal Service states that the “automated sorter induction and 440 sort bins” on the EPPS machine “eliminate[] the need to manually singulate and face packages for automated processing, thereby achieving higher productivity than any of the Postal Service’s other package sorting systems.” *Id.* at 28 (footnote omitted). Please provide data to support this statement. At a minimum, the data should show the actual and planned productivities for EPPS, APBS, and APPS.
 - e. Please identify the “key metric(s)” used to “monitor and gauge the operational impact, specifically related to flat mail processing,” with regard to the EPPS machine. *See id.* at 26. If the Postal Service is unable to develop such a metric for the EPPS machine for flat mail processing, please identify the general metric used to gauge the operational impact of the EPPS machine. If the Postal Service is unable to identify any metric to monitor the operational impact of the new EPPS machine, please explain why the Postal Service is unable to identify such a metric.
 - f. Please explain if they Postal Service considered cost savings when introducing the EPPS machine. If the Postal Service did consider cost savings, please provide cost savings estimates for the EPPS machine. If cost savings were not considered, please explain why not.
4. The Postal Service asserts that it “removed 59 [Automated Flat Sorting Machine (AFSM)] AFSM 100 machines from processing plants in FY 2018.” *Id.* at 28. Please identify the “key metric(s)” used to “monitor and gauge the operational impact, specifically related to flat mail processing,” with regard to removing AFSM 100 machines. *See id.* at 26, 28. If the Postal Service is unable to develop such a metric for removing AFSM 100 machines with regard to flat mail processing, please identify the general metric used to gauge the operational impact of removing AFSM 100 machines. If the Postal Service is unable to identify any metric to monitor the operational impact of removing AFSM 100

machines, please explain why the Postal Service is unable to identify such a metric.

5. The Postal Service states that the increase in cost for USPS Marketing Mail Flats in FY 2018 “was likely due *in part* to movement of Flats volume to High Density Flats.” *Id.* at 17 (emphasis added). Please identify the other factors that contributed to the increase in USPS Marketing Mail Flats costs.
6. In the FY 2018 ACR, the Postal Service identifies operational changes designed to reduce flats costs. *See id.* at 26-32. Please explain if the Postal Service is undertaking any new operational changes in FY 2019 to reduce flats costs. If any new operational changes are planned, please discuss those changes and any intended metrics that will be used to analyze the operational impact of those changes.

USPS Marketing Mail Workshare Discounts

7. In FY 2018, the passthrough for Automation Mixed Automated Area Distribution Center (AADC) Letters was 216.7 percent. *Id.* at 20. The Postal Service justifies this discount pursuant to 39 U.S.C. § 3622(e)(2)(D). *Id.*
 - a. Please explain how setting this workshare discount equal to its avoided costs would impede the efficient operation of the Postal Service.
 - b. Please identify and explain all operational efficiencies not captured in the cost avoidance models that necessitate setting this workshare discount above its avoided costs. Please provide supporting workpapers.
 - c. Please state whether the Postal Service plans to reduce this discount in its next market dominant price adjustment. If the Postal Service does not plan to reduce this discount, please explain why not.
8. In FY 2018, the passthrough for Automation Mixed ADC Flats was 189.5 percent. *Id.* at 21-22. The Postal Service justifies this discount pursuant to 39 U.S.C. § 3622(e)(2)(D). *Id.*

- a. Please explain how setting this workshare discount equal to its avoided costs would impede the efficient operation of the Postal Service.
- b. Please identify and explain all operational efficiencies not captured in the cost avoidance models that necessitate setting this workshare discount above its avoided costs. Please provide supporting workpapers.
- c. Please explain the operational changes that took place in FY 2018 that necessitate the application of the operational efficiency statutory exception, bearing in mind that the exception was not cited in Docket No. R2019-1 when the discount was set equal to its avoided costs.²
- d. Please state whether the Postal Service plans to reduce this discount in its next market dominant price adjustment. If the Postal Service does not plan to reduce this discount, please explain why the Postal Service is no longer committed to aligning this discount with avoided costs.³

Consumer Access

9. Please refer to page 63 of the FY 2018 ACR where the Postal Service states “Remaining Suspension Status EOY FY18: **250**” (emphasis in original) and Library Reference USPS–FY18–33 where the Postal Service indicates that there are 344⁴ remaining suspensions at the end of FY 2018.
 - a. Please reconcile and provide an explanation for the two different counts of suspended Post Offices at the end of FY 2018.
 - b. On page 65 of the FY 2018 ACR, the Postal Service provides a revised schedule for resolving the remaining Post Office suspensions. This

² See Docket No. R2019-1, United States Postal Service Notice of Market-Dominant Price Change, October 10, 2018, at 17.

³ See Docket No. ACR2016, United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016, at 43.

⁴ Docket No. ACR2018, Library Reference USPS–FY18–33, Excel file “PostOfficesFY2018.xlsx,” tab “Suspension Summary,” cell H26, December 28, 2018.

schedule of projected suspension resolutions begins with 250 suspended offices. Please confirm that the Postal Service has a schedule accounting for the stated 344 suspensions. If confirmed, please provide that schedule. If not confirmed, please explain.

Service Performance

10. Please refer to Docket No. RM2018-1, Response of the United States Postal Service to Commission Information Request No. 2, May 29, 2018, PP2-4 question 2 (Docket No. RM2018-1 Response to CIR No. 2) and Docket No. RM2018-1, Library Reference USPS–RM2018–1/2, Excel file “CIR2.PP2-4 Q2.Top 5 Root Cause Point Impacts.xlsx,” May 30, 2018 (Docket No. RM2018-1 Response to CIR No. 2, Root Cause Excel File).
 - a. Please confirm that the data provided in Docket No. RM2018-1 Response to CIR No. 2, Root Cause Excel File refer to “the amount [number of percentage points] by which on-time performance decreased due to each specific root cause of failure.” Docket No. RM2018-1, Response to CIR No. 2, PP2-4 question 2.
 - b. If part a of this question is not confirmed, please explain.
 - c. Please explain how the data provided in Docket No. RM2018-1 Response to CIR No. 2, Root Cause Excel File was calculated.
11. Please refer to Tables A and B below.
 - a. Please confirm that Table A displays the level of nationwide origin processing delays reported for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, by percentage, by quarter. If not confirmed, please explain.

Table A

	FY 2015	FY 2016	FY 2017	FY 2018
Q1	1.47	3.54	3.58	5.10
Q2	4.57	2.68	2.57	4.64
Q3	2.40	1.32	1.47	1.76
Q4	1.57	1.19	1.59	1.79

Source: Library Reference USPS–FY18–29, December 28, 2018, Excel file “ACD.FCM.FY18Q3Q4.public - v01.xlsx,” tab “Q3a;” Docket No. ACR2017, Library Reference USPS–FY17–29, December 29, 2017, Excel file “Response2 - ACD.FCM.FY17Q3Q4.pub.xlsx,” tab “Q3c;” Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-15 of Chairman’s Information Request No. 13, February 10, 2017, question 1.

- b. Please confirm that Table B displays the number of percentage points by which service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards decreased due to origin processing delays, by percentage, by quarter. If not confirmed, please explain.

Table B

	FY 2015	FY 2016	FY 2017	FY 2018
Q1	1.47	3.54	3.52	5.09
Q2	4.57	2.68	2.48	4.64
Q3	2.4	1.32	1.44	
Q4	1.57	1.19	1.58	

Source: Docket No. RM2018-1 Response to CIR No. 2, Root Cause Excel File.

Note: Table B does not contain data for FY 2018 Quarters 3 and 4 because the source file was provided to the Commission during FY 2018 Quarter 3.

- c. Please explain why the data appearing in Tables A and B are the same for FY 2015 Quarter 1 through FY 2016 Quarter 4, and different for FY 2017 Quarter 1 through FY 2018 Quarter 2.

- d. With respect to the other “root cause” data provided in Docket No. RM2018-1 Response to CIR No. 2, Root Cause Excel File, please confirm that the explanation given in response to part c of this question would apply. If not confirmed, please explain.

International Mail

12. Please refer to Library Reference USPS–FY18–NP2, December 28, 2018, folder “ICRA Core Files,” Excel file “Reports (Unified).xls,” tab “A Pages (md),” row 32. Please confirm that this row includes data for inbound air and surface International Direct Sacks – M-bags. See Mail Classification Schedule (MCS), section 2330.1.
 - a. If confirmed, please explain why these data are reported in this row instead of Excel file “Reports (Unified).xls,” tab “A Pages (c),” row 36.
 - b. If not confirmed, please explain how inbound air and surface International Direct Sacks – M-bags, as reported in Excel file “Reports (Unified).xls,” tab “Pivot1,” row 221, are included in Excel file “Reports (Unified).xls,” tab “A Pages (c),” row 36.
13. Please refer to Library Reference USPS–FY18–NP9, December 28, 2018, Excel file “IB LP Shape by UPU Group FY18.xlsx.” Please confirm that “UPU” data includes data for the Inbound Letter Post product⁵ only and does not include data for inbound air and surface International Direct Sacks – M-bags.⁶ If not confirmed, please refile this spreadsheet so that the “UPU” data contains data for the Inbound Letter Post product only.

⁵ As defined in MCS section 1130.

⁶ See, e.g., Excel file “IB LP Shape by UPU Group FY18.xlsx,” tab “Summary,” column D; Excel file “IB LP Shape by UPU Group FY18.xlsx,” tab “ICRA Comparison,” column C.

International Mail Service Performance

14. Please refer to Library Reference USPS–FY18–NP30, December 28, 2018, files “UPU QS Link Perf 2017_redacted.pdf” and “UPU QS Link Perf 2018 to Oct_Redacted.pdf,” and Docket No. ACR2017, 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.” Please explain the decline in Inbound Letter Post service performance from CY 2017 to CY 2018 (year-to-date).
15. Please refer to USPS–FY18–NP30, folder “International Inbound LettersFY18,” Excel files “1_Intl_FailedReads_Analysis_FY18_W_DEC23.xls,” “2_Intl_FailedReads_Analysis_FY18_W_MAR24.xls,” “3_Intl_FailedReads_Analysis_FY18_W_JUN16.xls,” and “4_Intl_FailedReads_Analysis_FY18_W_SEP22.xls.”
 - a. Please identify and describe the events that may cause a “Dispatch/Transportation” failure.⁷
 - b. Please identify and describe the events that may cause a “Delayed in Destinating Plant” failure. See, e.g., *id.* cell F3.
 - c. Please identify and describe the events that may cause a “Left Automation” failure. See, e.g., *id.* cell F142.
16. Please refer to Library Reference USPS–FY18–29, December 28, 2018, PDF file “FY18-29 Service Performance Report.pdf.”
 - a. The Postal Service states that one of the steps it is taking to improve performance is for individual International Service Centers (ISCs) to conduct projects and initiatives.⁸ Please describe these projects and initiatives, their goals, the service performance problems they are

⁷ See, e.g., USPS–FY18–NP30, folder “International Inbound LettersFY18,” Excel file “1_Intl_FailedReads_Analysis_FY18_W_DEC23.xls,” tab “Data Reduction,” cell F37.

⁸ USPS–FY18–29, file “FY18-29 Service Performance Report.pdf,” at 8.

designed to correct or improve, implementation dates, and participating ISCs.

- b. The Postal Service states that another of the steps it is taking to improve performance is a “Headquarters Black Belt Lean Six Sigma project[.]” USPS–FY18–29, file “FY18-29 Service Performance Report.pdf” at 8. Please include a discussion of the project, its goals, the service performance problems it is designed to correct or improve, implementation date, and participating ISCs.

Competitive Domestic Negotiated Service Agreements (NSA)

17. Please provide revenue, volume, weight, volume variable costs, and attributable costs data for the following eight Competitive domestic NSA products similar to the data filed for other competitive domestic NSA products in Library Reference USPS–FY18–NP27, December 28, 2018. If the data are not available, please explain.

Contract Grouping	Contract	MC DOCKET	CP DOCKET	Implementation Date	Termination Date
First-Class Package Service (FCPS)	Contract 51	MC2016-119	CP2016-149	April 21, 2016	April 20, 2019
	Contract 54	MC2016-121	CP2016-178	June 7, 2016	June 6, 2019
Priority Mail Express	Contract 30	MC2016-32	CP2016-38	December 23, 2015	December 22, 2018
	Contract 34	MC2016-93	CP2016-118	March 17, 2016	March 16, 2019
	Contract 38	MC2016-161	CP2016-232	July 11, 2016	July 10, 2019
Priority Mail Express & Priority Mail	Contract 22	MC2016-20	CP2016-26	December 9, 2015	December 8, 2018
	Contract 52	MC2018-18	CP2018-40	November 13, 2017	November 12, 2020
Priority Mail & First-Class Package	Contract 65	MC2018-61	CP2018-101	January 2, 2018	January 1, 2019

Competitive International Products

18. 39 C.F.R. § 3050.21(j)(2) requires the Postal Service to provide “any third-party service performance results upon which any financial penalty or bonus is determined, and identify the amount of any forfeited revenue.”
- a. Please confirm that the Postal Service did not provide third-party service performance results for Inbound EMS 2 or any amounts of forfeited revenue, if applicable. If confirmed, please provide:
 - i. The Postal Service’s EMS Cooperative report card for Quarter 4 of CY 2017 and its report cards for the first three quarters of CY 2018; and
 - ii. The amount of any forfeited revenue in Quarter 4 of CY 2017 and in Quarters 1-3 of CY 2018, if applicable, and an explanation of how these amounts are calculated.
 - b. Please confirm that the Postal Service did not provide third-party service performance results for Inbound Parcel Post or any amounts of forfeited revenue, if applicable. If confirmed, please provide:
 - i. The Postal Service’s Universal Postal Union service performance results for Inbound Parcel Post for July through December 2017, January through June 2018, and July through December 2018;⁹ and
 - ii. The amount of any forfeited revenue during these periods, if applicable, and an explanation of how these amounts are calculated.

⁹ If July through December 2018 results are not yet available, please so indicate and provide the results once they become available.

19. Please refer to the FY 2018 ACR at 69-70. The Postal Service states that “[t]he costs reported in the ICRA for the small residual portions of IPA that constitute the IPA product (non-NSA IPA) are obtained by calculating the costs for negotiated service agreements, along with drop ship cost savings, and then deducting those costs from total IPA costs.” FY 2018 ACR at 69-70. Please confirm that volume and revenue for non-NSA IPA are similarly calculated. If not confirmed, please explain how volume and revenue for non-NSA IPA are calculated.
20. For NSA IPA, non-NSA IPA, and total IPA mail, please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage.

By the Chairman.

Robert G. Taub