Postal Regulatory Commission
Submitted 2/14/2019 3:32:19 PM
Filing ID: 108266
Accepted 2/14/2019

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Review, 2018 | Docket No. ACR2018

PUBLIC REPRESENTATIVE COMMENTS

(February 14, 2019)

Mallory L. Smith
Public Representative

Lyudmila Y. Bzhilyanskaya
Lawrence Fenster
Michael L. Leibert
Assisting the Public Representative

TABLE OF CONTENTS

I. INTRODUCTION 1
II. SERVICE PERFORMANCE 3
A. Introduction 3
B. First-Class Mail 4
C. USPS Marketing Mail 6
D. Periodicals 8
E. Package Services 8
F. Special Services 9
G. Additional Analysis 10
III. CUSTOMER ACCESS AND CUSTOMER SATISFACTION 13
A. Introduction 13
B. Customer Access to Postal Services 14
1. Retail Facilities 14
2. Suspensions 17
3. Number of Collection Boxes 19
4. Wait-Time-in-Line 20
C. Customer Satisfaction 22
IV. MARKET DOMINANT PRODUCTS 27
A. Introduction 27
B. First-Class Mail 29
1. Introduction 29
2. Inbound Letter Post 29
C. USPS Marketing Mail 34
1. Introduction 34
2. USPS Marketing Mail Parcels 34
3. USPS Marketing Mail Flats 38
D. Periodicals 44
E. Package Services 47
F. Special Services 49
1. Introduction 49
2. Stamp Fulfillment Services (SFS) 49

3. Inbound Registered Mail 52
4. Stamped Envelopes 54
5. Customized Postage 55
V. WORKSHARING 56
A. Introduction 56
B. Excessive Passthroughs with Adequate Statutory Exemptions 57
1. Automation Mixed Automation Area Distribution Center (AADC) Letters 59
2. Destination Network Distribution Center (DNDC) and Destination Sectional Center Facility (DSCF) Dropship Letters 59
3. Automation Mixed Area Distribution Center (ADC) Flats 60
4. Mixed Network Distribution Center (NDC) Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels and Mixed NDC Marketing Barcoded Parcels 61
5. Carrier Route DNDC and DSCF Dropship Letters 61
6. High Density and Saturation DNDC and DSCF Letters 62
C. Excessive Passthroughs Resolved by Docket No. R2019-1 63
D. Excessive Passthrough Not Resolved by Docket No. R2019-1 64
VI. COMPETITIVE PRODUCTS 65
A. Introduction 65
B. Market Dominant Products Did Not Subsidize Competitive Products 65
C. Competitive Products That Did Not Cover Attributable Costs 66
1. International Priority Airmail (IPA) 66
2. International Money Transfer Service (IMTS)–Inbound 67
3. International Ancillary Services and Outbound International Insurance 68
4. International NSAs 70
5. Domestic NSAs 70
D. Competitive Products Collectively Covered an Appropriate Share of the Postal Service’s Institutional Costs 71
VII. CONCLUSION 73

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Review, 2018 | Docket No. ACR2018

PUBLIC REPRESENTATIVE COMMENTS

(February 14, 2019)

I. INTRODUCTION

On December 28, 2018, the Postal Service filed its Fiscal Year (FY) 2018 Annual Compliance Report (ACR) as prescribed by the Postal Accountability and Enhancement Act (PAEA).[1] On December 31, 2018, the Commission issued a notice establishing this docket and requesting public comments.[2] Pursuant to Order No. 4960, the Public Representative hereby submits comments on the Postal Service's FY 2018 ACR.

The purpose of the Postal Service's FY 2018 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). The Public Representative has reviewed the Postal Service's FY 2018 ACR together with the previous years' ACRs and Commission Annual Compliance Determinations (ACDs). These comments address compliance matters relating to the Postal Service's (1) service performance, (2) customer access and

[1] *See* United States Postal Service FY 2018 Annual Compliance Report, December 28, 2018 (FY 2018 ACR); *see also* Postal Accountability and Enhancement Act (PAEA), Pub L. 109-435, 120 Stat. 3198 (2006); 39 U.S.C. § 3652. On February 11, 2019, the Postal Service filed an errata, correcting several pages of its initial FY 2018 ACR filing and updated relevant public and non-public workpapers. *See* Notice of the United States Postal Service of Revisions to Certain Pages of the FY 2018 Annual Compliance Report – Errata, February 11, 2019 (FY 2018 ACR Errata). *See also* Notice of the United States Postal Service of Revisions to Multiple Annual Compliance Repot Folders – Errata, February 11, 2019 (FY 2018 ACR Errata Workpapers).

[2] Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, December 31, 2018 (Order No. 4960).

customer satisfaction, (3) market dominant products, (4) worksharing, and (5) competitive products.[3]

Section II of these comments addresses the Postal Service's FY 2018 service performance results. The Public Representative concludes that service performance declined in FY 2018 and more service performance levels remain below applicable targets than in FY 2017. The Public Representative urges the Commission to continue taking an active role in driving improvement in this area.

Section III of these comments addresses the Postal Service's FY 2018 customer access and customer satisfaction results. The Public Representative makes the following conclusions. Wait-time-in-line results have decreased. The results of customer satisfaction surveys show a decline in Residential, Small Business, and Large Business customer satisfaction. The number of collection boxes and retail facilities continue to decline, further reducing customer access. However, the Postal Service has made significant progress as it relates to Post Offices in suspension by reducing the number of outstanding Post Office suspensions in FY 2018.

Section IV of these comments addresses the Postal Service's FY 2018 market dominant statutory requirements, including whether or not products covered their attributable costs. The Public Representative concludes that at least seven market dominant products failed to cover their attributable costs, equaling approximately $1.57 billion in lost revenues.

Section V of these comments addresses the Postal Service's worksharing statutory requirements. The Public Representative focuses on fourteen USPS

[3] Comments on the Postal Service's strategic initiatives and performance plans required by 39 U.S.C. §§ 2803 and 2804 are filed separately from comments related to the FY 2018 ACR. *See* Notice Regarding the Postal Service FY 2018 Annual Performance Report and FY 2019 Annual Performance Plan, January 3, 2019 (Order No. 4967).

Marketing Mail worksharing passthroughs that exceeded 100 percent in FY 2018. The Public Representative separates these excessive passthroughs into three categories and then analyzes the passthroughs within each category. Based on this analysis, the Public Representative finds that three passthroughs that exceeded 100 percent in FY 2018 did not comply with 39 U.S.C. § 3622(e)(2).

Section VI of these comments addresses the Postal Service's FY 2018 competitive product requirements. The Public Representative concludes that the competitive product statutory requirements are generally met. Section 3633(a) prohibits the subsidization of competitive products by market dominant products (section 3633(a)(1)), requires each competitive product to cover its attributable costs (section 3633(a)(2)), and requires competitive products to collectively cover an appropriate share of institutional costs (section 3633(a)(3)). *See* 39 U.S.C. § 3633(a). The Public Representative concludes that sections 3633(a)(1) and (a)(3) were met; however, there were three international products and as well as few domestic Negotiated Service Agreements (NSAs) that did not cover their attributable costs.

II. SERVICE PERFORMANCE

A. Introduction

The Postal Service is required to annually report the level of service (in terms of speed of delivery and reliability) achieved by each market dominant product. 39 U.S.C. § 3652(a)(2)(B)(i). Whether the level of service achieved is in compliance with applicable service standards is determined by comparing the actual level of service reported in the FY 2018 ACR against service targets established by the Postal Service in its FY 2018 Performance Plan. Based upon this comparison, the Commission makes a determination of whether or not individual market dominant products were in compliance with the service standards in effect pursuant to 39 U.S.C. § 3653(b)(2). *See* 39 U.S.C. § 3653(b)(2).

The Public Reprehensive finds that, in most instances, service performance levels have decreased in FY 2018 and most service performance levels remain below applicable targets. Of the 31 service performance targets indicated by the Postal Service, the Public Representative finds that 24 of these targets were not met pursuant to 39 U.S.C. § 3653(b)(2).

No First-Class Mail product met its service performance target in FY 2018. Within USPS Marketing Mail, only High Density and Saturation Letters and Parcels exceeded service performance targets. High Density and Saturation Flats/Parcels, Carrier Route, Letters, Flats, and Every Door Direct Mail-Retail fell below service performance targets. Both Periodicals products failed to meet service performance targets. Within Package Services, Bound Printed Matter Parcels exceeded its service performance targets in FY 2018. However, Bound Printed Matter Flats and Media Mail/Library Mail fell below their service performance targets. Finally, with the exception of Post Office Box Service, all other Special Services products exceeded their service performance targets.

The Public Representative discusses service performance results for each class of market dominant mail below.

B. First-Class Mail

Service performance for First-Class Mail worsened in FY 2018 compared to FY 2017 and, for the fourth year in a row, no First-Class Mail product met its service performance target. *See generally* Table II-1 and II-2, *infra.* Table II-1 (domestic First-Class Mail products) and Table II-2 (International First-Class Mail products) present the First-Class Mail FY 2018 targets and percent on-time performance for FY 2015 through FY 2018.

Table II-1
Domestic First-Class Mail FY 2018 Targets
and Percent On-Time for FY 2015 through FY 2018[4]

First-Class Mail	FY 2015 On-Time (%)	FY 2016 On-Time (%)	FY 2017 On-Time (%)	FY 2018 On-Time (%)	FY 2018 Target (%)
Single-Piece Letters/Postcards					
Two-Day	94.0	95.5	95.5	**94.5** ↓	96.50
Three-To-Five-Day	77.3	84.8	86.6	**83.5** ↓	95.25
Presort Letters/Postcards					
Overnight	96.0	96.3	96.6	**96.2** ↓	96.80
Two-Day	93.8	95.2	95.8	**95.1** ↓	96.50
Three-To-Five-Day	88.0	91.9	93.4	**92.2** ↓	95.25
Flats					
Overnight	83.2	84.5	84.6	**82.2** ↓	96.80
Two-Day	79.8	80.6	82.0	**79.7** ↓	96.50
Three-To-Five-Day	65.3	70.9	73.9	**71.0** ↓	95.25

Key:

FY 2018 Target	Did Not Meet Target in FY 2018	Met Target in FY 2018	↑ Increase from FY 2017	↓ Decrease from FY 2017	- No change from FY 2017

[4] Docket No. ACR2015, Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2015, at 4; Docket No. ACR2016, Library Reference USPS-FY16-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2016, at 4; Docket No. ACR2017, Library Reference USPS-FY17-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2017, at 4; Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 3.

Table II-2
International First-Class Mail FY 2018 Targets and Percent On-Time for FY 2015 through FY 2018[5]

International First-Class Mail	FY 2015 On-Time (%)	FY 2016 On-Time (%)	FY 2017 On-Time (%)	FY 2018 On-Time (%)	FY 2018 Target (%)
Outbound Single-Piece First-Class Mail International					
Two-Day	92.5	90.6	90.8	**86.3** ↓	
Three-To-Five-Day	82.5	84.5	83.7	**81.5** ↓	
Combined	85.3	86.2	85.9	**83.0** ↓	94.0
Inbound Letter Post[6]					
Two-Day	83.7	88.1	90.5	**89.3** ↓	
Three-To-Five-Day	71.3	77.7	82.7	**80.3** ↓	
Combined	75.6	81.4	85.5	**83.5** ↓	94.0

Key:

FY 2018 Target	Did Not Meet Target in FY 2018	Met Target in FY 2018	↑ Increase from FY 2017	↓ Decrease from FY 2017	- No change from FY 2017

C. USPS Marketing Mail

In FY 2018, only High Density and Saturation Letters and Parcels exceeded their service performance targets, while all other USPS Marking Mail products failed to meet their service performance targets. *See generally* Table II-3, *infra.* The USPS Marketing

[5] Docket No. ACR2015, Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2015, at 4; Docket No. ACR2016, Library Reference USPS-FY16-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2016, at 4; Docket No. ACR2017, Library Reference USPS-FY17-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2017, at 4; Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 3-4.

[6] In the FY 2018 ACR, when describing Inbound Letter Post, the Postal Service also uses the term Inbound Single-Piece First Class Mail International, which was the prior term used to describe this Postal Service product. *See e.g.*, Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 4, 8. The record indicates that changes to this product occurred as a result of Docket No. RM2011-8. *See* Docket No. RM2011-8, Additional Supplemental Comments of the United States Postal Service on Mail Classification Schedule, July 29, 2011, at 4,9,and 40. *See also* Mail Classification Schedule (MCS), section 1130, available at: *https://www.prc.gov/mail-classification-schedule*.

Mail FY 2018 targets and percent on-time performance for FY 2015 through FY 2018 are presented in Table II-3.

Table II-3
USPS Marketing Mail FY 2018Targets
and Percent On-Time for FY 2015 through FY 2018[7]

USPS Marketing Mail	FY 2015 On-Time (%)	FY 2016 On-Time (%)	FY 2017 On-Time (%)	FY 2018 On-Time (%)	FY 2018 Target (%)
High Density and Saturation Letters	91.5	94.9	95.5	**93.0 ↓**	91.8
High Density and Saturation Flats/Parcels	87.0	90.0	90.0	**88.3 ↓**	91.8
Carrier Route	82.0	83.9	91.4	**89.5 ↓**	91.8
Letters	85.8	90.1	91.8	**89.4 ↓**	91.8
Flats	73.8	81.4	80.4	**76.5 ↓**	91.8
Every Door Direct Mail-Retail	78.5	75.2	75.4	**74.4 ↓**	91.8
Parcels	98.1	98.3	98.2	**98.0 ↓**	91.8

Key:

FY 2018 Target	Did Not Meet Target in FY 2018	Met Target in FY 2018	↑ Increase from FY 2017	↓ Decrease from FY 2017	- No change from FY 2017

In FY 2018, the number of USPS Marketing Mail products that met their service performance targets declined and every product within USPS Marketing Mail showed a decrease in percent on-time.

[7] Docket No. ACR2015, Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2015, at 11; Docket No. ACR2016, Library Reference USPS-FY16-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2016, at 12; Docket No. ACR2017, Library Reference USPS-FY17-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2017, at 12; Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 11.

D. Periodicals

Neither In-County Periodicals nor Outside County Periodicals met its service performance target since FY 2015; however, neither product showed a decrease in percent on-time performance, unlike the majority of the Postal Service's other market dominant products. *See generally* Table II-4, *infra.* The Periodicals FY 2018 targets and percent on-time for FY 2015 through FY 2018 are presented in Table II-4.

Table II-4
Periodicals FY 2018 Targets
and Percent On-Time for FY 2015 through FY 2018[8]

Periodicals	**FY 2015 On-Time (%)**	**FY 2016 On-Time (%)**	**FY 2017 On-Time (%)**	**FY 2018 On-Time (%)**	**FY 2018 Target (%)**
In-County	77.7	80.1	85.6	**85.6 -**	91.0
Outside County	77.6	79.7	85.3	**85.3 -**	91.0

Key:

FY 2018 Target	Did Not Meet Target in FY 2018	Met Target in FY 2018	↑ Increase from FY 2017	↓ Decrease from FY 2017	- No change from FY 2017

E. Package Services

The Postal Service reported that Bound Printed Matter Parcels exceeded their service performance target for FY 2018, while the remaining Package Service products failed to meet their service performance targets. *See generally* Table II-5, *infra.* The Package Services FY 2018 targets and percent on-time performance for FY 2015 through FY 2018 are presented in Table II-5.

---

[8] Docket No. ACR2015, Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2015, at 15; Docket No. ACR2016, Library Reference USPS-FY16-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2016, at 18; Docket No. ACR2017, Library Reference USPS-FY17-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2017, at 16; Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 14.

Table II-5
Package Services FY 2018 Targets
and Percent On-Time for FY 2015 through FY 2018[9]

USPS Marketing Mail	FY 2015 On-Time (%)	FY 2016 On-Time (%)	FY 2017 On-Time (%)	FY 2018 On-Time (%)	FY 2018 Target (%)
Bound Printed Matter Flats	45.2	53.6	56.7	**55.2 ↓**	90.0
Bound Printed Matter Parcels	99.4	99.2	99.1	**99.0 ↓**	90.0
Media Mail/Library Mail	91.2	92.2	91.0	**89.6 ↓**	90.0

Key:

FY 2018 Target	Did Not Meet Target in FY 2018	Met Target in FY 2018	↑ Increase from FY 2017	↓ Decrease from FY 2017	- No change from FY 2017

In FY 2018, the number of Package Service's products that met their service performance targets declined and every product within Package Services showed a decrease in percent on-time.

F. Special Services

The Postal Service reports that every Special Services' product not exempt from reporting achieved the applicable service target, except for Post Office Box Service, which had a score of 88.2 percent, just slightly below its target of 90 percent. *See generally* Table II-6*, infra*. Special Service's FY 2018 targets and percent on-time for FY 2015 through FY 2018 are presented in Table II-6.

[9] Docket No. ACR2015, Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2016, at 18; Docket No. ACR2016, Library Reference USPS-FY16-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2016, at 22; Docket No. ACR2017, Library Reference USPS-FY17-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2017, at 20; Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 18.

Table II-6
Special Services FY 2018 Targets
and Percent On-Time for FY 2015 through FY 2018[10]

Special Services[11]	FY 2015 On-Time (%)	FY 2016 On-Time (%)	FY 2017 On-Time (%)	FY 2018 On-Time (%)	FY 2018 Target (%)
Ancillary Services	92.1	91.7	91.5	**91.2** ↓	90.0
International Ancillary Services	99.7	99.7	99.7	**99.6** ↓	90.0
Money Orders	99.3	99.2	99.1	**99.3** ↑	90.0
Post Office Box Service	89.7	89.7	88.9	**88.2** ↓	90.0
Stamp Fulfillment Services	97.1	99.4	99.6	**99.7** ↑	90.0

Key:

FY 2018 Target	Did Not Meet Target in FY 2018	Met Target in FY 2018	↑ Increase from FY 2017	↓ Decrease from FY 2017	- No change from FY 2017

G. Additional Analysis

As illustrated in Tables II-1 through II-6 and in Table II-7 below, percent on-time performance has declined since FY 2017 for the vast majority of market dominant products.

[10] Docket No. ACR2015, Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2015, at 23; Docket No. ACR2016, Library Reference USPS-FY16-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2016, at 27; Docket No. ACR2017, Library Reference USPS-FY17-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2017, at 25; Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 22-23.

[11] The Postal Service is not required to report service performance as part of Library Reference USPS-FY18-29 for the following services at this time: Caller Services, Change of Address Credit Card Authentication, International Reply Coupon Service, International Business Reply Mail Service, and Customized Postage. *See* Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018, at 25. Address List Services had no results to report as no orders for the service were placed in FY 2018. *Id.*

Table II-7
Decrease in Percent On-Time
for FY 2017 and FY 2018[12]

Market Dominant Products		**% On-Time Decrease in FY 2017**	**% On-Time Decrease in FY 2018**
First-Class Mail	Single-Piece Letters/Postcards - Two-Day		✓
	Single-Piece Letters/Postcards - Three-To-Five-Day		✓
	Presort Letters/Postcards - Overnight		✓
	Presort Letters/Postcards - Two-Day		✓
	Presort Letters/Postcards - Three-To-Five-Day		✓
	Flats - Two-Day		✓
	Flats - Three-To-Five-Day		✓
International First-Class Mail	Outbound Single-Piece International - Two-Day	✓	✓
	Outbound Single-Piece International - Three-To-Five-Day		✓
	Inbound Single-Piece International - Two-Day		✓
	Inbound Single-Piece International - Three-To-Five-Day		✓
USPS Marketing Mail	High Density and Saturation Letters		✓
	High Density and Saturation Flats/Parcels		✓
	Carrier Route		✓
	Letters		✓
	Flats	✓	✓
	Every Door Direct Mail-Retail		✓
	Parcels	✓	✓
Periodicals	In-County		
	Outside County		
Package Services	Bound Printed Matter Flats		✓
	Bound Printed Matter Parcels	✓	✓
	Media Mail/Library Mail	✓	✓
Special Services	Ancillary Services	✓	✓
	International Ancillary Services		✓
	Money Orders	✓	
	Post Office Box Service	✓	✓
	Stamp Fulfillment Services		

[12] *See generally* Tables II-1 through Table II-6, *supra; see also* Docket No. ACR2017, Library Reference USPS-FY17-29, Annual Report on Service Performance for Market Dominant Products, December 29, 2017; Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018.

As illustrated in Table II-7, improvements in service performance across market dominant products has regressed since FY 2017. The Postal Service's percent on-time results showed improvement in FY 2017, and although only ten market dominant products met their corresponding service performance targets at that time, the majority of the Postal Service's market dominant products experienced increases in percent on-time. *See* Table II-7, *supra.* However, in FY 2018, only seven market dominant products met their corresponding service performance targets and all but four of the Postal Service's market dominant products experienced a decrease in their percent on-time. *Id.*

The Public Representative is concerned with the Postal Service's inability to meet service performance targets for its market dominant products. However, the Public Representative suggests that, based on lack of target attainment over the past five years, it is possible that the Postal Service sets its performance targets unrealistically high for some of its market dominant products.[13] With that in mind, the Public Representative's concerns would be mitigated, to some extent, by a showing of consistent annual improvement in market dominant product percent on-time results. That kind of improvement would be a positive indicator of the direction of the Postal Service's service performance. For this reason, the Public Representative takes greater issue with the apparent systematic decline in percent on-time across all market dominant products in FY 2018.

For each class of market dominant mail, the Postal Service identifies the "top root causes" for the decline in percent on-time performance.[14] Top root causes include

[13] For example, First-Class Mail Flats, USPS Marketing Mail Flats and Every Door Direct Mail-Retail, and Package Service Bound Printed Matter Flats have all been at least 10 percentage points away from the achieving their corresponding percent on-time target for many years. *See generally* Tables II-1, II-3, II-5, *supra*.

[14] *See generally* Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018.

various issues at origin sites, mail waiting to be picked up at freight houses, Surface Transfer Centers (STCs) not meeting targeted transfer times, failure to process mail in First-in-First-out order, failure to run to processing capacity, and the manual processing of certain products. *Id.*

In the FY 2017 ACD, the Commission stated that if the Postal Service failed to "maintain or improve its service performance results in FY 2018, the Postal Service would be required to "include a detailed and product-specific plan in its FY 21018 ACR for how performance shall be improved."[15] The Postal Service appears to have followed the Commission's mandate and describes its plan to address the "top root causes" of missed service performance targets for each class of market dominant mail.[16] The Public Representative will have an opportunity during the FY 2019 ACD to assess whether the Postal Service's product-specific plans were able to reverse the decline in service performance observed in FY 2018.

III. CUSTOMER ACCESS AND CUSTOMER SATISFACTION

A. Introduction

The Postal Service must report on customer satisfaction in terms of customer access to postal services and the results of customer experience surveys when fulfilling its requirements under 39 U.S.C. § 3652(a)(2)(B)(ii). *See* 39 C.F.R. §§ 3055.91 and 3055.92; 39 U.S.C. § 3652(a)(2)(B)(ii).

---

[15] *See* Docket No. ACR2017, Annual Compliance Determination Report, Fiscal Year 2017, March 29, 2018, at 146, 153 (FY2017 ACD). *See also id.* at 155, 158 and 160.

[16] *See generally* Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018.

B. Customer Access to Postal Services

Section 3055.91 requires the Postal Service to report annual changes in the number of post offices and collection boxes. *See* 39 C.F.R. § 3055.91. As part of this reporting, the Postal Service also reports on its progress towards resolving the backlog of suspended post offices.

1. Retail Facilities

Meaningful customer access to postal facilities is a necessity for millions of Americans. Table III-1 illustrates the change in the number of accessible retail facilities during FY 2018, which has decreased slightly since FY 2017.

Table III-1
Retail Facilities[17]

Facility Type	FY 2017	FY 2018	Change
Post Offices	26,410	26,365	-45
Classified Stations & Branches	4,444	4,434	-10
Carrier Annexes	523	525	2
Total Postal-Managed Facilities[18]	31,377	31,324	-53
Contract Postal Units	2,331	2,143	-188
Village Post Offices	721	629	-92
Community Post Offices	476	452	-24
Total Non-Postal-Managed Facilities	3,528	3,224	-304
Total Retail Facilities	**34,905**	**34,548**	**-357**

In FY 2017, the Public Representative indicated that the number of total retail facilities decreased by approximately 507.[19] However, in its FY 2017 ACD, the

[17] *See* Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman's Information Request No. 1, January 11, 2019, questions 9-12 (Responses to CHIR No. 1); *see also* Library Reference USPS-FY18-17, Annual Report and Comprehensive Statement of Postal Operations, December 28, 2018.

[18] The Public Representative uses the "End FY18" figure for the number of Village Post Offices (VPOs) in FY 2018 from Responses to CHIR No. 1, question 9, which is inconsistent with the figure listed in Responses to CHIR No. 1, question 12 in the same document. *Compare* Responses to CHIR No. 1, question 9 *with* Responses to CHIR No. 1, question 12. On February 13, 2019, the Postal Service filed its Responses to CHIR No. 9. *See* Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 9, February 13, 2019 (Responses to CHIR No. 9). Although, in Responses to CHIR No. 9, question 1, the Postal Service states that it corrects the number of VPOs in operation at the end of FY 2018, it also provides a different number of Contract Postal Units (CPUs) than it did in its Responses to CHIR No. 1. *Compare* Responses to CHIR No. 9, question 1 *with* Responses to CHIR No. 1, question 12. In addition, it appears the Postal Service updated FY 2017 figures in Responses to CHIR No. 9, question 1 from those listed in Responses to CHIR No. 1, question 12. *See id.*

[19] Docket No. ACR2017, Public Representative Comments, February 1, 2018, at 14 (FY 2017 PR Comments).

Commission did not express any concern with the decrease. FY 2017 ACD at 162-163. In FY 2018, the decrease in the total number of retail facilities by 357 facilities was less than the prior fiscal year.

The largest decreases in retail facilities occurred in non-postal-managed facilities. *See* Table III-1, *supra.* The Commission previously recommended that the Postal Service "continue to expand alternative retail access channels to ensure customers have ready access to essential postal services" as part of Docket No. N2012-2.[20] The Commission considered alternative access sources (*e.g.,* VPOs and CPUs) "important" because at that time, "only 26 VPOs were in operation."[21] Although the number of these alternative access sources increased after Docket No. N2012-2 was concluded, non-postal-managed facilities, including VPOs and CPUs, have decreased by approximately 679 facilities since FY 2015.[22] In addition, FY 2018 marks the third consecutive year that retail facilities decreased overall. *See id.* The Public Representative questions the effect that large decreases in non-postal-managed facilities has had on customer access and whether the Postal Service is concerned about such decreases.

Additionally, in the FY 2017 ACD, the Commission urged the Postal Service to maintain consistency among the various reports it files in FY 2018.[23] In the FY 2018 ACR, the Postal Service noted differences in reported figures for non-postal-managed facilities, and explained the reason for those discrepancies. FY 2018 ACR at 61. While the Public Representative appreciates the Postal Service's explanation that changes

[20] Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012 (Docket No. N2012-2 Advisory Opinion).

[21] *Id.* at 36; *see* also FY 2017 ACD at 169.

[22] *See* Table III-1, *supra*; *see also* Docket No. ACR2016, Public Representative Comments, February 2, 2017, at 18.

[23] FY 2018 ACR at 60; *see also* FY 2017 ACD at 162.

can occur after data has already been reported, the Postal Service continues to provide inconsistent data about the number of postal facilities. For example, as noted above, in Responses to CHIR No. 1 the Postal Service provided inconsistent data related to the total number of VPOs at the end of FY 2018 and in Responses to CHIR No. 9 provided inconsistent data related to the total number of CPUs.[24] In addition, the Postal Service appears to have updated the FY 2017 figures in Responses to CHIR No. 9, question 1, from the number reported in Responses to CHIR No. 1, question 12. *See* n.18, *supra.* For that reason, the Public Representative urges the Commission to require the Postal Service to resolve these continued discrepancies.

2. Suspensions

In FY 2018, the Postal Service showed marked improvement regarding the number of post offices in suspension status, as illustrated in Chart III-1 below. In its FY 2015 ACD, the Commission stated that it "would expect the Postal Service to reduce the number of facilities under suspension in FY 2016."[25] During FY 2016, the Postal Service was unable to accomplish this task and, consequently, the Commission reiterated its expectation in its FY 2016 ACD.[26] However, since the beginning of FY 2017, the Postal Service reduced the total number of post offices in suspension status by approximately 43 percent. *See* Chart III-1, *infra.*

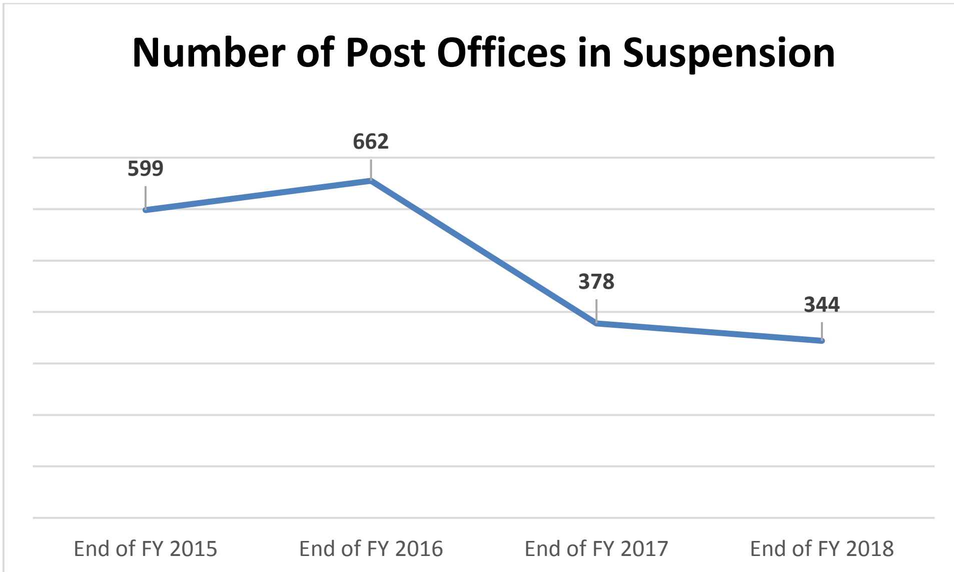
---

[24] *Compare* Responses to CHIR No. 1, question 9 *with* Responses to CHIR No. 1, question 12. *Compare* Responses to CHIR No. 1, question 12 *with* Responses to CHIR No. 9, question 1. *See also* n.18, *supra.*

[25] Docket No. ACR2015, Annual Compliance Determination Report, Fiscal Year 2015, March 28, 2016, at 150 (FY 2015 ACD).

[26] Docket No. ACR2016, Annual Compliance Determination Report, Fiscal Year 0216, March 28, 2017, at 151 (FY 2016 ACD).

Chart III-1
Post Offices in Suspension[27]



The Postal Service again showed improvement in FY 2018 by reducing the number of post offices in suspension. However, as the Postal Service notes, it "fell short of its goals to close out suspended [p]ost [o]ffices as outlined to the Commission in the FY 2017 ACR."[28] The Postal Service states that "[h]eadquarters and field personnel encountered several challenges that impacted the ability to address, resolve, and complete additional offices in suspension status." FY 2018 ACR at 63-64. These challenges described by the Postal Service appear reasonable. Additionally, the Postal Service describes changes it will implement in order to address the challenges it

---

[27] Docket No. ACR2015, Library Reference USPS-FY15-33, Consumer Access to Postal Services, Workbook: PostOfficesFY2015.Rev.2.3.16.xlsx, Tab: "Suspensions," December 29, 2015; Docket No. ACR2016, Library Reference USPS-FY16-33, Consumer Access to Postal Services, Workbook: Post.Offices.FY2016.xlsx, Tab: "Suspensions," December 29, 2016; Docket No. ACR2017, Library Reference USPS-FY17-33, Consumer Access to Postal Services, Workbook: Post.Office.FY2017.xlsx, Tab: "Suspension Summary," December 29, 2017; Library Reference USPS-FY18-33, Consumer Access to Postal Services, Workbook: Post.OfficesFY2018.xlsx, Tab: "Suspension Summary," December 28, 2018. *see also* FY 2017 ACD at 164.

[28] FY 2018 ACR at 63; *see also* Docket No. ACR2017, United States Postal Service FY 2017 Annual Compliance Report, December 29, 2017, at 65 (FY 2017 ACR).

experienced in FY 2018. *Id.* at 64-65. The Postal Service provides a revised schedule for clearing post offices in suspension and intends to have all suspended post offices resolved by the second quarter of FY 2020. *Id.* at 65.

3. Number of Collection Boxes

In FY 2017, collection boxes decreased by 4.12 percent. *See* Table III-2, *infra.* However, in FY 2018, collection boxes decreased by only 1.54 percent. *Id.* Table III-2 illustrates the changes in the total number of collection box since FY 2013.

Table III-2
Collection Boxes[29]

End of Fiscal Year	No. of Collection Boxes
FY 2013	159,729
FY 2014	156,345
FY 2015	154,006
FY 2016	152,539
FY 2017	146,252
FY 2018	143,997
Change in Collection Boxes between FY 2017 and FY 2018 (%)	-1.54%
Total Change in Collection Boxes since FY 2013 (%)	-9.85%

In her FY 2017 comments, the Public Representative was concerned that the reduction in collection boxes might negatively affect customers' ability to send mail.[30] In response, the Postal Service stated that it would "continue to perform annual density testing of collection boxes in FY 2018" to address collection box decreases and that its goal was to "ensur[e] that it has a collection box net that is cost-effective while meeting

[29] Docket No. ACR2014, Library Reference USPS-FY14-33, Consumer Access to Postal Services, Workbook: CollectionBoxesFY2014.xlsx; Docket No. ACR2015, Library Reference USPS-FY15-33, Consumer Access to Postal Services, Workbook: CollectionBoxesFY2015.xlsx, December 29, 2015; Docket No. ACR2016, Library Reference USPS-FY16-33, Consumer Access to Postal Services, Workbook: CollectionBoxesFY2016.xlsx, December 29, 2016; Docket No. ACR2017, Library Reference USPS-FY17-33, Consumer Access to Postal Services, Workbook: CollectionBoxesFY2017.xlsx, December 29, 2017; Library Reference USPS-FY18-33, Consumer Access to Postal Services, Workbook: CollectionBoxesFY2018.xlsx, December 28, 2018.

[30] FY 2017 PR Comments at 16.

the needs of customers."[31] In the FY 2017 ACD, the Commission indicated it would "continue to monitor the number of collections boxes in the FY 2018 ACD." FY 2017 at 168. The Public Representative's prior concerns regarding collection box totals are mitigated by the Postal Service's continued density testing of collection boxes and the resulting decline in collection box reductions in FY 2018, as well as the Commission's awareness of this issue.

4. Wait-Time-in-Line

After steady increases in the wait-time-in-line metric between FY 2014 and FY 2016, the Postal Service reduced wait-time-in-line for all postal areas in FY 2017. *See* Table III-3, *infra.* In FY 2018, the Postal Service continued to demonstrate improvement for all but one postal area, as illustrated in Table III-3.

[31] Docket No. ACR2017, Reply Comments of the United States Postal Service, February 12, 2018, at 20.

Table III-3
Average Wait-Time-In-Line[32]

Postal Area	Average Wait-Time-in-Line (Minutes:Seconds)					
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Capital Metro	2:19	2:03	2:16	2:20	2:13	2:17
Eastern	2:16	2:00	2:04	2:12	2:02	1:53
Great Lakes	2:00	2:00	2:03	2:10	2:04	2:00
Northeast	2:21	2:28	2:38	2:40	2:20	2:09
Pacific	3:19	3:07	3:11	3:26	3:03	2:10
Southern	2:22	2:23	2:49	3:06	2:29	2:13
Western	2:48	2:47	3:06	3:25	3:00	2:30
National	**2:29**	**2:24**	**2:36**	**2:48**	**2:28**	**2:11**

In addition, wait-time-in-line decreased by 17 seconds nationwide in FY 2018. Furthermore, the nationwide wait-time-in-line average of 2 minutes and 11 seconds is the shortest since FY 2012.[33] Wait-time-in-line appears reasonable in light of these widespread decreases. The Public Representative considers wait-time-in-line to be an important component of customer access as well as customer satisfaction, and commends the Postal Service for its continued improvement in the results associated with this metric.

[32] Docket No. ACR2013, Library Reference USPS-FY13-33, Consumer Access to Postal Services, Workbook: WaitTimeInLineFY2013.xlsx, December 27, 2013; Docket No. ACR2014, Library Reference USPS-FY14-33, Consumer Access to Postal Services, Workbook: WaitTimeInLineFY2014.xlsx, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-33, Consumer Access to Postal Services, Workbook: WaitTimeInLineFY2015.xlsx, December 29, 2015; Docket No. ACR2016, Library Reference USPS-FY15-33, Consumer Access to Postal Service, Workbook: WaitTimeInLineFY2016, December 29, 2016; Docket No. ACR2017, Library Reference USPS-FY17-33, Consumer Access to Postal Services, Workbook: National WaitTimeInLineFY2017.xlsx, December 29, 2017; Library Reference USPS-FY17833, Consumer Access to Postal Services, Workbook: National WaitTimeInLine FY2018.xlsx, December 29, 2018.

[33] *See id.; see also* Docket No. ACR2012, Library Reference USPS-FY12-33, Consumer Access to Postal Services, Workbook: WaitTimeInLineFY2012.xlsx, December 28, 2012.

C. Customer Satisfaction

For each fiscal year, the Postal Service assesses customer satisfaction using the Customer Insights (CI) Composite index, which, in FY 2018, used eight surveys to measure different areas of customer satisfaction. FY 2018 ACR at 49. The collected survey data are then weighted and aggregated to create the CI Composite score.

In FY 2018, the Postal Service indicates that in order to "be more inclusive of business customer sentiment and digital channels" it "expanded the CI Composite" index, by adding three areas of customer satisfaction, and also "chang[ed] the weighting of the surveys." *Id.* at 49. In FY 2017, there were five areas of satisfaction: (1) Point of Service (POS), which measures satisfaction with the Postal Service's retail services; (2) Delivery, which measures satisfaction with various Residential and Small Business Delivery and Post Office characteristics; (3) Business Service Network (BSN), which measures the satisfaction qualified support business customers receive from the Postal Service; (4) Customer Care Center (CCC), which measures overall satisfaction with the support all categories of customers receive from the Postal Service; and (5) Enterprise Customer Care (eCC), which measures the percentage of cases that customers reopened.[34] FY 2018 included three additional areas of satisfaction: (1) USPS.com, which measures consumer satisfaction, and (2) Business Mail Entry Unit (BMEU) and (3) Large Business Panel (LBP), both of which measure business satisfaction. FY 2018 ACR at 51.

The Postal Service's CI Composite index scores for FY 2018 are presented in Table III-4.

---

[34] Docket No. ACR2017, Library Reference USPS-FY17-17, 2017 Annual Report and Comprehensive Statement of Postal Operations, December 29, 2017, at 16-17.

Table III-4
Customer Insight Composite Index Scores[35]

National	FY 2017	FY 2018
POS	88.53	87.98
Delivery	83.22	80.47
BSN	96.25	95.90
CCC	86.80	39.19
eCC	35.83[36]	36.73
USPS.com	-	57.54
BMEU	-	95.33
LBP	-	72.34
CI Composite	88.30	67.47

In past proceedings, the Public Representative compared reported survey scores to the previous fiscal year's score in order to determine whether customer satisfaction had improved.[37] However, in the instant proceeding, a comparison of FY 2017 and FY 2018 survey scores is less feasible. As noted above, three additional surveys were added to the CI Composite index in FY 2018, thus no FY 2017 comparison exists for those surveys. In addition, the Postal Service notes that four of the five surveys it relied upon in FY 2017 "changed in some fashion" in FY 2018. FY 2018 ACR at 49-50. For example, in FY 2017, the Delivery survey measured a customer's satisfaction with their carrier whereas in FY 2018, the Delivery survey measured a customer's satisfaction with their recent delivery experience, which the Postal Service notes "provides more insight into the overall delivery experience." *Id.* The Delivery, BSN, CCC and eCC surveys all experienced modifications geared toward an expanded view of overall

[35] FY 2018 ACR at 51.

[36] In FY 2017, the eCC survey was added as a new metric, but the included measure determined the percentage of customer inquiries that are reopened within 90 days. FY 2017 ACR at 57. However, during the same fiscal year, overall customer satisfaction with the quality of service in response to customer inquiries was also measured and valued at 35.83. *See* FY 2018 ACR at 55, n.57. In FY 2018, the included eCC score measured overall customer satisfaction with the quality of service in response to customer inquiries. *Id.* at 51. For that reason, the Public Representative uses the corresponding FY 2017 eCC score as part of Table III-4.

[37] *See e.g.,* FY 2017 PR Comments at 18.

customer satisfaction or toward the production of data set that is more representative of true customer sentiment. *Id.* at 50.

It can be noted, however, that many of the survey scores listed in Table III-4 above are close to their corresponding target score as illustrated in Table III-5.

Table III-5
Customer Insight Composite
Target and Actual Index Scores[38]

National	FY 2018 Target Score	FY 2018 Actual Score
POS	90.42	87.98
Delivery	86.33	80.47
BSN	96.73	95.90
CCC	69.17	39.19
eCC	70.00	36.73
USPS.com	66.33	57.54
BMEU	95.00	95.33
LBP	78.00	72.34
CI Composite	80.93	67.47

The CCC and eCC actual survey scores were far from their target scores, but many of the remaining actual survey scores were ten points or less from their target scores, with two surveys (POS and BSN) being within three points of their target scores and BMEU exceeding its target score. *See* Table III-5, *supra*. Marked improvements in even a few of these survey scores in FY 2019 could potentially result in the Postal Service meeting its CI Composite target score of 80.00, which would be a promising step in the right direction for overall customer satisfaction.[39]

The only survey measured similarly in both FY 2017 and FY 2018 was the POS survey. As noted by the Postal Service, the overall satisfaction score for the POS survey decreased slightly. FY 2018 ACR at 53. The Postal Service states that, in order

---

[38] FY 2018 ACR at 51; Library Reference USPS-FY18-17, Annual Report and Comprehensive Statement of Postal Operations, December 28, 2018, at 17.

[39] Library Reference USPS-FY18-17, Annual Report and Comprehensive Statement of Postal Operations, December 28, 2018, at 17.

to address this area of customer satisfaction, it recently redesigned training for new retail employees, which now "focuses on creating a customer-centric environment." *Id.* The Postal Service also notes that "the training will be used to develop refresher training for current retail employees" in FY 2019. *Id.*

The Public Representative is disappointed that customer satisfaction has generally declined. However, she commends the Postal Service for developing new and expanded measures of customer satisfaction. The changes made by the Postal Service should allow it to better identify problematic areas and improve customer satisfaction in FY 2019. The Public Representative especially looks forward to analyzing how the Postal Service's changes in retail employee training positively affect the overall customer satisfaction with the post office as reflected in the POS survey.

Additionally, the Postal Service provides a breakdown within the Delivery category of the CI Measurements System, by presenting customer satisfaction results[40] for market dominant products in three customer categories: Residential, Small Business, and Large Business. *Id*. In FY 2018, not only did customers' satisfaction with their overall experience of Delivery decline (*see* Table III-4, *surpa*), but customer satisfaction with the delivery of each market dominant product class by each category of customer declined.

[40] The Postal Service measures overall satisfaction percentages by taking "mostly satisfied" or "very satisfied" levels. FY 2018 ACR at 57.

Table III-6
“Very Satisfied” or “Mostly Satisfied”
Customer Satisfaction Percentages[41]

Customer Category	**Residential**			**Small Business**			**Large Business**		
Market Dominant Products	FY 2017 (%)	FY 2018 (%)	Change (%)	FY 2017 (%)	FY 2018 (%)	Change (%)	FY 2017 (%)	FY 2018 (%)	Change (%)
First-Class Mail	89.04	86.76	-2.28	84.38	83.80	-0.58	77.96	72.48	-5.48
Single-Piece International Mail	85.18	77.09	-8.09	82.69	78.44	-3.88	69.98	66.40	-3.28
USPS Marketing Mail	83.13	73.77	-9.36	80.32	75.23	-5.09	71.70	64.50	-7.20
Periodicals	85.66	82.36	-3.30	82.32	80.67	-1.65	70.56	65.84	-4.72
USPS Retail Ground	86.82	83.01	-3.81	82.94	81.60	-1.34	70.30	66.86	-3.44
Bound Printed Matter	n/a	n/a	n/a	82.77	78.37	-4.40	67.70	62.72	-4.98
Media Mail	86.04	79.67	-6.37	85.10	81.23	-3.87	69.15	64.87	-4.28
Library Mail	87.28	72.64	-14.64	85.98	79.50	-6.48	66.41	61.89	-4.52

	Residential				**Small Business**				**Large Business**			
Average Change by Customer Category (%)	**FY 2017**	0.031	**FY 2018**	-6.84	**FY 2017**	1.47	**FY 2018**	-3.41	**FY 2017**	-4.67	**FY 2018**	-4.74

Table III-6 shows that in FY 2018, Residential, Small Business, and Large Business customer satisfaction with the delivery of market dominant products declined on average by approximately 6.84 percent, 3.41 percent, and 4.74 percent, respectively.

---

[41] Docket No. ACR2017, Library Reference USPS-FY17-38, USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments, Workbook: CI Question Response Counts_FY17.xlsx, Tabs: “Delivery Residential,” “Delivery SMB,” and “Large Business,” December 29, 2017; Library Reference USPS-FY18-38, USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments, Workbook: CI Question Response Counts_FY18.xlsx, Tabs: “Delivery Residential,” “Delivery SMB,” and “LBP,” December 28, 2018.

The figures expressed in Table III-6 were calculated by using the Postal Service’s data from Library Reference USPS-FY18-38, USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments, Workbook: CI Question Response Counts_FY18.xlsx, Tabs: “Delivery Residential,” “Delivery SMB,” and “LBP.” The Public Representative notes that her calculations for both Residential and Small Business did not match the results listed by the Posta Service in its FY 2018 ACR. *See* FY 2018 ACR at 57.

See Table III-6*, supra*. The Postal Service was unable to continue the improvements in customer satisfaction for Residential and Small Business customers that it experienced in FY 2017 and was also unable to reverse the trend of declining customer satisfaction for Large Business customers.

Because customer satisfaction declined in FY 2015 and FY 2016, the Public Representative suggested the Commission "closely monitor customer satisfaction to ensure that further declines [did] not occur."[42] The Public Representative is unable to confirm any improvement or decline for the majority of the CI Composite index scores, including the aggregate CI Composite score, due to the added surveys and changes in the previously used surveys, as noted above. However, there was a noticeable decline in customer satisfaction with the delivery of market dominant products as illustrated by Table III-6. For that reason, and coupled with the decline in the POS survey score in Table III-4, *supra,* the Public Representative continues to echo previous recommendations encouraging the Commission to monitor customer satisfaction closely.

IV. MARKET DOMINANT PRODUCTS

A. Introduction

Most market dominant products covered attributable costs in FY 2018. A class-by-class analysis follows. The market dominant products that did not cover attributable costs are shown in Table IV-1, *infra*. Total losses for these market dominant products and services (excluding NSAs) were approximately $1.57 billion, a decrease of less than 1 percent from FY 2017.[43]

---

[42] *See* Docket No. ACR2015, Public Representative Comments, February 2, 2016, at 25; Docket No. ACR2016, Public Representative Comments, February 2, 2017, at 23.

[43] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tabs: "Cost1" and "Cost2" and Docket No. ACR2017, Library

Table IV-1
FY 2018 Financial Results for Market Dominant Products and Services with Cost Coverage Below 100 percent[44]

Products and Services	**Cost Coverage (%)**	**Loss ($ Million)**	**Unit Loss (cents)**
First-Class			
Inbound Letter Post	83.8	81.5	18.3
USPS Marketing Mail			
Parcels	57.5	31.2	90.0
Flats	68.6	753.4	18.5
Periodicals			
In-County	67.1	27.4	5.4
Outside County	67.2	591.9	13.2
Package Services			
Media and Library Mail	76.7	84.1	1.1
Special Services			
Stamp Fulfillment Services	87.4	0.6	N/A
Customized Postage	0.0	0.1	N/A
Total:		1,570	

Reference PRC-LR-ACR2017/1, FY 2017 – Postal Service's Product Finances, Workbook: 17 Summary_LR1_.xlsx, Tab: "Appendix A."

[44] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tabs: "Cost1" and "Cost2," December 28, 2018. This worksheet excludes Inbound Registered Mail, part of International Ancillary Services, that also did not covers costs in FY 2018.

B. First-Class Mail

1. Introduction

In FY 2018, First-Class Mail products covered attributable costs, with the exception of International Inbound Letter Post. FY 2018 ACR at 9. Although cost coverage for First Class Mail continues to be strong, it fell by approximately 3.6 percentage points, from 208.8 percent in FY 2017 to 205.1 percent in FY 2018.[45] The unit contribution of First-Class mailpieces declined by 3.2 percent due to a 1.6 percent decline in revenue-per-piece coupled with a 0.1 percent increase in cost-per-piece.[46] As a class, First-Class Mail products contributed $13.1 billion to institutional costs in FY 2018 which represents a decrease of 7.1 percent compared to FY 2017.[47]

2. Inbound Letter Post

As noted above, in FY 2018, the cost coverage for Inbound Letter Post was 83.8 percent. FY 2018 ACR at 9. This cost coverage is 20.57 percentage points higher than

---

[45] *See generally* FY 2018 ACR Errata; *see also* Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: “Cost1,” December 28m, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service’s Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: “FCM,” March 29, 2018. *See also* FY 2018 ACR Errata; FY 2018 ACR Errata Workpapers.

The Public Representative has observed that the Postal Service reports an increase in the FY 2018 cost coverage for First-Class Mail compared to FY 2017. FY 2018 ACR at 9. The Postal Service states that it updated the FY 2017 cost coverage using values from the Commission’s FY 2017 Financial Report*. Id.,* n.14; *see also* Fiscal Year 2017 Financial Analysis of United States Postal Service Financial Results and 10-K Statement, April 5, 2018, available at: *https://www.prc.gov/prc-reports.* However, the Public Representative is unsure that such an approach is reasonable. Therefore, to ensure that the methodology used to estimate the cost coverage percentages for FY 2018 and FY 2017 are consistent, the Public Representative uses the Commission’s FY 2017 ACD workpapers as referenced above.

[46] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: “Cost1,” December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service’s Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: “FCM,” March 29, 2018.

[47] *See id.; see generally* FY 2018 ACR Errata.

in FY 2017 when Inbound Letter Post cost coverage was 63.3 percent.[48] Although Inbound Letter Post cost coverage declined in both FY 2016 and FY 2017, in FY 2018 there was marked improvement. In FY 2018, the cost coverage was at its highest level since FY 2011. *See* Chart IV-1, *infra*. The total loss for Inbound Letter Post amounted to $81.48 million in FY 2018, down from $170.0 million in FY 2017 and $134.5 million in FY 2016.[49] In FY 2018, the product's volumes and revenue-per-piece increased by 10.9 percent and 30.1 percent, respectively.[50]

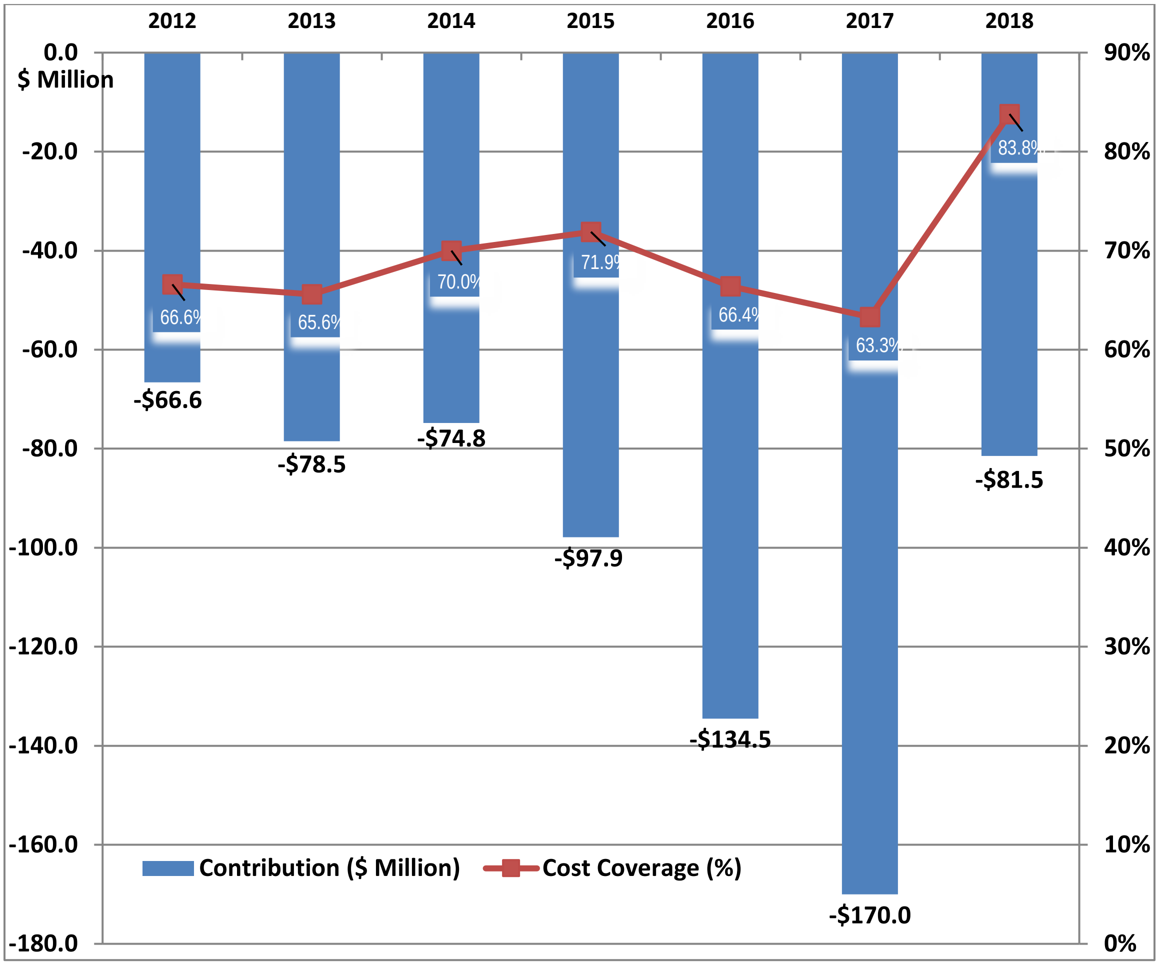
---

[48] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service's Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: "FCM," March 29, 2018.

[49] *Id.;* Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1, FY 2016 Postal Service's Product Finances, Workbook: 16 Summary_LR1_.xlsx, Tab: "FCM;" March 28, 2017.

[50] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service's Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: "FCM," March 29, 2018.

Chart VI-1
Financial Results for Inbound Letter Post
for FY 2012 through FY 2018[51]



---

[51] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: “Cost1,” December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1, FY 2017 Postal Service’s Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: “FCM," March 29, 2018; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1, FY 2016 Postal Service’s Product Finances, Workbook: 16 Summary_LR1_.xlsx, Tab: ”FCM,” March 28, 2017; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1, FY 2015 Postal Service’s Product Finances, Workbook: 15 Summary_LR1 2.xlsx, Tab: “FCM,” March 28, 2016; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1, FY 2014 Postal Service’s Product Finances, Workbook: 14 Summary_LR1.xlsx, Tab: “FCM,” March 27, 2015; FY 2014 ACD at 53; Docket No. ACR2012, Library Reference PRC-ACR2012-LR-1, FY 2012 Postal Service’s Product Finances, Workbook: 12 Summary_LR1.xlsx, Tab: “FCM,” March 28, 2013.

In the FY 2018 ACR, as in the previous ACRs, the Postal Service states that the inability of Inbound Letter Post to cover attribute costs was due to its "unique pricing regime."[52] The Postal Service explains that it "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." FY 2018 ACR at 10.

The Commission has previously expressed concern that the Inbound Letter Post pricing regime continues to result in non-compensatory terminal dues.[53] This has resulted in domestic mailers subsidizing the entry of Inbound Letter Post by foreign postal operators that bears none of the burden of contributing to the Postal Service's institutional costs.[54] In the FY 2018 ACR, the Postal Service states that it is currently "collaborating with other federal agencies, including the Department of State…to improve cost coverage for Inbound Letter Post" and "move to a pricing regime of self-declared rates for Inbound Letter Post mail." FY 2018 ACR at 10. The Public Representative appreciates such efforts. In addition, the Public Representative notes that dockets related to Inbound Letter Post are currently pending before the Commission, which may lead to a better pricing regime for Inbound Letter Post and further improved cost coverage.[55]

---

[52] FY 2018 ACR at 10; FY 2017 ACR at 10; Docket No. ACR2016, United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016, at 13 (FY 2016 ACR).

[53] FY 2017 ACD at 68; FY 2016 ACD at 66-67.

[54] FY 2017 ACD at 68, FY 2016 ACD at 66.

[55] *See, e.g.* Docket No. RM2019-2, Advance Notice of Proposed Rulemaking Concerning Ratemaking Procedures for Inbound Letter Post and Related Services, November 20, 2018 (Order No. 4882); Docket No. PI2018-1, Notice and Order Initiating Public Inquiry on the Classification of the Inbound Letter Post Product, July 12, 2018 (Order No. 4708).

The Public Representative observes that in FY 2018, the Postal Service increased cost coverage for Inbound Letter Post by 20.5 percentage points. *See* Chart VI-1, *supra*. The Postal Service states that it was partially due to an increase in rates determined by the new UPU convention. FY 2018 ACR at 10. Although a cost coverage of 83.8 percent does not bring the product into compliance, the Public Representative acknowledges that the new rates implemented at the beginning of Q2 of FY 2018 were not in effect during the entire fiscal year. *Id.* The Public Representative suggests that the progressive price increases effective in January of the next three calendar years, and the continued implementation of the new costing methodology noted below, should bring the cost coverage of Inbound Letter Post closer to 100 percent.

Additionally, at the end of FY 2018, the Commission approved a new methodology for the development of international mail costs.[56] Previously, the costing structure of Inbound Letter Post was uniform regardless of whether the mailpiece was a letter, flat, bulky letter, or small packet.[57] Under the new methodology, costs for letters and flats are developed separately from the costs for bulky letters and small packets.[58] Considering that the methodological improvements approved in Order No. 4827 allowed costs to be measured at a more granular level, the Public Representative suggests that the implementation of the new costing methodology contributed to the increase in cost

[56] *See* Docket No. RM2018-8, Order on Analytical Principles Used in periodic Reporting (Proposal Five), September 21, 2018, at 1 (Order No. 4827). *See also* Docket No. RM2018-8, Petition of The United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), June 26, 2018.

[57] *See generally* Order No. 4827.

[58] Order No. 4827 at 1-2. The Commission has also conditionally approved the transfer of Inbound Letter Post small packets and bulky items to the competitive product list. *See* Docket No. MC2019-17, Order Conditionally Approving Transfer, January 9, 2019 (Order No. 4980). *See also,* Docket No. MC2019-17, Notice and Order Concerning Transfer of Inbound Letter Post Small Packets and Bulky Letters, and Inbound Registered Service Associated with Such Items to the Competitive Product List, November 20, 2018 (Order No. 4883).

coverage for Inbound Letter Post in FY 2018. With continued accuracy in measuring the costs associated with Inbound Letter Post, the Public Representative believes that the product's cost coverage will trend towards compliance.

C. USPS Marketing Mail

1. Introduction

In FY 2018, cost coverage for the USPS Marketing Mail class overall (including fees) was 142.2 percent and significantly higher than 100 percent, but lower than the class-level cost coverage in FY 2017, when it was 152.7 percent, and in FY 2016, when it was 158.3 percent.[59] As in previous fiscal years, two USPS Marketing Mail products did not cover costs: USPS Marketing Mail Flats and USPS Marketing Mail Parcels.

2. USPS Marketing Mail Parcels

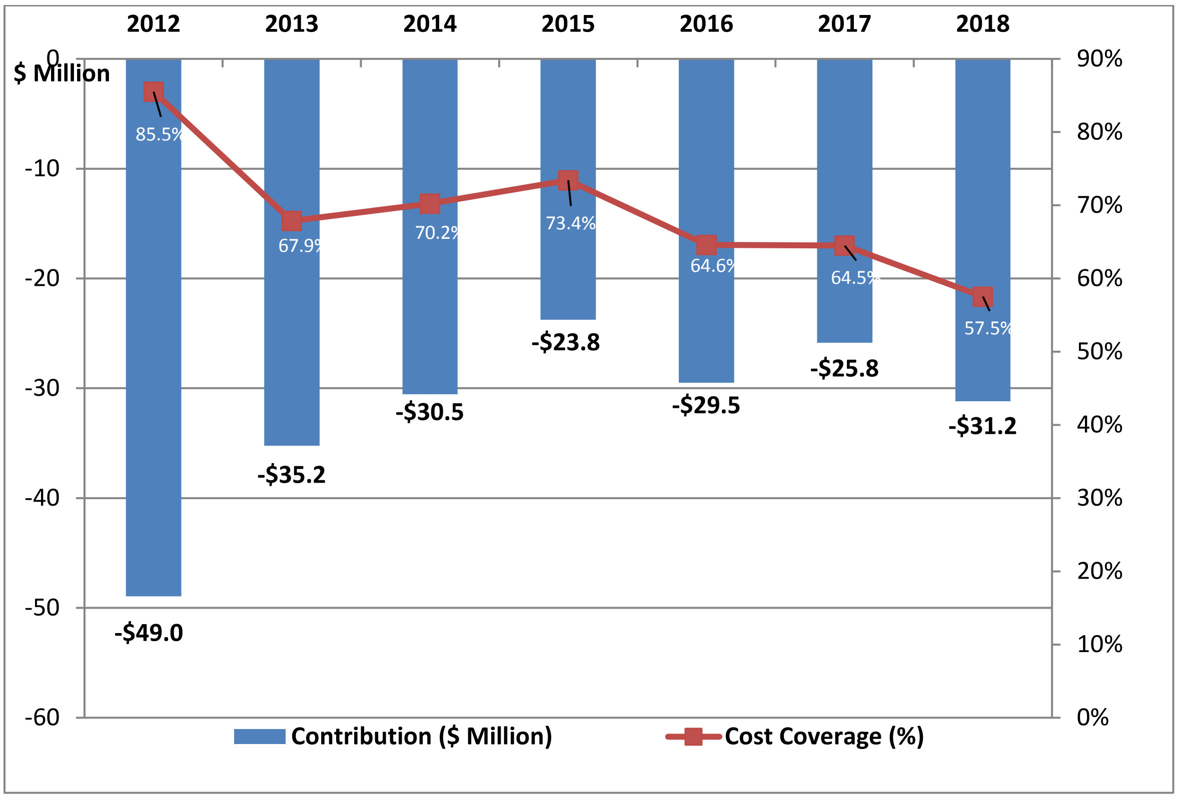
In FY 2018, cost coverage for USPS Marketing Mail Parcels was 57.5 percent, which is 7 percentage points lower than in FY 2017 when the product's cost coverage was 64.5 percent. FY 2018 ACR at 15. Although revenue-per-piece increased by 5.4 percent (from $1.156 to $1.219), cost-per-piece increased more significantly, by 18.2 percent (from $1.793 to $2.119). *Id.* For USPS Marketing Mail Parcels, cost coverage has been steadily declining since FY 2015, and in FY 2018, was at its lowest level since FY 2012. *See* Chart IV-2, *infra*. Total losses for USPS Marketing Mail Parcels

---

[59] Library Reference USPS-LR-ACR-2018/1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook Pubic_FY18CRAReport.xlsx, Tab "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1, FY 2017 Postal Service's Product Finances, Workbook: 17 Summary_LR1_.xlsx., Tab: "Marketing Mail," March 28, 2018; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1, FY 2016 Postal Service's Product Finances Workbook: 16 Summary_LR1_.xlsx., Tab: "Appendix B (CRA)," March 28, 2017.

amounted to $31.2 million in FY 2018, more than a $5 million increase from the $25.8 million loss experienced in FY 2017.[60]

Chart IV-2
Financial Results for USPS Marketing Mail Parcels
for FY 2012 through FY 2018[61]



---

[60] Library Reference USPS-LR-ACR-2018/1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook Pubic_FY18CRAReport.xlsx, Tab "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR-2017/1, FY 2017 Postal Service's Product Finances, Workbook 17 Summary_LR1, Tab "Appendix B (CRA)," March 28, 2018.

[61] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/4, FY 2017 USPS Marketing Mail, Workbook: Chapter III, USPS Marketing Mail Tables (Flats and Parcels) 2017.xls, Tab: "MM Parcels (1)," March 29, 2018.

In Charts IV-2 through IV-7, the FY 2018 ACR financial data often do not include fees, while the data for prior years provided in the Commission's library references and used in the current comments usually include fees. Therefore, it is important to note that the financial indicators for FY 2018 could be slightly different if fees were included.

In the FY 2017 ACD, the Commission concluded that average weight-per-piece, which decreased by more than 8 percent in FY 2017, was driving reductions in both unit cost and unit revenue, "which together resulted in a slight increase in unit contribution." FY 2017 ACD at 61. In FY 2018, however, average weight-per-piece for USPS Marketing Mail Parcels increased from 5.62 ounces to 5.97 ounces, or by approximately 6.2 percent.[62] Unit contribution declined significantly, by approximately 41 percent, increasing per unit loss from 63.7 cents in FY 2017 to 90.0 cents in FY 2018. *Id.*

The Postal Service maintains that "weight is only one mail characteristic that can affect the unit attributable cost," and the increase in weight-per-piece for USPS Marketing Parcels that occurred in FY 2018 "probably had [] minimal impact on attributable costs" for the product overall.[63] The Postal Service concludes that "more origin entry and less presorting likely had much more of an effect on the increase in attributable costs."[64]

The Postal Service provides the FY 2014 through FY 2018 data on USPS Marketing Mail Parcels mail mix that consists of three parcel types (or price categories): Nonprofit Machinable Parcels, Nonprofit Irregular Parcels, and Marketing Parcels.[65] These data illustrate that the share of Nonprofit Machinable Parcels has increased in the last three fiscal years. In FY 2016, Nonprofit Machinable Parcels share was 13.58 percent, in FY 2017 its share was 16.13 percent, and in FY 2018 its share was 19.98. *Id.* During the same time period the share of Marketing Parcels decreased from 71.04 percent in FY 2016 to 69.83 percent in FY 2017, down to 63.75 percent in FY 2018. *Id.*

---

[62] Library Reference USPS-LR-ACR-2018/1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook Public_FY18CRAReport.xlsx, Tab "Volume1," December 28, 2018; FY 2017 ACD at 61.

[63] Responses to CHIR No. 1, question 19.

[64] *Id. See also* FY 2018 ACR at 15.

[65] Responses to CHIR No. 1, question 19.

The Postal Service asserts that because Nonprofit Machinable Parcels are larger and tend to weigh more and Marketing Parcels are the smallest and tend to weigh less, change in the mail mix described above resulted in an increase of the average weight-per-piece for the overall product.[66]

The Public Representative cannot conclude that this explanation is sufficient to justify USPS Marketing Mail Parcel's non-compliance. The Public Representative observes that a similar shift in the product's mail mix occurred last year, and yet average weight-per-piece notably decreased*.* *Id.* The Public Representative suggests that the increase in the share of Nonprofit Irregular Parcels from 14.04 in FY 2017 percent to 16.28 percent in FY 2018 may have also contributed to the increase in the average weight-per-piece for USPS Marketing Mail Parcels.[67] *Id*.

In the FY 2017 ACR, as in the previous ACRs, the Postal Service expresses its commitment to improve "[USPS Marketing Mail] Parcels cost coverage through above-average price increases."[68] In each ACD from FY 2014 through FY 2017, the Commission found that USPS Marketing Mail Parcels' revenues were not sufficient to cover attributable costs, but concluded that that the Postal Service's approach to improve cost coverage through above-average price increases would be appropriate.[69] The price increase for USPS Marketing Mail Parcels that went into effect in January 2019 was 2.691 percent, and appeared higher than the USPS Marketing Mail class-level average price increase of 2.482 percent.[70]

---

[66] *Id.* In the analysis of parcels' weight, the Postal Service refers to the 2014 parcel field study that includes cubic feet per piece data. *Id.*

[67] For comparison, in FY 2017, the share of Nonprofit Irregular Parcels decreased from 15.37 percent in FY 2016 to 14.04 percent in FY 2017. *Id.*

[68] FY 2018 ACR at 16; FY 2017 ACR at 14, FY 2016 ACR at 24.

[69] FY 2014 ACD at 50, FY 2015 ACD at 66-67, FY 2016 ACD at 59; FY 2017 ACD at 63.

[70] FY 2018 ACR at 16. *See also* Order No. 4875 at 28.

In addition, in the FY 2017 ACD, the Commission ordered the Postal Service to explore and implement opportunities to reduce the unit cost of USPS Marketing Mail Parcels and report on its findings in the FY 2018 ACR.[71] In response to the Commission's recommendations, the Postal Service notes that it has planned improvements to parcel processing,[72] but still maintains that "the opportunities to achieve substantial overall cost improvements" are limited due to relatively small parcel volumes. FY 2018 ACR at 17. Considering that in FY 2018, cost-per-piece increased by more than 18 percent, while in FY 2017, it increased by only 3.6 percent, the Public Representative has doubts about the effectiveness of the Postal Service's efforts to decrease USPS Marketing Mail Parcels' unit costs. The Public Representative strongly suggests that the Postal Service provide a detailed explanation of the reasons why these measures were not effective in FY 2018, as well as the list of steps it plans to take that will ensure a downward trend in cost-per-piece.

3. USPS Marketing Mail Flats

The cost coverage for USPS Marketing Mail Flats fell by 6.5 percentage points, from 74.0 percent in FY 2017 to 68.6 percent in FY 2018.[73] The total loss increased by 12.6 percent, from $668.9 million in FY 2017 to $753.4 million in FY 2018.[74] Overall, the contribution and cost coverage levels for USPS Marketing Mail Flats both appear to continue a downward trend that began after FY 2013 and has become steeper since FY

---

[71] *See* FY 2017 ACD at 63. The Commission provided similar directives in the FY 2016 ACD. *See* FY 2016 ACD at 59.

[72] The Postal Service does not discuss the specific measures in details and generally refers to the Annual Report on Service Performance provided in Library Reference USPS-FY18-29. *See* Library Reference USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products, December 28, 2018.

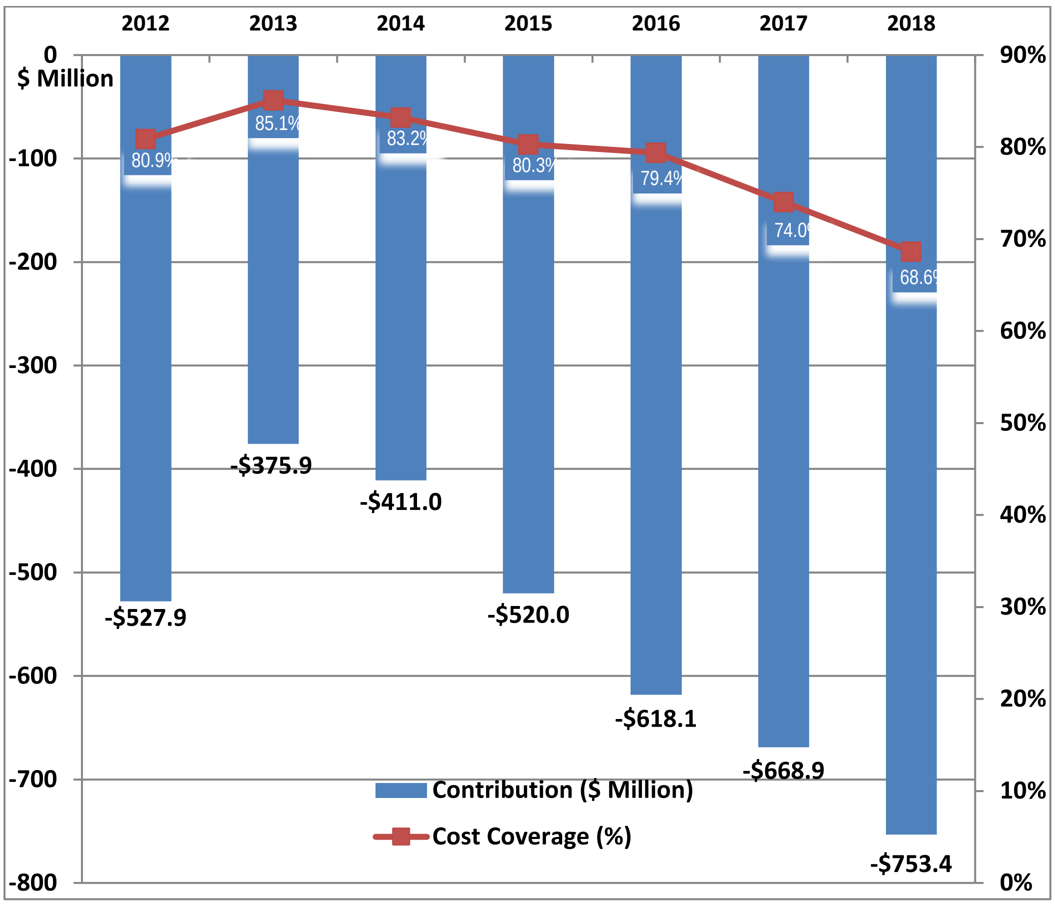
[73] *See* FY 2018 ACR at 15; FY 2017 ACD at 56.

[74] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report Workbook: Public_FY18CRAReport.xlsx, Tab: "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/4, FY 2017 USPS Marketing Mail, Workbook: Chapter III, USPS Marketing Mail Tables (Flats and Parcels) 2017.xls, Tab: "Data (4)." March 29, 2018.

2016, as illustrated by Chart IV-3, *infra*. In FY 2018, cost-per-piece increased from 52.0 cents to 58.9 cents, or by 13.4 percent, which is higher than in FY 2017 when cost-per-piece increased by 9.8 percent.[75] In FY 2018, just as in FY 2017, revenue-per-piece increased by only 2.4 percent. *Id.*

[75] FY 2018 ACR at 17, 32; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/4, FY 2017 USPS Marketing Mail, Workbook: Chapter III, USPS Marketing Mail Tables (Flats and Parcels) 2017.xls, Tabs: “Flats III (3) and “Data (4),” March 29, 2018.

Chart IV-3
Financial Results for USPS Marketing Mail Flats
FY 2012 through FY 2018[76]



In FY 2018, USPS Marketing Mail Flats volume decreased by approximately 0.9 billion pieces, continuing a declining trend that started in FY 2017 when the product's volume decreased by approximately 1.4 billion pieces.[77] Between FY 2016 and FY

---

[76] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: "Volume1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/4, FY 2017 USPS Marketing Mail, Workbook: Chapter III, USPS Marketing Mail Tables (Flats and Parcels) 2017.xls, Tab: "Data (4)," March 29, 2018.

[77] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: "Volume1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/4, FY 2017 USPS Marketing Mail, Workbook: Chapter III, USPS Marketing Mail Tables (Flats and Parcels) 2017.xls, Tab: "Data (4)," March 29, 2018.

2018, the volume of USPS Marketing Mail Flats has decreased significantly—by more than 35 percent over two years. *Id.* In FY 2017, the Public Representative noted that "[a]nalyzing the cost coverage trends for USPS Marketing Mail Flats in recent years ha[d] been challenging due to recent classification and pricing changes that have caused volumes to migrate between Carrier Route and USPS Marketing Mail Flats."[78] In the FY 2017 ACD, the Commission also stated that "[t]he migration of mail volume between Carrier Route and USPS Marketing Mail Flats that occurred in FY 2016 and FY 2017 result[ed] in imperfect comparisons of FY 2016 data to FY 2017 and other fiscal years". FY 2017 ACD at 57.

In the FY 2018 ACR, the Postal Service states that the increase in cost-per-piece for USPS Marking Mail Flats and the decrease in its volume are due in part to the migration of USPS Marketing Mail Flats to USPS Marking Mail High Density Flats.[79] The Postal Service illustrates that the volume for High Density Flats' increased by 20 percent in both FY 2017 and FY 2018. *Id*. The Postal Service maintains that such a migration, coupled with mail classification changes approved in Docket No. R2017-1, create challenges in comparing unit costs for USPS Marketing Mail products over recent years.[80] The Postal Service asserts that "the decline in Flats cost coverage caused by the migration does not reflect a decline in overall Postal Service efficiency" and notes that USPS Marketing Mail Flats and Carrier Route cost-per-piece increased by only 1.63 percent combined. *Id.*

The Public Representative agrees with the Postal Service's assessment that the consideration of USPS Marketing Mail Flats in isolation may lead to inaccurate conclusions about trends in cost coverage because recent mail mix changes in USPS

---

[78] FY 2017 PR Comments at 30.

[79] FY 2018 ACR at 17-19; Responses to CHIR No. 1, question 15.

[80] FY 2018 ACR at 33-35; Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 3, January 28, 2019, question 5 (Responses to CHIR No. 3).

Marketing Mail's volume have resulted from the migration of USPS Marketing Mail Flats to USPS Marketing Mail Carrier Route and USPS Marketing Mail High Density Flats. The Postal Service notes that if all USPS Marketing Mail Non-Saturation Flats are combined, cost coverage in FY 2018 would be approximately 88.1 percent compared to 68.6 percent for USPS Marketing Mail Flats and cost-per-piece would be 34 cents compared to 58.9 cents for USPS Marketing Mail Flats. Responses to CHIR No. 1, question 15. In the FY 2017 ACD, the Commission found that "the combined unit contribution from USPS Marketing Mail Flats and Carrier Route was negative for the second time." FY 2017 ACD at 58. The Public Representative observes that although in FY 2016 the per-piece-loss from these two products combined was only 0.9 cents, it increased notably in FY 2017 to 2.4 cents, and more than doubled in FY 2018 reaching approximately 5.5 cents.[81] As noted above, the cost coverage for all three USPS Marketing Mail "Non-Saturation Flats" products combined is still notably below 100 percent, which creates doubts that mail classification changes and mail mix changes adequately or completely explain the worsening financial performance of USPS Marketing Mail Flats in FY 2018.

Among other factors that contributed to the increase in USPS Marketing Mail Flats costs in FY 2018, the Postal Service discusses an increase in labor costs, unit transportation costs, and mixed results in productivity improvements. Responses to CHIR No. 3, question 5. Thus, the Postal Service asserts that in FY 2018, the "mail processing wage rate increased by 2.7 percent" and "the productive hourly rate for city delivery carriers" increased by 2.2 percent. *Id.* As to changes in productivity, the Postal Service reports that while Flats Sequencing System (FSS) productivity improved by 2 percent, Automated Flat Sorting Machine (AFSM) 100 productivity declined by 7 percent. *Id.*

[81] *Id*; Responses to CHIR No. 1, question 15.

In connection with the FY 2010 ACD directives, the Postal Service reports its progress in increasing USPS Marketing Mail Flats' prices, implementing operational changes aimed at lowering costs, improving costing methodologies, and phasing out the product's subsidy.[82] As it relates to pricing, the Postal Service presents its planned price increases for USPS Marketing Mail Flats for FY 2019 through FY 2021 by 5 percent more than the Consumer Price Index for all Urban Consumers (CPI-U) inflation rate for each year. FY 2018 ACR at 25. Although the Postal Service reports on operational changes, it maintains that the existing data system does not support reliable estimates of the impact of operational initiatives on USPS Marketing Mail Flats' costs.[83] The Postal Service notes, however, that Docket No. RM2018-1 has been initiated by the Commission to explore such opportunities.[84] The Public Representative appreciates these efforts. As it relates to methodological changes, the Postal Service notes that in "contrast with previous years, there were no major costing methodology changes implemented" in FY 2018 that could materially contribute to the increase in unit costs for USPS Marketing Flats. FY 2018 ACR at 32-33.

The Public Representative agrees that these scheduled price increases are a necessary component of the Postal Service's broader strategy to improve the cost coverage of this product. The Public Representative continues to be concerned about the decrease in cost coverage and the increased loss experienced by USPS Marketing Mail Flats in FY 2018. Although the Postal Service discusses its operational initiatives as directed by the Commission in the FY 2010 ACD, it admits that "[c]hanges in

---

[82] FY 2018 ACR at 24; *see also* Docket No. ACR2010, FY 2010 Annual Compliance Determination Report, March 29, 2011, at 105-106 (FY 2010 ACD).

[83] *Id.* at 27; *see* also FY 2017 ACR at 26. .

[84] FY 2018 ACR at 27. *See also* Docket No. RM2018-1, Advance Notice of Proposed Rulemaking to Develop Data Enhancements and Reporting Requirements for Flats Issues, October 4, 2017 (Order No, 4142).

automated bundle and flat sorting productivities were mixed."[85] Finally, the Postal Service states that it remains "unable to provide an estimated timeline" for phasing out the USPS Marketing Mail Flats subsidy due to "highly variable decline in [its] volumes," which "takes away economies of scale and density" and results in "disproportionate cost pressures on [Flats]."[86]

The Postal Service also argues that "a significant price increase could result in even steeper volume declines."[87] It appears that the Postal Service faces a situation where USPS Marketing Mail Flats' cost coverage is deadlocked. The Postal Service does not appear to believe that any improvements in cost coverage for USPS Marketing Mail Flats are feasible under either volume decline (as in FY 2018) or volume increases (as in previous years). The Public Representative finds it appropriate to repeat the Commission's conclusion expressed in the FY 2017 ACD that "no progress was made toward addressing the issues [] raised in the FY 2010 ACD." FY 2017 ACD at 59. Although the Postal Service reports on the initiatives related to reducing the costs of USPS Marketing Mail Flats as requested, these initiatives do not appear to be effective.

D. Periodicals

Overall, the Periodicals class had a cost coverage of 67.5 percent, a decrease from 69.3 percent in FY 2017 and 73.7 percent in FY 2016.[88] The class' total loss increased slightly, by nearly 1 percent, from $608.1 million in FY 2017 to $613.5 million

---

[85] FY 2018 ACR at 26-32; Responses to CHIR No. 3, question 5.

[86] FY 2018 ACR at 36; Responses to CHIR No. 1, question 14.

[87] Responses to CHIR No. 1, question 14.

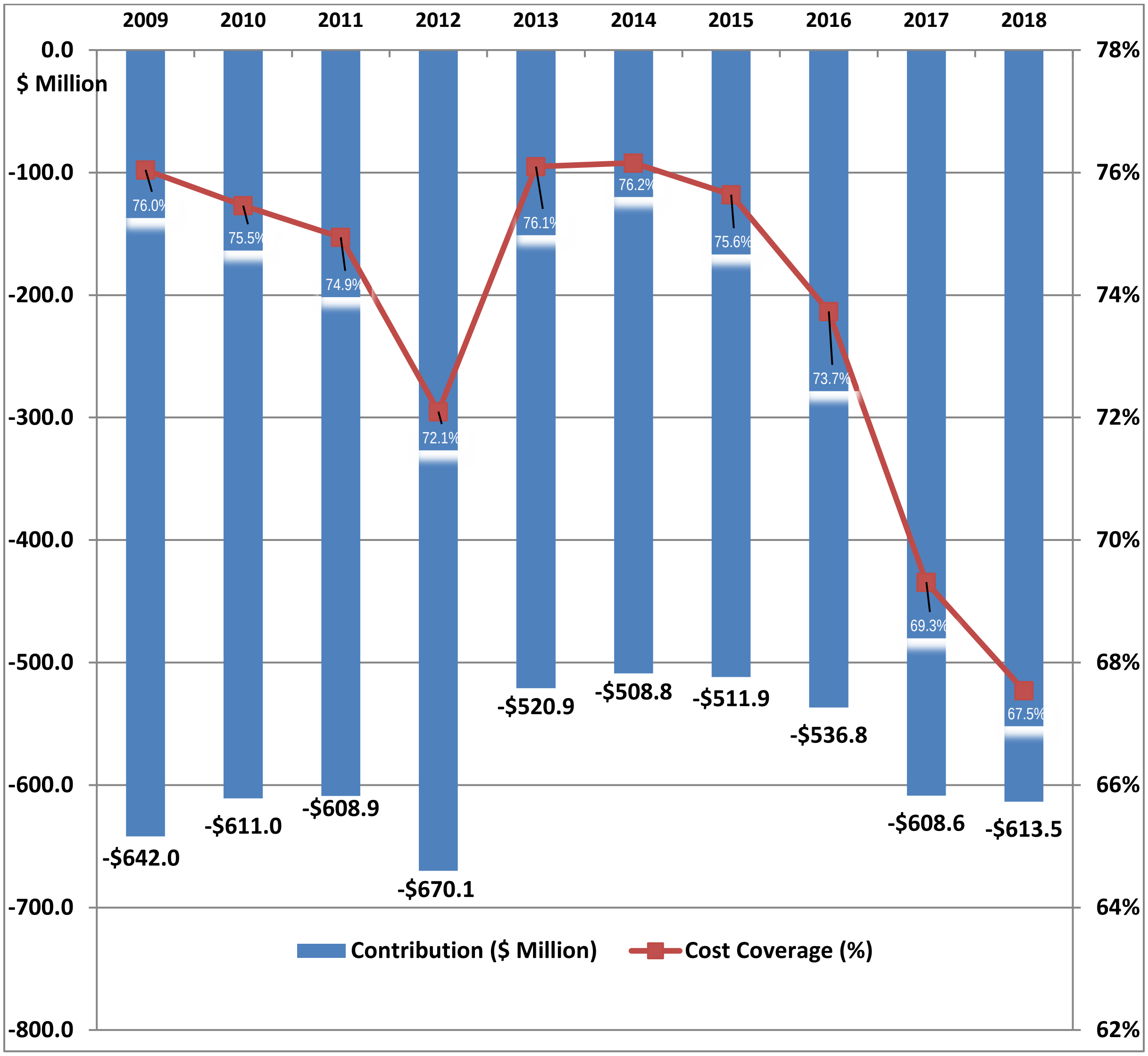
[88] FY 2018 ACR at 37; FY 2017 ACD at 45.

in FY 2018.[89] Revenue-per-piece decreased by 1.2 percent, from 25.9 cents to 25.6 cents, and cost-per-piece increased by 1.3 percent, from 37.4 cents to 37.9 cents. *Id.*

The Postal Service reports that, in FY 2018, cost coverage for both In-County and Outside County products declined and neither product covered its attributable costs. FY 2018 ACR at 37. Cost coverage for In-County Periodicals fell slightly, from 67.16 percent in FY 2017 to 67.14 percent in FY 2018, and cost coverage for Outside County Periodicals fell from 68.8 percent in FY 2017 to 67.2 percent in FY 2018. *Id.* As illustrated in Chart IV-5, *infra*, the Periodicals class has consistently failed to cover its attributable costs for many years. However, the decline in cost coverage was less in FY 2018 than in the previous years.

[89] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook Pubic_FY18CRAReport.xlsx, Tab “Cost1,” December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR-2017/1, FY 2017 Postal Service’s Product Finances, Workbook 17 Summary_LR1, Tab “Appendix B (CRA),” March 29, 2018.

Chart IV-5
Financial Results for the Periodicals Class
for FY 2009 through FY 2018[90]



---

[90] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY17CRAReport.xlsx, Tab: "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/5, FY 2017 Periodicals, Workbook: FY 2017 Periodicals Cost Coverage.xls, Tab: "Cost Coverage," March 29, 2018.

In the FY 2017 ACD, the Commission reiterated its concern about the consistent failure of the Periodicals class to cover costs and further encouraged the Postal Service to improve cost coverage. FY 2017 ACD at 50. The Commission's directives regarding the cost coverage for Periodicals class were the same as those applied to flat-shaped products in general. *Id.* at 50, 174-182. In the FY 2018 ACR, the Postal Service discusses operational changes it made to address flats processing and the efficiency of flat-shaped products for both USPS Marketing Mail and Periodicals classes. FY 2018 ACR at 26-31, 38. Additionally, in response to the Commission's directive in the FY 2017 ACD, the Postal Service provides an updated report analyzing how the January 2018 prices "impacted the cost, contribution, and revenue of Periodicals in FY 2018 and whether the new pricing improved the efficiency of Periodicals pricing."[91] FY 2018 ACR at 39. The Public Representative appreciates the provision of such a report, which, together with the previous reports, allows for a better understanding of the dynamics and impacts of Periodicals pricing and does not have any recommendations specific to the Periodicals class at this time.

E. Package Services

Package Services had a class-level cost coverage of 102.8 percent in FY 2018, which is approximately 0.8 percentage points lower than in FY 2017 when the cost coverage was 103.6 percent.[92]

---

[91] FY 2018 ACR at 39; FY 2017 ACD at 24. This is the third report on Periodicals' pricing (Periodicals Pricing Report) and is provided in USPS-FY18-44. *See* Library Reference USPS-FY18-44, Update to Periodicals Pricing Report, December 28, 2018. The Postal Service filed the original report in response to the FY 2015 ACD directive. *See* Docket No. ACR2015, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, July 26, 2016, question 1. The second report was filed last year as the part of the FY 2017 ACR. *See* Docket No. ACR 2017, Library Reference USPS-FY17-44, Upgrade to Periodicals Pricing Report, December 29, 2019.

[92] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook Pubic_FY18CRAReport.xlsx, Tabs "Cost1," December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service's Product Finances, Worksheet 17

Within Package Services, only Media Mail/Library Mail failed to cover its costs in FY 2018. The Postal Service reports that its cost-per-piece was $4.56 and revenue-per-piece was $3.50 resulting in a cost coverage of 76.7 percent. FY 2018 ACR at 39. However, the product's cost coverage improved by one percentage point since FY 2017.[93] FY 2018 marks the second year that the cost coverage for Media Mail/Library Mail slightly increased. *See* FY 2017 ACD at 75. The Postal Service attributes this increase in cost coverage to both a decrease in cost-per-piece of 4.7 cents and an increase in revenue-per-piece of 0.7 cents. FY 2018 ACR at 40.

The Postal Service notes that the Commission approved a price increase of 2.954 percent for Media Mail/Library Mail, which went into effect in January 2019.[94] FY 2018 ACR at 40. In the FY 2017 ACD, the Commission identified Media Mail/Library Mail as a non-compensatory product because its revenue was not sufficient to cover attributable cost. FY 2017 ACD at 2, 76. The Commission, however, acknowledged the Postal Service's "approach to improve cost coverage through above-average price increases," and encouraged the Postal Service "to explore opportunities to further reduce the unit cost of Media Mail/Library Mail." *Id*. at 76. Considering that the cost-per-piece for Media Mail/Library Mail decreased by 1.0 percent, revenue-per-piece increased by 0.2 percent,[95] and the price increased above the class-level average in January 2019, the Public Representative concludes that the Postal Service has

---

Summary_LR1, Tab "Package Services," March 29, 2018; Docket No. ACR2016, Library Reference PRC-LR-ACR2016-1, FY 2016 Postal Service's Product Finances, Worksheet 16 Summary_LR1, Tab "Appendix B (CRA)," March 28, 2017.

[93] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook Pubic_FY18CRAReport.xlsx, Tabs "Cost1," December 28, 2018; Docket No. ACR 2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service's Product Finances, Worksheet 17 Summary_LR1, Tab "Appendix B (CRA)," March 28, 2017.

[94] *See also* Order No. 4875 at 47.

[95] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook Pubic_FY18CRAReport.xlsx, Tabs "Cost1," December 28, 2018; Docket No. ACR 2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service's Product Finances, Worksheet 17 Summary_LR1, Tab "Appendix B (CRA)," March 28, 2018.

complied with the Commission's request. In addition, the Postal Service notes its intention "to recommend to the Governors that they continue applying above-average price increases to improve Media Mail/Library Mail cost coverage." FY 2018 ACR at 40. The Public Representative concurs with the Postal Service's approach and has no additional recommendations at this time.

F. Special Services

1. Introduction

The Postal Service reports in the FY 2018 ACR that only Stamp Fulfillment Services failed to cover its costs within the Special Services class. FY 2018 ACR at 41. In addition, Inbound Registered Mail (included within International Ancillary Services) generated revenue, which was not sufficient to cover its costs. *Id.* at 43-44. Customized Postage did not have any revenue in FY 2018, but the Postal Service maintains that it should not be considered out of compliance *Id.* The cost coverage for Money Orders was 108.1 percent in FY 2018, which represents an improvement from a FY 2016 cost coverage of 91.1 percent and a FY 2017 cost coverage of 97.4 percent.[96] The Public Representative also observes some inconsistencies in reporting cost coverage for Stamped Envelopes [97]

2. Stamp Fulfillment Services (SFS)

As illustrated by Chart IV-7, *infra*, the cost coverage for SFS has been below 100 percent since the addition of the product to the MCS in FY 2010.[98] In FY 2018, the cost coverage for SFS decreased by 9.8 percentage points, ending a three-year streak of

---

[96] FY 2018 ACR at 41; FY 2017 ACD at 64.

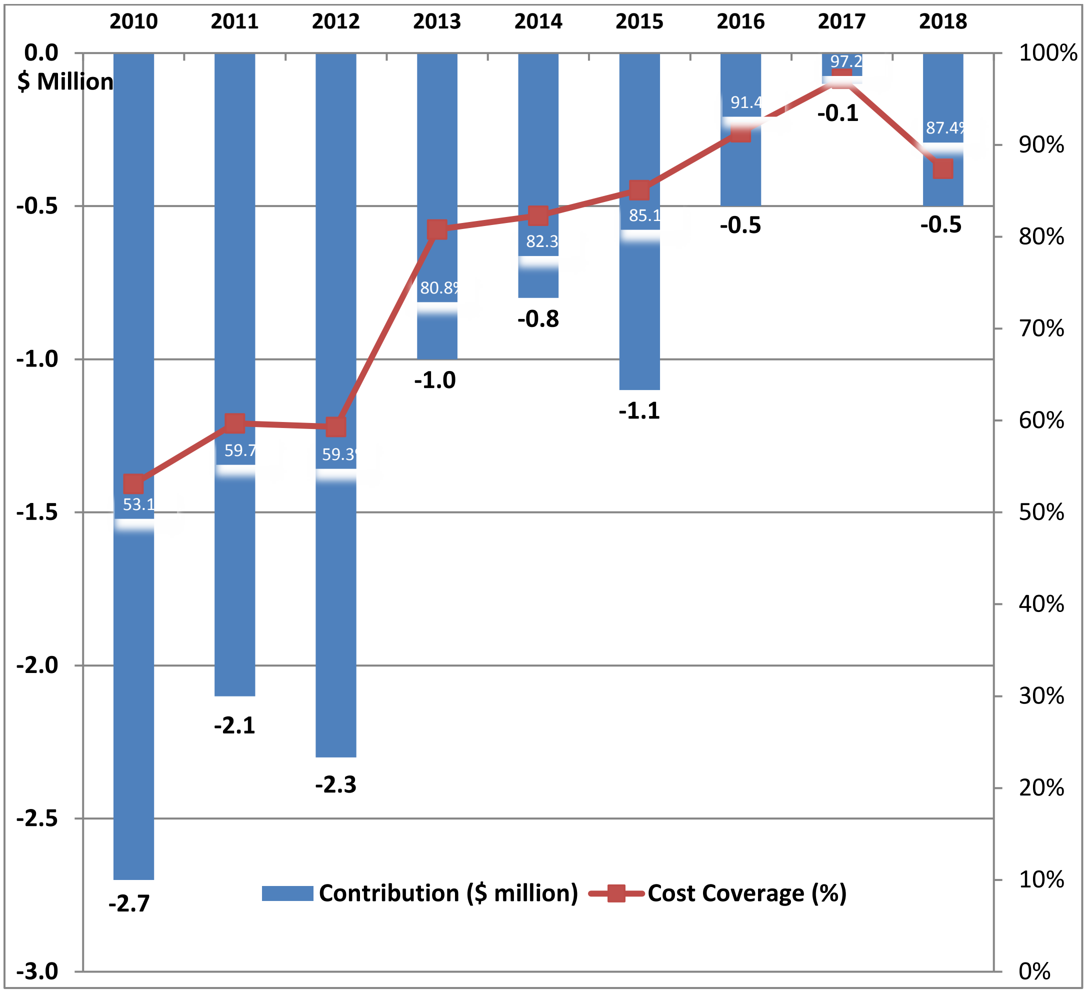
[97] *Compare* FY 2018 ACR at 41 *with* USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Worksheet Public_FY18CRAReport.xlsx, Tab "Cost2," cell D16, December 28, 2018.

[98] FY 2017 ACD at 63; FY 2018 ACR at 41.

consecutive growth. *See* Chart IV-7, *infra*. The decrease in cost coverage was due to both a decrease in revenue of 4.7 percent and an increase in attributable costs by 10 percent.[99]

[99] *See* Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: “Cost2,” December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service’s Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: “MD Services_Fees,” March 29, 2018.

Chart IV-7
Financial Results for Stamp Fulfillment Services for FY 2010 through FY 2018[100]



In the FY 2017 ACD, the Commission found that the SFS revenue was not sufficient to cover its attributable costs. FY 2017 ACD at 63. However, the Commission stated that “the financial performance of SFS does not entirely capture the value that

[100] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: “Cost2,” December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/7, FY 2017 – Special Services Workbook: PRC-LR-ACR2017-7, Tab: “1. SFS Unit Rev & Cost & CC,” March 29, 2018.

the Services Center adds to the Postal Service and to other Postal Service products" because "by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchase of stamps*."* *Id.* The Public Representative agrees, but is still concerned about deterioration of SFS' financial performance.

Although the Public Representative has previously concluded that the "Postal Service is on the right track to have SFS cover its costs,"[101] a similar conclusion is not appropriate in the instant proceeding as cost coverage dropped by almost 10 percentage points in FY 2018. Between FY 2012 and FY 2017, the cost coverage had shown steady improvement. *See* Chart IV-7, *supra.* In FY 2018, the Postal Service did not raise SFS prices in order to encourage customers to purchase stamps through its SFS offering and reduce window wait times. FY 2017 ACR at 45. Although the revenues for SFS stayed constant in FY 2018 compared to FY 2017, costs increased by $0.4 million, breaking the product's previous trend towards compliance.[102]

The Public Representative notes that the Commission approved a price increase of 3.456 percent for SFS, which went into effect in January 2019.[103] The Public Representative maintains that although the price increase was necessary, it may not be sufficient to bring the Stamp Fulfillment Services product into compliance.

3. Inbound Registered Mail

In FY 2018, International Ancillary Services as a whole covered its attributable costs, however, the cost coverage for Inbound Registered Mail within International Ancillary Services was below 100 percent "by only a small amount." FY 2018 ACR at

---

[101] FY 2017 PR Comments at 42.

[102] FY 2018 ACR at 42; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/7, FY 2017 – Special Services, Workbook: PRC-LR-ACR2017-7, Tab: "1. SFS Unit Rev & Cost & CC," March 29, 2018.

[103] FY 2018 ACR at 44*; see also* Order No. 4875 at 58, 62.

43. The Public Representative notes that the cost coverage for Inbound Registered Mail increased in FY 2018. The Postal Service discusses three things that should help Inbound Registered Mail cover its costs in FY 2019: (1) the scheduled additional payment per item from 1.1 special drawing rights (SDR) in 2018 to 1.2 SDR in 2019; (2) the Postal Service's participation in the voluntary supplementary remuneration for inbound registered items which "furnishes additional revenue;" and (3) the increased number of foreign postal operators participating in the Inbound Market Dominant Registered Service Agreement 1 multilateral agreement, and creating another source of contribution. *Id*.

As the Public Representative noted in her FY 2017 ACR comments, the above-described strategy is identical to the strategy taken in both FY 2016 and FY 2017.[104] However, the Public Representative opines that the Postal Service's strategy may now be working to some extent because International Ancillary Services is in compliance in FY 2018 even though Inbound Registered Mail's cost coverage was below 100 percent in FY 2017. The Public Representative finds that the Postal Service's strategy as it relates to Inbound Registered Mail is reasonable due to its positive movement toward compliance.

[104] *See* FY 2017 PR Comments at 44.

In the FY 2017 ACD, the Commission recommended the Postal Service identify and implement ways to reduce costs for Inbound Registered Mail. FY 2017 ACD at 73. Although in the FY 2018 ACR, the Postal Service did not directly report how it plans to reduce costs for Inbound Registered Mail, the Public Representative observes that costs for the product remained roughly constant in FY 2018, while revenue significantly increased.[105] The Public Representative believes that a 64.2 percent price increase for International Registered Mail implemented in January 2018 significantly contributed to the increase in cost coverage in FY 2018. *See* FY 2017 ACD at 72-73.

4. Stamped Envelopes

In FY 2018, the Postal Service reports that the cost coverage for Stamped Envelopes was104.96 percent and notes that the product's revenue includes revenue from shipping fees. FY 2018 ACR at 39. It appears, that without the inclusion of shipping fees, however, the product's revenue falls from $12.6 million to $11.2 million, a decrease of more than 11 percent, which brings Stamped Envelopes cost coverage down to 92.6 percent.[106] The Public Representative observes that in FY 2017, the revenues for Stamped Envelopes reported by the Postal Service in both the FY 2017 ACR and relevant library reference matched.[107] However, in the instant proceeding, the product's revenue reported by the Postal Service in its ACR and relevant library

---

[105] *See* Library Reference USPS-FY18-NP2, FY 2018 International Cost and Revenue Analysis (ICRA) Report, Workbook Reports (Unified).xlsx, December 28, 2018; Docket No. ACR2017, Library Reference PRC-LR-FY17-NP2, FY 2017 International Cost and Revenue Analysis (ICRA) Report, Workbook PRC-LR-ACR2017-NP2 UNIFIED ICRA.xlsx, December 29, 2017.

[106] Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Workbook: Public_FY18CRAReport.xlsx, Tab: "Cost2," December 28, 2018.

[107] *Compare* FY 2017 ACR at 43 *with* Docket No. ACR2017, Library Reference USPS-FY17-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Worksheet Public_FY17CRAReport.xlsx, Tab "Cost2," cell D16, December 29, 2017.

reference did not match.[108] In addition, the Public Representative is concerned with the nearly 52 percent increase in costs attributed to Stamped Envelopes, while its revenue remained relatively stable, increasing only by 3 percent in FY 2018.[109] If this trend continue, Stamped Envelopes would most likely fall out of compliance in the near future.

5. Customized Postage

In FY 2018, despite Customized Postage having no revenue, the Postal Service maintains the lack of revenue should not be treated as failure to cover costs. FY 2018 ACR at 41. The Postal Service explains that it is currently preparing revised authorization for Customized Postage vendors, but has allowed some vendors to print customized postage in the interim. *Id.* at 42. The Postal Service indicates that collection of applicable fees will be made "for the year ending May of 2019 which includes part of FY 2018." *Id.* Although the Postal Service maintains "that revenue from [the collected] fees will be collectively sufficient to cover the costs for the years 2018-2019," the Public Representative cannot make any definitive conclusions at this time. *Id.* In addition, it is not fully clear whether the Postal Services calculates and applies the fees to the calendar year or fiscal year and a clarification on this matter is desirable. However, the Public Representative does note that, because Customized Postage's cost coverage in FY 2017 was 1353 percent, the Postal Service's contentions are most likely correct.[110] The Public Representative suggests the Postal Service provide its current estimate of the FY 2018 fees that will be collected for Customized Postage and report actual data to the Commission, as soon as it becomes available.

---

[108] *Compare* FY 2018 ACR at 41 *with* Library Reference USPS-FY18-1, FY 2018 Public Cost and Revenue Analysis (PCRA) Report, Worksheet Public_FY18CRAReport.xlsx, Tab "Cost2," cell D16, December 28, 2018.

[109] FY 2018 ACR at 43; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service's Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: "MD Services_Fees," March 29, 2018.

[110] Docket No. ACR 2017, Library Reference PRC-LR-ACR2017-1, FY 2017 – Postal Service's Product Finances, Workbook: 17 Summary_LR1.xlsx, Tab: "MD Services_Fees," March 29, 2018.

V. WORKSHARING

A. Introduction

Section 3622(e)(2) directs the Commission to ensure worksharing discounts do not exceed the costs avoided by the Postal Service. *See* 39 U.S.C. § 3622(e)(2). The Public Representative's comments focus on fourteen USPS Marketing Mail worksharing passthroughs that exceeded 100 percent in FY 2018.[111] The Public Representative separates these excessive passthroughs into three categories and analyzes the passthroughs within each category.

The first category consists of eleven passthroughs for which the Postal Service has provided a statutory exemption. The Public Representative has evaluated these passthroughs based on the merits of the justifications offered by the Postal Service. The Public Representative finds that all of these passthroughs comply with 39 U.S.C. § 3622(e)(2).

The second category consists of two passthroughs that were excessive in FY 2018, but which now fall below 100 percent under the prices established in Docket No. R2019-1, effective January 2019.[112] While the Public Representative finds that in FY 2018, these passthroughs did not comply with 39 U.S.C. § 3622(e)(2), she concludes that the Postal Service has *de facto* addressed their non-compliance. Thus, the Public

---

[111] First-Class Mail and Package Service had no excessive passthroughs over 100 percent in FY 2018. *See* FY 2018 ACR at 12, 40. In addition, there were nine Periodicals passthroughs that exceeded 100 percent in FY 2018. *Id.* at 38. As indicated by the Commission in the FY 2017 ACD, excessive passthroughs for Periodicals are consistent with 39 U.S.C. § 3622(e), because those products are "provided in connection with subclasses of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational value." *See* FY 2017 ACD at 20-21; *see also* 39 U.S.C. § 3622(e)(2)(c). Therefore, the Public Representative does not address the Periodicals passthroughs that exceeded 100 percent in these comments.

[112] *See generally* Docket No. R2019-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 13, 2018 (Order No. 4875).

Representative agrees with the Postal Service's assertion that no further action is necessary for these excessive passthroughs.

The third category consists of one passthrough that was excessive in FY 2018 and will remain excessive after the implementation of Docket No. R2019-1 prices. The Postal Service did not provide a statutory exception for this passthrough, and the Public Representative finds that this passthrough does not comply with 39 U.S.C. § 3622(e)(2).

B. Excessive Passthroughs with Adequate Statutory Exemptions

The Postal Service justifies eleven workshare discounts with excessive passthroughs using statutory exemptions. *See* Table V-1, *infra*.

Table V-1
Excessive Passthroughs with
Postal Service Justifications of Statutory Exemptions[113]

	FY 2018 ACR Passthrough	Docket No. R2019-1 Passthrough	Postal Service Justification	PR Conclusion
Passthrough	**%**	**%**		
USPS Marketing Mail				
Letters				
Automation Mixed AADC Letters	216.7	183.3	Efficiency	Compliant
DNDC Dropship Letters	126.3	115.8	Rate Shock	Compliant
DSCF Dropship Letters	134.8	121.7	Rate Shock	Compliant
Flats				
Automation Mixed ADC Flats	189.5	105.3	Emergency	Compliant
Parcels				
Mixed NDC Machinable Barcoded Parcels	141.5	131.7	Efficiency	Compliant
Mixed NDC Irregular Barcoded Parcels	141.5	131.7	Efficiency	Compliant
Mixed NDC Barcoded Marketing Parcels	141.5	131.7	Efficiency	Compliant
Carrier Route				
DNDC Dropship Letters	142.1	131.6	Rate Shock	Compliant
DSCF Dropship Letters	152.2	139.1	Rate Shock	Compliant
High Density & Saturation Letters				
DNDC Dropship Letters	115.8	105.3	Rate Shock	Compliant
DSCF Dropship Letters	121.7	108.7	Rate Shock	Compliant

The Commission has previously accepted each of the above-listed justifications offered by the Postal Service.[114] The Public Representative discusses each of these excessive passthroughs and her conclusion that each is adequately justified pursuant to the statutory exemptions of 39 U.S.C. § 3622(e)(2).

---

[113] Library Reference USPS-FY18-3, FY 2018 Discounts and Passthroughs of Workshare Items, December 28, 2018; Docket No. R2019-1, Library Reference PRC-LR-R2019-1/2, Compliance Calculations for USPS Marketing Mail, November 13, 2018. The Public Representative computed the R2019-1 passthroughs using the R2019-1 discounts and the FY 2018 ACR avoided costs.

[114] *See* FY 2017 ACD at 25, 28, 30, 33, 35 and 37; FY 2016 ACD at 25, 27, 29, 32, and 34-36.

1. Automation Mixed Automation Area Distribution Center (AADC) Letters

Automation Mixed AADC Letters had a passthrough of 216.7 percent in FY 2018. FY 2018 ACR at 20. The Postal Service notes that the FY 2017 ACR passthrough of 1300.0 percent was substantially reduced as a result of the methodology changes approved in Docket No. RM2019-1.[115] The Postal Service continues to justify the passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D) because it "encourages mailers to apply the Intelligent Mail Barcode (IMb) to their mailpieces, which is valuable to the efficient operation of the Postal Service." FY 2018 ACR at 20. The Postal Service further notes that "[w]hen Docket No. R2019-1 prices take effect…[the] passthrough will fall further to 183.3 percent." *Id*. In the FY 2017 ACD, the Commission found this excessive passthrough was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D), but was displeased with the progress in reducing this passthrough. FY 2017 ACD at 26. The Public Representative finds that the Postal Service indeed made progress in FY 2018 by decreasing this passthrough by over 1000 percentage points. In addition, she continues to find that the excessive passthrough is adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D).[116]

2. Destination Network Distribution Center (DNDC) and Destination Sectional Center Facility (DSCF) Dropship Letters

In FY 2018, DNDC and DSCF Dropship Letters had passthroughs of 126.3 percent and 134.8 percent, respectively. FY 2018 ACR at 19. The Postal Service continues to justify these excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(B).[117] The Commission previously accepted the Postal Service's justification

---

[115] *Id.; see* Docket No. RM2019-1, Order on Analytical Principles Used in Periodic Reporting, November 28, 2018, at 8 (Order No. 4894).

[116] The Public Representative made a similar finding in her comments related to the FY 2017 ACR. *See generally* FY 2017 PR Comments at 50.

[117] *Id.*; *see also* FY 2017 ACD at 25.

for these excessive passthroughs, so long as the Postal Service continued to reduce passthroughs by 10 percentage points in each market dominant rate case.[118] The Postal Service notes that DNDC dropship letters decreased by 26.6 percentage points from 152.9 percent and DSCF dropship letters decreased by 27.1 percentages points from 161.9 percent. FY 2018 ACR at 19. The Postal Service also notes that these passthroughs will decrease even further based on the approved rates in Docket No. R2019-1. *Id.* Based on these decreases, the Public Representative continues to find that these excessive passthroughs are adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B).

3. Automation Mixed Area Distribution Center (ADC) Flats

The passthrough for Automation Mixed ADC Flats was 189.5 percent in FY 2018, which is only a slight reduction from the 190.0 percent passthrough in FY 2017. *Id.* at 21. However, the Postal Service notes that "when Docket No. R2019-1 prices take effect; this passthrough will fall to 105.3 percent." *Id.* at 21-22. The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D). *Id.* at 22. As the Docket No. R2019-1 discounts reduce this passthrough to 105.3 percent, and the Postal Service will most likely file the next market dominant rate case with existing avoided costs, the Public Representative believes the Postal Service should be able to eliminate the excessive passthrough for this product in FY 2019. For these reasons, the Public Representative maintains that the passthrough for Automation Mixed ADC Flats is adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D).

[118] *Id* at 28. *See also, e.g.,* Order No. 4875 at 36; Docket No. R2018-1, Order on Price Adjustments for First-Class Mail, USPS Marking Mail, Periodicals, Package Service, and Special Services Products and Related Mail Classification Changes, November 9, 2017, at 39-40 (Order No. 4215).

4. Mixed Network Distribution Center (NDC) Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels and Mixed NDC Marketing Barcoded Parcels

The passthroughs for Mixed NDC Machinable Parcels, Mixed NDC Irregular Parcels, and Mixed NDC Marketing Parcels were 141.5 percent in FY 2018. *Id.* The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(D). *Id.* The Postal Service states that "these discounts encourage mailers to pre-barcode their parcels, thereby increasing operational efficiency." *Id*. The Commission has previously accepted the Postal Service's justification for these excessive passthroughs, so long as the Postal Service continued to reduce passthroughs by 10 percentage points in each market dominant rate case.[119] However, based on Docket No. R2019-1 discounts and prices these excessive passthroughs will only decline by 9.8 percentage points, to 131.7 percent. FY 2018 ACR at 22. The Postal Service notes that "it plans to recommend to the Governors a reduction in the passthroughs of at least 10 percentage points in the next market dominant rate case." *Id.* at 22-23. The Public Representative believes it is reasonable to expect the Postal Service to modify discounts in the next market dominant rate case to reduce these three passthroughs by the anticipated amount.[120] As such, the Public Representative accepts the Postal Service's claimed statutory exemption and maintains that these passthroughs are adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D).

5. Carrier Route DNDC and DSCF Dropship Letters

The passthroughs for Carrier Route DNDC and DSCF dropship letters for FY 2018 were 142.1 percent and 152.2 percent, respectively. FY 2018 ACR at 23. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. §

---

[119] FY 2017 ACD at 32-33.; *see also, e.g.,* Order No. 4875 at 36; Order No. 4215 at 43.

[120] The next market dominant rate case should be completed before the Postal Service presents new avoided costs in its FY 2019 ACR filing.

3622(e)(2)(B). *Id.* The Commission has previously accepted the Postal Service's justification for these excessive passthroughs, so long as the Postal Service continued to reduce passthroughs by 10 percentage points in each market dominant rate case.[121] The Public Representative notes that in FY 2018 compared to FY 2017, Carrier Route DNDC dropship letters decreased by 34.4 percentage points from 176.5 percent and DSCF dropship letters decreased by 28.8 percentage points from 181.0 percent.[122] In addition, the Postal Service states that these passthroughs will decrease even further based on the approved prices in Docket No. R2019-1. FY 2018 ACR at 23. Based on these decreases, the Public Representative continues to find that these excessive passthroughs are adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B).

6. High Density and Saturation DNDC and DSCF Letters

The passthroughs for High Density and Saturation DNDC and DSCF Letters for FY 2018 were 115.8 percent and 121.7 percent, respectively. FY 2018 ACR at 24. The Postal Service justifies the excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* The Commission has previously accepted the Postal Service's justification for these excessive passthroughs, so long as the Postal Service continued to reduce passthroughs by 10 percentage points in each market dominant rate case.[123] The Public Representative notes that High Density and Saturation DNDC Letters decreased by 25.4 percentage points from 141.2 percent and High Density and Saturation DSCF Letters decreased by 25.9 percentage points from 147.6 percent.[124] In addition, the Postal Service states that these passthroughs will decrease even further based on the approved prices in Docket No. R2019-1. FY 2018 ACR at 24. Based on

[121] FY 2017 ACD at 34-35.; *see also, e.g.,* Order No. 4875 at 36; Order No. 4215 at 43.

[122] FY 2018 ACR at 23; FY 2017 ACD at 34.

[123] FY 2017 ACD at 36-37.; *see also, e.g.,* Order No. 4875 at 36; Order No. 4215 at 43.

[124] FY 2018 ACR at 24; FY 2017 ACD at 36.

these decreases, the Public Representative continues to find that these excessive passthroughs are adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B).

C. Excessive Passthroughs Resolved by Docket No. R2019-1

For two excessive passthroughs, Nonautomation 3-Digit Nonmachinable Letters and Nonautomation 5-Digit Nonmachinable Letters, the Postal Service does not provide statutory exemptions; rather, it notes that both passthroughs will not exceed 100 percent under Docket No. R2019-1 prices. *Id.* at 20-21; *see* Table V-2, *infra*.

Table V-2
Excessive Passthroughs Resolved by
Docket No. R2019-1 Price Adjustments[125]

	FY 2018 ACR Passthrough	Docket No. R2019-1 Passthrough	PR Conclusion
Passthrough	**(%)**	**(%)**	
USPS Marketing Mail			
Letters			
Nonautomation 3-Digit Nonmachinable Letters	104.5	100.0	Not Compliant
Nonautomation 5-Digit Nonmachinable Letters	101.4	97.1	Not Compliant

In FY 2018, the Nonautomation 3-Diigt Nonmachinable Letters passthrough was 104.5 percent and the Nonautomation 5-Digit Nonmachinable Letters passthrough was 101.4 percent. FY 2018 ACR at 20. The Postal Service does not provide a statutory exemption for these excessive passthroughs. Therefore, the Public Representative

[125] Library Reference USPS-FY18-3, FY 2018 Discounts and Passthroughs of Workshare Items, December 28, 2018; Docket No. R2019-1, Library Reference PRC-LR-R2019-1/2, Compliance Calculations for USPS Marketing Mail, November 13, 2018. The Public Representative computed the R2019-1 passthroughs using the R2019-1 discounts and the FY 2018 ACR avoided costs.

finds that neither passthrough complies with 39 U.S.C. § 3622(e)(2). However, the Public Representative agrees with the Postal Service's claims that both of these excessive passthroughs come into compliance once the price adjustment of Docket No. R2019-1 went into effect in January 2019, and therefore finds that no additional action on the Postal Service's part is necessary. *Id.* at 20-21.

D. Excessive Passthrough Not Resolved by Docket No. R2019-1

For one excessive passthrough, Automation 3-Digit Flats, the Postal Service does not provide a statutory exemption. *Id.* at 21; *see* Table V-3, *infra*.

Table V-3
Excessive Passthrough Not Resolved by
Docket No. R2019-1 Price Adjustments[126]

	FY 2018 ACR Passthrough	Docket No. R2019-1 Passthrough	PR Conclusion
Passthrough	**(%)**	**(%)**	
USPS Marketing Mail			
Flats			
Automation 3-Digit Flats	103.1	113.8	Not Compliant

Automation 3-Digit Flats had a passthrough of 103.1 in FY 2018. FY 2018 ACR at 21. The Postal Service states that "when Docket No. R2019-1 prices take effect, the passthrough will increase to 113.8 percent." *Id.* The Postal Service does not provide a statutory exemption for the excessive passthrough and notes that "in the next market

[126] Library Reference USPS-FY18-3, FY 2018 Discounts and Passthroughs of Workshare Items, December 28, 2018; Docket No. R2019-1, Library Reference PRC-LR-R2019-1/2, Compliance Calculations for USPS Marketing Mail, November 13, 2018. The Public Representative computed the R2019-1 passthroughs using the R2019-1 discounts and the FY 2018 ACR avoided costs.

domain rate case" it will "recommend to the Governors that they realign the discount with its cost avoidance, or it will cite an appropriate statutory exemption." *Id.* However, since the Postal Service does not provide a statutory exemption for this excessive passthrough, the Public Representative concludes that the FY 2018 passthrough for Automation 3-Digit Flats is not in compliance with 39 U.S.C. § 3622(e)(2).

VI. COMPETITIVE PRODUCTS

A. Introduction

As mandated by 39 U.S.C. § 3633(a), the Commission's regulations in 39 C.F.R. § 3015.7 require that: (1) market dominant products may not subsidize competitive products (39 U.S.C. § 3633(a)(1)); (2) each competitive product must cover its attributable costs (39 U.S.C. § 3633(a)(2)); and (3) competitive products must collectively cover an appropriate share of the Postal Service's institutional costs (39 U.S.C. § 3633(a)(3)). *See* 39 U.S.C. § 3633(a); 39 C.F.R. § 3015.7. For the reasons discussed below, the Public Representative concludes that market dominant products did not subsidize competitive products and that competitive products collectively covered at least an appropriate share of intuitional costs as set forth in 39 C.F.R § 3015.7(c). 39 U.S.C. § 3633(a)(1); 39 U.S.C. § 3633(a)(3); 39 C.F.R. § 3015.7. The Public Representative also discusses those competitive products that failed to cover attributable costs. 39 U.S.C. § 3633(a)(2).

B. Market Dominant Products Did Not Subsidize Competitive Products

The test for compliance with 39 U.S.C. § 3633(a)(1) is as follows: "if the aggregate revenues from competitive products equal or exceed the aggregate incremental costs of competitive products, then competitive products overall have not been cross-subsidized by market dominant products". FY 2018 ACR at 67. For FY 2018, in order to measure the "incremental costs" portion of the cross-subsidy test, the

Postal Service applies "a single direct estimate of group incremental costs of all competitive products, domestic and international."[127] The Postal Service notes that the incremental cost estimate for "all competitive products is calculated separately from those for domestic and international," and thus is not the "sum of those two estimates." FY 2018 ACR at 67.

Using this measure, the Postal Service indicates that in FY 2018, the total competitive group incremental costs were approximately $15.466 billion, while the revenue from competitive products was approximately $23.057 billion.[128] Because competitive product group revenues exceeded incremental costs, the Public Representative concludes that the Postal Service's market dominant products did not subsidize its competitive products in FY 2018.

C. Competitive Products That Did Not Cover Attributable Costs

1. International Priority Airmail (IPA)

IPA is a "bulk international airmail service for mailing First-Class Mail International and Outbound Single-Piece First-Class Package International Service items."[129] Although IPA satisfied 39 U.S.C. § 3633(a)(2) in the previous four fiscal

[127] The Commission recently approved this new methodology in as part of Proposal Three in Order No. 4719. *See* Docket No. RM2018-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), July 19, 2018 (Order No. 4719). The previously applied "hybrid" incremental cost methodology used the aggregate incremental costs of domestic competitive products and the volume-variable plus product-specific costs of international competitive products. *See* Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposal Twenty-Two through Twenty-Five), January 27, 2010, at 4-5 (Order No. 399); *see also* FY 2018 ACR at 67.

[128] FY 2018 ACR at 68; *see also* FY 2018 ACR Errata.

[129] *See* Mail Classification Schedule, section 2320, available at: *https://www.prc.gov/mail-classification-schedule.*

years, IPA failed to cover its costs in FY 2018.[130] The Postal Service explains that almost all IPA is included in competitive International NSAs, and the remaining non-NSA volume for IPA continues to be small. FY 2018 ACR at 69. The Postal Service notes that "there is no direct observation of costs for the IPA product (non-NSA IPA)." *Id.* at 70. The Postal Service concludes that "any variances in the cost estimates for NSA IPA will have a magnified effect on costs for [] non-NSA IPA and whether the [] non-NSA IPA product covers its attributable costs." *Id.* The Public Representative observes that in FY 2013, the Postal Service provided the same justification for inability of IPA to cover costs.[131] The Commission subsequently found IPA out of compliance and stated that it was "skeptical that variance alone [caused] the FY 2013 loss."[132] However, the Public Representative expects that the cost coverage for the IPA product will improve in FY 2019 because, as the Postal Service itself notes, the prices for the non-NSA IPA product increased by 19.9 percent in January 2019.[133]

2. International Money Transfer Service (IMTS)–Inbound

In 2010, in Order No. 391, the Commission approved the Postal Service's request to classify IMTS–Inbound and IMTS–Outbound as two separate competitive products.[134] In FY 2017, both products failed to cover their costs. FY 2017 ACD at 86-87. However, in FY 2018, the Postal Service reports that only IMTS-Inbound failed to

---

[130] *See* FY 2018 ACR at 69-70; *see also* FY 2017 ACD at 85-86; FY 2016 ACD at 83; FY 2015 ACD at 84; Docket No. ACR2014, Annual Compliance Determination Report, Fiscal Year 2014, March 27, 2015, at 75 (FY 2014 ACD).

[131] *See* Docket No. ACR2013, Annual Compliance Determination Report, Fiscal Year 2013, March 27, 2014, at 84-85 (FY 2013 ACD).

[132] *Id.* at 85. As the Commission stated, any "statistical variance caused by IOCS or TRACS sampling errors only affects slightly more than 10 percent of the IPA product's attributable costs," and "the source of the substantial reduction in unit attributable cost for the IPA product [] likely lies elsewhere." *Id.*

[133] FY 2018 ACR at 70; *see also* Docket No. CP2019-3, Order Approving Price Adjustments for Competitive Products, November 13, 2018, at 3 (Order No. 4876).

[134] *See* Docket No. MC2009-19, Order Approving Addition of Postal Services to the Mail Classification Schedule Products Lists, January 13, 2010 (Order No. 391).

cover its costs, which is an improvement from the previous fiscal year. FY 2018 ACR at 70-71. It appears that the price increase for IMTS-Outbound the Postal Service implemented in January 2018 helped bring the product into compliance in FY 2018.[135]

In its discussion of the IMTS-Inbound product, the Postal Service provides the same explanation it provided in the FY 2017 ACR, namely that "there were no IMTS-Inbound [IOCS] tallies." FY 2018 ACR at 71. In the FY 2017 ACD, the Commission stated that it "expect[ed] the Postal Service to request a delegation of authority from the Department of State under the Circular 175 process" in order to terminate or renegotiate IMTS-Inbound agreements.[136] In the FY 2018 ACR, the Postal Service states that the way to address cost coverage issues with the product "is by termination of IMTS-Inbound agreements" and that it has already sent the required correspondence to the Department of State and is currently awaiting a response to its request. FY 2018 ACR at 71. The Public Representative finds these actions appropriate.

3. International Ancillary Services and Outbound International Insurance

In FY 2018, just as in FY 2017, International Ancillary Services failed to cover its attributable costs due to the losses from Outbound International Insurance.[137]

In the FY 2017 ACR, the Postal Service noted that one possible reason for the failure of Outbound International Insurance to cover costs "may be that claims for Priority Mail International (PMI), for which no fee is paid, are assigned to the Outbound International product, rather than to the PMI product." FY 2017 ACR at 71. In the FY 2017 ACD, the Commission directed the Postal Service to evaluate "the Outbound

---

[135] *See* Docket No. CP2018-8, Order Approving Price Adjustments for Competitive Products, November 7, 2017, at 3, Attachment at 145 (Order No. 4208).

[136] *See* FY 2016 ACD at 84; FY 2017 ACD at 87.

[137] FY 2018 ACR at 71; *see also* FY 2017 ACD at 87-88.

International Insurance cost reporting and whether a change in analytical principles is warranted". FY 2017 ACD at 88.

In Docket No. RM2018-9, the Postal Service filed a request to revise the "methodological procedures concerning the attribution of international insurance indemnities," which was approved by the Commission in Order No. 4798.[138] However, the subsequent improvement in cost coverage as a result of the change in the cost attribution methodology was not enough to cure the non-compliance of Outbound International Insurance in FY 2018.

Consequently, the Public Representative finds it appropriate to repeat a proposition she expressed in response to the FY 2017 ACR, namely that relatively high volatility of IOCS-based unit cost estimates could be another major cause of insufficient cost coverage.[139] The Public Representative suggests the Postal Service provide additional information regarding the reliability of the cost coverage estimates for Outbound International Insurance.

In addition, the Postal Service asserts that the "precipitous[]" January 2019 price increase, "in excess of 20 percent," should improve the financial performance of Outbound International Insurance and International Ancillary Services overall.[140] The Public Representative agrees that "precipitous" price increases should help improve cost coverage, but suggests they may still be insufficient to bring Outbound International

---

[138] FY 2018 ACR at 71; *see also* Docket No. RM2018-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), August 28, 2018 (Order No. 4798).

[139] FY 2017 PR Comments at 57. As the Postal Service reported in the FY 2017 ACR, there were only six IOCS-tallies for Outbound International Insurance, with a coefficient of variation of 43 percent. *See* Docket No. ACR2017, Reponses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 3, January 19, 2018, question 7 (Responses to CHIR No. 3).

[140] FY 2018 ACR at 72. The proposed average price increase for International Ancillary Services and Special Services is 10.4 percent. *See* Order No. 4876 at 3.

Insurance into compliance with the 39 U.S.C. 3633(a)(2), considering the current level of the product's cost coverage.

4. International NSAs

In the Postal Service's initial FY 2018 ACR filing, it indicated that not all agreements within the Global Expedited Package Services (GEPS) 3, GEPS 7, GEPS 8, and Global Plus 1 products covered costs. FY 2018 ACR at 72. The Postal Service also expressed concerns regarding "the accuracy of results" reported for the non-compliant NSAs it discussed. *Id.* at 72-73. The Postal Service noted that it was "reviewing the available data [] to determine if any updates [would be] appropriate." On February 11, 2019, the Postal Service filed an Errata to its FY 2018 ACR and associated workpapers, updating some financial data, including the costs associated with the previously reported six non-compliant contracts. *See* FY 2018 ACR Errata. The Postal Service states that it identified and corrected errors which "reduced [the] 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."[141] The Public Representative appreciates the Postal Service's efforts to identify and correct the errors previously reported and has no further comments related to these contracts.

5. Domestic NSAs

The Postal Service states that two domestic NSAs failed to cover their attributable costs. FY 2018 ACR at 69. These are Priority Mail Contract 179 and Priority Mail Contract 433.[142] As it relates to these non-compliant FY 2018 NSAs, one has already expired. The Postal Service maintains that it is closely monitoring the cost

[141] *See* FY 2018 ACR Errata; *see also* FY 2018 ACR Errata Workpapers.

[142] *See* Dockets Nos. MC2016-63 and CP2016-78, Order Adding Priority Mal Contract 179 to the Competitive Product List, January 6, 2016 (Order No. 2986); Docket Nos. MC2018-149 and CP2018-215, Order Adding Priority Mal Contract 433 to the Competitive Product List, May 30, 2018 (Order No. 4626).

coverage for Priority Mail Contract 433 and will "renegotiate pricing if necessary." FY2018 ACR at 69. The Public Representative appreciates the Postal Service's progress in monitoring the cost coverage for this agreement.

Additionally, the Postal Service indicates there were three other agreements with components that failed to cover their attributable costs, but each agreement covered costs as a whole. FY 2018 ACR at 69. However, the Public Representative contends these agreements require special attention by both the Postal Service and the Commission because they could potentially become out of compliance if either agreement's product mix changes.

Despite these non-compliant agreements, domestic NSA attributable cost coverage improved in FY 2018 compared to previous years. In FY 2017, there were four NSAs that did not cover their attributable costs and in FY 2016 there were thirteen NSAs that failed to cover their attributable costs.[143]

D. Competitive Products Collectively Covered an Appropriate Share of the Postal Service's Institutional Costs

Competitive products must cover what the Commission determines to be "an appropriate share of the institutional costs of the Postal Service." 39 U.S.C. § 3633(a)(3). In 2007, the Commission set the appropriate share at 5.5 percent level and, in 2012, the Commission maintained the appropriate share at 5.5 percent level.[144]

Pursuant to 39 U.S.C. § 3633(b), the Commission recently completed its second review of the appropriate share requirement, and in Order No. 4963, implemented a

[143] FY 2017 ACD at 84; FY 2016 ACD at 81.

[144] *See* Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 91 (Order No. 43); *See* Docket No. RM2012-3, Order Reviewing Competitive Products' Appropriate Share Contribution to Institutional Costs, August 23, 2012 (Order No. 1449); 39 C.F.R. § 3015.7(c).

formula-based approach to calculating the appropriate share.[145] In the future, as part of the ACD, the Commission will be calculating and reporting "competitive products' appropriate share for each upcoming fiscal year using the [established] formula." Order No. 4963, Attachment A at 2. Had the Commission's new approach applied as part of the FY 2018 ACR, competitive products' appropriate share of institutional costs for FY 2018 would have been 8.6 percent. Order No. 4963 at 28.

However, for the purposes of the FY 2018 ACR, the Postal Service correctly applies the 5.5 percent minimum contribution requirement pursuant to 39 C.F.R. § 3015.7(c). FY 2018 ACR at 73. In FY 2018, the Postal Service's total institutional costs were $30.724 billion; applying the 5.5 percent appropriate share "yields a target contribution of $1.690 billion." *Id*. In FY 2018, the Postal Service's competitive products contributed approximately $7.591 billion to institutional costs or 24.7 percent, thereby satisfying the requirements of 39 U.S.C. § 3633(a)(3) and 39 C.F.R. § 3015.7(c). *Id.* The Public Representative notes that had the Commission's new approach applied as part of the FY 2018 ACR, the Postal Service would have well surpassed the 8.6 percent appropriate share calculated by the formula.

[145] *See* Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019, at 3-4 (Order No. 4963).

VII. CONCLUSION

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

Respectfully submitted,

Mallory L. Smith
Public Representative

Lyudmila Y. Bzhilyanskaya
Lawrence Fenster
Michael L. Leibert
Assisting the Public Representative

901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001
PH: 202-789-6822, FAX: 202-789-6861
Email: mallory.smith@prc.gov