

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

ANNUAL COMPLIANCE REVIEW, 2018

Docket No. ACR2018

**FIRST RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO COMMISSION REQUESTS FOR ADDITIONAL INFORMATION
IN THE FY 2018 ANNUAL COMPLIANCE DETERMINATION**
(July 11, 2019)

In its Fiscal Year 2018 Annual Compliance Determination, issued on April 12, 2019, the Postal Regulatory Commission requested additional information from the Postal Service regarding several matters within ninety days. The Postal Service's responses to those requests follow.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Inbound LC/AO Mail Costing Methodology

For purposes of this ACD, the Commission accepts the Postal Service's revenue distribution for inbound LC/AO mail. The Commission concludes however, that this is a change in analytical principles that the Commission has not approved and directs the Postal Service to file a petition for the initiation of a proceeding to consider this proposed change in analytical principles within 90 days of issuance of this ACD. FY 2018, Chapter 3 ACD at 80.

RESPONSE:

The requested petition was submitted as Proposal Two in Docket No. RM2019-7 on July 9, 2019.

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2. Competitive NSAs

The Commission finds that Priority Mail Contract 179 and Priority Mail Contract 433 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. Because Priority Mail Contract 179 is no longer active, no further action is required. For Priority Mail Contract 433, the Commission directs the Postal Service to change from quarterly reporting to monthly reporting starting with April 2019, with each monthly report due no later than 30 days after the end of that month. Additionally, the Commission directs the Postal Service to report within 90 days of issuance of this ACD whether it intends to renegotiate prices for Priority Mail Contract 433. FY 2018 ACD, Chapter 4 at 101.

RESPONSE:

As indicated in the Notice of Termination filed on May 10, 2019, Priority Mail Contract 433 was terminated as of April 30, 2019, thus rendering moot any possibility of renegotiating prices for that contract. In accordance with the above provision regarding monthly reporting, the report for the last month of operation for that contract (April 2019) was timely submitted on May 30, 2019.

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3. International Cost and Revenue Analysis

For purposes of this ACD, the Commission accepts the Postal Service's distribution of PRIME enhanced payments. The Commission concludes however, that this is a change in analytical principles that the Commission did not approve and directs the Postal Service to file a petition for the initiation of a proceeding to review this proposed change in analytical principles within 90 days of issuance of this ACD.¹ FY 2017 ACD, Chapter 4 at 105.

RESPONSE:

The requested petition was submitted as Proposal Three in Docket No. RM2019-8 on July 9, 2019.

¹ *Id.*; see also section 4.C.3.b., *supra* (describing an additional requirement when filing the required petition). [Additionally, the Commission directs the Postal Service, when it files a petition for the initiation of a proceeding to consider the proposed change in analytical principles for PRIME enhanced payments, to ensure that the proposed distribution does not allocate these NSA-specific costs to the non-NSA IPA product.]

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4. International Priority Airmail

The Commission finds that IPA was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. The Commission directs the Postal Service to report on the following issues involving IPA within 90 days of the issuance of this ACD:

- *The feasibility of directly estimating the costs of the IPA product.*
- *The feasibility of developing country-specific information on IPA NSA volume or, alternatively, a methodology to distribute settlement charges more accurately.*
- *The estimated variance of the reported non-NSA IPA product costs based on an analysis of the variance of each of the measurements used to calculate non-NSA IPA product costs. This analysis should include the variance at the cost segment and component level.*

Additionally, the Commission directs the Postal Service, when it files a petition for the initiation of a proceeding to consider the proposed change in analytical principles for PRIME enhanced payments, to ensure that the proposed distribution does not allocate these NSA-specific costs to the non-NSA IPA product.² FY 2018 ACD, Chapter 4 at 107.

RESPONSE:

On July 9, 2019, the Postal Service submitted a petition to initiate consideration of Proposal Four in Docket No. RM2019-9. Contained within the Proposal Four petition was information responsive to each issue identified above. In particular, Proposal Four includes proposed new procedures to distribute settlement charges more accurately, while avoiding the attribution of NSA settlement expenses to the non-NSA portion.

² FY 2018 ACD, Chapter 4 at 105; see section 4.C.3.b., *supra*.

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5. First-Class Mail Service Performance

- *The Commission is concerned that service performance results for First-Class Mail Single-Piece Letters/Postcards declined from FY 2017 to FY 2018, and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the fourth year in a row. Therefore, in addition to directing the Postal Service to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2019, the Commission directs the Postal Service to provide information for each of the seven geographic Postal Service Areas on the following two matters.*
 - *First, for each Area, the Postal Service shall evaluate the efficacy of its FY 2019 efforts to improve First-Class Mail service performance. This evaluation shall describe the Area's progress made toward addressing the top root causes of First-Class Mail service performance failures in FY 2018 and explain how the Area's progress (or lack thereof) toward addressing each root cause has affected on-time service performance for First-Class Mail. Where appropriate, this evaluation shall indicate if the reported progress and effect on performance apply only to particular categories of First-Class Mail pieces (e.g., based on shape, product, or service standard).*
 - *Second, for each Area, the Postal Service shall provide a detailed plan to improve First-Class Mail service performance that describes each planned action, identifies the problem that the planned action is expected to remediate, and provides an estimated timeframe for implementation and completion of each planned action. Where appropriate, this plan shall indicate if the planned action, underlying problem, and estimated timeframe apply to only particular categories of First-Class Mail pieces (e.g., based on shape, product, or service standard). FY 2018 ACD, Chapter 5 at 171.*
 - *The report for each Area shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the Area, who will be available to provide prompt responses to requests for clarification from the Commission. The report for each Area shall be filed within 90 days of the issuance of this report. An updated report from each Area shall be filed at the time of the FY 2019 ACR. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2018 should clarification be necessary. FY 2018 ACD, Chapter 5 at 171.*
- *Additionally, to facilitate the monitoring of First-Class Mail service performance (particularly for Single-Piece Letters/Postcards), the Commission directs the Postal Service to provide trackable data that is consistently collected and will continue to improve transparency. The Commission directs the Postal Service to*

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provide the following data, described in items 1 through 6 below, for First-Class Mail in FY 2019. Data shall be provided for FY 2019 Quarter 1, Quarter 2, and “mid-year”³ within 90 days of the issuance of this report. Data shall be provided for FY 2019 Quarter 3, Quarter 4, “second-half”⁴ and annualized for the fiscal year, in the FY 2019 ACR.

1. *The top five root cause point impacts for First-Class Mail, disaggregated by shape/product and service standard⁵*
2. *The point impact data for First-Class Mail Single-Piece Letters/Postcards, disaggregated by service standard presented for the nation, each Area, and each district⁶ attributable to:*
 - a) *Collection delays*
 - b) *Origin processing delays*
 - c) *Origin missent*
 - d) *AADC/ADC processing delays, presented in three separate tables specific to air transportation, ground transportation, and both*
 - e) *Late incoming secondary processing*
 - f) *Miss by LPO*
 - g) *Last mile failures*
3. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume⁷*
4. *The number of CLTs (any HCR that is late more than 4 hours), presented for the nation, each Area, and each district⁸*
5. *The performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals), presented for the nation, each Area, and each district⁹*
6. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2019. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2019, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2018.¹⁰*

Where appropriate, the Postal Service shall explain the reasons for any differences in calculation of these data in FY 2019 versus FY 2018, and shall propose a method for comparing the FY 2019 data to the FY 2018 data. The Postal Service shall provide these data in an Excel spreadsheet format. If the

³ Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2019.

⁴ Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2019. Annualized refers to the aggregation of the data for all 4 quarters of FY 2019.

⁵ See, e.g., Additional Results File, tabs “Q20 - SPFC” and “Q20 – PFCM.”

⁶ See, e.g., Additional Results File, tabs “Q30 Two-Day” and “Q30 Three-to-Five-Day.”

⁷ See, e.g., FY 2018 Root Cause File, tab “Q4a.”

⁸ See, e.g., FY 2018 Root Cause File, tab “Q4c.”

⁹ See, e.g., FY 2018 Root Cause File, tab “Q1a.”

¹⁰ See, e.g., Library Reference USPS–FY18–NP30, December 28, 2018, Excel file “Response2 - ACD.FCM.FY18Q3Q4.Q1b.NONPUBLIC.xlsx.”

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Postal Service cannot provide responsive data at the requested level of granularity, then responsive data should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2018 should clarification be necessary. FY 2018 ACD, Chapter 5 at 171-173.

RESPONSE:

The reports prepared by each of the Postal Service's seven Areas identifying the top root causes of First-Class Mail service performance failures in FY 2018 are attached. Each Area report also evaluates Postal Service efforts to address these root causes, noting the impact on on-time performance. In addition, each report spells out specific plans to improve FCM service performance in FY 2019, including detailed steps and any available information regarding estimated timeframes, as requested by the Commission. Finally, each report identifies an Area contact who will be available to respond to any follow-up questions from the Commission.

With two exceptions, responsive data to the numbered items above are also provided as part of an attached Excel file. One of the two exceptions is the ten-facility material regarding the 24-hour processing clock metrics (Item 6). Like the predecessor material referenced in the question (provided under seal both within USPS-FY17-NP30 as part of the ACR filing on December 29, 2017, and also within USPS-FY17-NP47 as part of the Second Response filed on June 27, 2018), the current responsive material to that item will also be filed under seal, in this instance as an Excel file submitted as part of nonpublic USPS-FY18-NP45.

The other exception is for the data provided in response to Item 3 (regarding air capacity), which will also be filed under seal as an Excel file submitted as part of

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nonpublic USPS-FY18-NP45. In past years, the air carrier capacity was calculated using certain average daily volumes multiplied by operating time periods. However, in calculating this year's data, the Postal Service discovered that there were computational errors resulting from that methodology in the past, leading to substantial inflation of the true volume gaps. The Postal Service has applied a more accurate methodology this year, using air carrier vendor data and then multiplying both the requested daily cube and also the received daily cube by the number of days in the period. We have applied this improved methodology, without the earlier errors, to the past periods as well, and are submitting these recalculated air capacity totals since FY15 Q2, matching the past periods for which data were previously submitted. However, because these data include air capacity for both market dominant First-Class Mail volumes as well as competitive Priority Mail volumes, they are commercially sensitive and are being submitted under seal.