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ANNUAL COMPLIANCE REVIEW, 2018	Docket No. ACR2018

NOTICE OF THE UNITED STATES POSTAL SERVICE OF REVISIONS TO CERTAIN PAGES OF THE FY 2018 ANNUAL COMPLIANCE REPORT -- ERRATA
(February 11, 2019)

The United States Postal Service hereby provides notice of revisions to five pages of the FY 2018 Annual Compliance Report, originally filed on December 28, 2019. The changes are only material for some categories of International mail, but also cause what are essentially non-material changes in the data relating to broader aggregate categories as well. There are, for example, exactly offsetting changes in costs of approximately $10 million for total Market Dominant and total Competitive products. The impetus for these changes in the ACR text are the corrections in the FY 2018 ICRA materials provided today in revisions to USPS-FY18-NP2.

On pages 72-73 of the ACR as filed on December 28, 2018, the Postal Service noted that it was continuing to investigate concerns regarding the accuracy of cost estimates for certain International contracts. That investigation led to the need to update the ICRA. The corrected ICRA outputs from USPS-FY18-NP2 then have had an impact on the CRAs provided in USPS-FY18-1 and USPS-FY18-NP11, the incremental costs reported in USPS-FY18-43 and USPS-

FY18-NP10, and in the text of the ACR itself. A separate Notice has been filed today regarding revisions to those public and non-public folders.

The changes in the updated folders create the need to revise the text of the ACR itself. Those revisions are described below. The majority of the changes are simply substituting (mostly in tables and a few places in text) a new number for an old number, with very little difference between the two values. In the attached revised pages, all numbers that have changed are highlighted in gray. As noted below, however, in one place, an entire portion of text was replaced, and that is described but not highlighted.

Pages 9-10	Minor changes in the First-Class Mail table and following text
Page 68	Minor changes in Competitive Products table and following text
Pages 72-73	The discussion of the six contracts reported as noncompensatory in the original ACR has been rewritten, because in the revised ICRA, all contracts cover their costs. These changes are not highlighted.
Page 73	Minor changes in aggregate Competitive Product figures

Attached to this Notice are copies of the above-identified five revised pages of the FY 2018 Annual Compliance Report.

Respectfully submitted,

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Table 1: First-Class Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue ($million)	Attributable Cost ($million)	Contribution ($million)	Revenue/ Piece ($)	Cost/ Piece ($)	Unit Contribution ($)	Cost Coverage (%)
Single-Piece Letters/Cards	17,460	$8,625	$5,419	$3,207	$0.494	$0.310	$0.184	159.18%
Presorted Letters/Cards	37,871	$14,316	$4,634	$9,682	$0.378	$0.122	$0.256	308.93%
Flats	1382	$1,909	$1,554	$356	$1.382	$1.125	$0.257	122.89%
First-Class Mail Fees		$125						
Total First-Class Domestic Mail (incl. fees)	56,714	$24,976	$11,607	$13,244	$0.440	$0.205	$0.236	214.24%
Outbound Single-Piece First-Class Mail Int'l	132	$198	$139	$60	$1.501	$1.057	$0.444	142.04%
Inbound Letter Post	444	$423	$504	-$81	$0.952	$1.135	-$0.183	83.85%
Total First-Class Mail	57,290	$25,597	$12,482	$13,115	$0.447	$0.218	$0.229	205.07%

Overall, First-Class Mail products covered their attributable costs in FY 2018, with cost coverage of 205.07 percent, up from the recasted cost coverage of 204.17 percent[14] in FY 2017, marking the first year since FY 2015 that First-Class Mail cost coverage improved from the previous year. Reasons for this improved cost coverage include a higher percentage of high cost coverage Presort than lower cost coverage Single-Piece mailpieces, as well as the transfer of First-Class Mail Parcels to the competitive product list. Unfortunately, volumes for First-Class Mail products have been declining year-over-year, and while cost coverage for the class was higher than last

[14] For First-Class Mail as a whole, 204.17 percent is the FY 2017 cost coverage obtained by recasting using FY 2017 values from Appendix A of the Commission's Financial Analysis report for FY 2017, but applying the same aggregation procedures for Total First-Class Mail as applied in the FY 2018 CRA (in which the volume variable/product specific costs for the two International rows are added to the group incremental costs for Domestic First-Class Mail, as described on page 7 of the Preface to USPS-FY18-1).

year, total contribution is down from FY 2017. Total contribution fell from $14.0 billion in FY 2017 to $13.1 billion in FY 2018. Despite the overall decline in contribution, every First-Class Mail product except Inbound Letter Post covered its costs in FY 2018. Although First-Class Mail volume fell by 3.7 percent in FY 2018, the volume loss was not as steep as in FY 2017, when it dropped by 4.1 percent.

Inbound Letter Post did not cover its attributable costs in FY 2018 (absent consideration of additional revenue flows related to Inbound Letter Post, as noted below), but covered a greater proportion of its attributable costs as compared to FY 2017. As has been noted in past ACRs, the product's financial performance stems from its unique pricing regime. Currently, the Postal Service does not independently determine the prices for processing and delivery of foreign origin mail. Rather, these prices are presently set according to a Universal Postal Union (UPU) terminal dues formula established in the Universal Postal Convention. The Postal Service has been collaborating with other federal agencies, including the Department of State, which has lead responsibility for representation of the United States in the UPU, to improve cost coverage on Inbound Letter Post mail. It is important to keep in mind, however, that the pre-UPU Istanbul-Congress rates were in effect during the first quarter of FY 2018. The new Convention cycle effective in January 2018 includes progressive annual increases that will become effective in January of the next three calendar years (2019, 2020, and 2021). The January 1, 2018 and January 1, 2019 increases in terminal dues should improve the cost coverage for this product for FY 2019, and the Postal Service is also working with the Administration to move to a pricing regime of self-declared rates for Inbound Letter Post mail.

Table 20

FY 2018 INCREMENTAL COST CALCULATION FOR TOTAL COMPETITIVE PRODUCTS				
	Volume Variable & Product Specific Cost	Group Specific	Group Inframarginal	Group Incremental
Total Domestic Competitive Incremental	$ 14,004,273	$ 22,300	$ 387,972	$ 14,414,545
Total International Competitive Incremental	$ 1,024,174		$ 410	$ 1,024,584
Total Competitive	$ 15,028,447	$ 22,300	$ 414,844	$ 15,465,591
Note: The Group Inframarginal for Total Competitive are estimated separately, and they (and thus the Total Competitive Incremental) are not the sum of the previous two rows. Costs are in $(000).				

The total competitive group incremental cost of $15.466 billion is well below total competitive products revenue of $23.057 billion (shown on page 3 of USPS-FY18-1). Therefore, based on these estimates, it is clear that competitive products in FY 2018 were not cross-subsidized by market dominant products, and thus were in compliance with subsection 3633(a)(1).

2. Subsection 3633(a)(2)

Subsection 3633(a)(2) requires that each competitive product cover its costs (i.e., maintain a cost coverage of at least 100 percent). As discussed above, the CRA Reports for FY 2018 presented in USPS-FY18-1 and USPS-FY18-NP11 show product-level attributable costs for each domestic product as the sum of volume variable costs, product specific costs, and the inframarginal costs estimated as part of the incremental costs for that product. Similarly, using the proxy methodology approved in Order No. 4719 (July 19, 2018) as another part of Proposal Three, corresponding attributable cost estimates for domestic competitive NSA products are presented in USPS-FY18-NP27. For international products, however, attributable costs continue to reflect, as in prior years, the sum of volume variable and product specific costs. As shown in the Nonpublic CRA (USPS-FY18-NP11), USPS-FY18-NP27, and the ICRA (USPS-FY18-

costs in FY 2018. In response to Order No. 4798 in that docket,[69] the Postal Service provides in USPS-FY18-NP5, a revised ICRA technical description that lays out the methodology used to attribute Outbound International Insurance and Inbound International Insurance indemnity costs in accordance with Proposal Six. In addition, it should be noted that prices in the first quarter of FY 2018 predate the price change implemented in January 2018, when the Postal Service raised prices on PMEI and PMI insurance by 4.0 percent and 3.9 percent, respectively. Insurance prices are set to rise precipitously in January 2019, in excess of 20 percent, which should further improve the financial performance of the product.

Fourth, although all competitive international negotiated service agreement categories covered their attributable costs in FY 2018, the data for six contracts originally submitted with this report in December of 2018 indicated that one Global Expedited Package Services (GEPS) 3 contract, three GEPS 7 contracts, one GEPS 8 contract, and one Global Plus 1 contract did not cover their attributable costs. As noted at that time, five of these six contracts have expired or were about to expire. More importantly, the Postal Service at that time also noted that it had identified some concerns regarding the accuracy of results reported for these six contracts with respect to whether they covered their costs, and was reviewing the available data concerning them to determine if any updates were appropriate. That review process revealed certain errors in the reported costs for those and similar contracts, as detailed in revisions made to USPS-FY18-NP2 on February 11, 2019. Correction of the identified

[69] Order No. 4798, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), PRC Docket No. RM2018-9 (Aug. 28, 2018), at 7.

errors reduced reported costs for these six contracts, and as a result, all six of these contracts had sufficient revenues to cover their revised FY 2018 costs as reported in the updated ICRA.

3. Subsection 3633(a)(3)

Subsection 3633(a)(3) states that competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. In its regulations, the Commission has determined that an appropriate minimum contribution is 5.5 percent of total institutional costs.[70] Page 3 of USPS-FY18-1 shows total institutional costs of $30.724 billion.[71] Applying the 5.5 percent to that figure yields a target contribution of $1.690 billion. Page 3 of USPS-FY18-1 shows total competitive product attributable costs of $15.466 billion (consisting of $14.861 billion of volume variable costs, $0.1678 billion of product specific costs, $0.4148 billion of group inframarginal costs, and $0.0223 billion of group specific costs), and total competitive product revenue of $23.057 billion. Subtracting the former from the latter results in total competitive product contribution of $7.591 billion. Even taking into account the competitive market test net contribution figure of -$0.2 million reported in USPS-FY18-NP27, the overall net competitive contribution amount remains at $7.591 billion, which is 24.7 percent, or nearly one-quarter, of total institutional costs, an

[70] *See* 39 C.F.R. § 3015.7(c). The Commission is presently conducting a new review of this minimum contribution requirement in Docket No. RM2017-1.

[71] Total institutional costs are derived as the difference between total accrued costs and total attributable costs. In last year's ACD, the Commission specified the precise components of total attributable costs to be used for calculating this difference. FY 2017 ACD, at 10. As discussed further in the Preface to USPS-FY18-1, the measure of total attributable costs indicated above reflects the components specified by the Commission in the FY 2017 ACD.