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

ANNUAL COMPLIANCE REVIEW, 2021	Docket No. ACR2021

**REPLY COMMENTS OF THE
UNITED STATES POSTAL SERVICE**

The United States Postal Service (Postal Service) hereby replies to the comments received on its Annual Compliance Report (ACR) for fiscal year (FY) 2021.[1] Comments came from industry participants, advocacy organizations, and the Public Representative. The Postal Service addresses significant concerns below.

I. Rate Issues

Industry groups, namely the National Postal Policy Council (the NPPC), offer suggestions to improve the accuracy of annual compliance reporting for workshare discounts.[2] A number of commenters suggested that the FY 2021 ACR did not fully comply with 39 C.F.R. § 3050.21(e)(1) - (3) because it reported only on workshare discounts in effect at the time of filing, not on changes in workshare discounts and passthrough percentages that resulted from price changes during the fiscal year.[3] The Postal Service disagrees. Reporting these changes would have little practical value for oversight or compliance.

[1] United States Postal Service FY 2021 Annual Compliance Report (hereinafter FY 2021 ACR), Docket No. ACR2021 (Dec. 29, 2021). Public portions of the Postal Service's filing are available on the Commission's website at *http://www.prc.gov*.
[2] *See generally* Comments of the National Postal Policy Council (hereinafter NPPC Comments), Docket No. ACR2021 (Jan. 31, 2022).
[3] *E.g. id.* at 3-4.

As a general matter, the Postal Service sets workshare discounts and passthrough percentages in price cases, and the Commission reviews the discounts and passthroughs for compliance at that time, using then-current cost information.

The Annual Compliance Report, by contrast, produces updated cost information, which is then used in reassessing the compliance of each workshare discount most recently reviewed by the Commission. Because final costs and cost avoidances are not known until the ACR is filed, the compliance reported in the ACR for each workshare discount and passthrough percentage may or may not be the same as it was at the time prices were set. If workshare discounts and passthrough percentages are reported as not compliant in the ACR, the Postal Service remedies the noncompliance in the next price case.

The commenters suggest that the Postal Service should also report on the compliance of workshare discounts and passthrough percentages that were in effect at some time during the fiscal year so that the Commission can reassess their compliance using the ACR's updated cost information. Doing so, however, would provide little benefit. Those discounts and percentages were, by definition, compliant, or made compliant, when the Commission approved the price changes during the year.

Put slightly differently, the noncompliance of workshare discounts and passthrough percentages that are no longer in effect demonstrates nothing about Postal Service policies and operations other than the fact that there have been intervening price cases and changes in costs. Meaningful reporting about workshare discounts and passthrough percentages, therefore, occurs in the price cases when they are set and reviewed, information that is already before the Commission.

A number of commenters, including NPPC,[4] Pitney Bowes,[5] and the Association for Postal Commerce (PostCom),[6] raise an additional concern, expressing dissatisfaction with the Postal Service's efforts at bringing passthrough percentages closer to 100 percent. Noting "skimpy" passthroughs "clustering" around the 85 percent floor, these commenters suggested that the Commission raise the floor to 95 percent to enforce stricter adherence to efficient component pricing. The Postal Service disagrees.

As an initial matter, the Postal Service disagrees with the premise that we are required to raise the workshare passthroughs over time to 100 percent. Instead, the rules require that we are obligated to ensure that the passthroughs fall within a Commission-prescribed band. Furthermore, even accepting the point that the Postal Service is somehow obligated to move the passthrough discounts towards 100 percent, the reality is that the new part 3030, subpart J, governing workshare discounts has resulted in the Postal Service moving passthrough percentages toward 100 percent across all mail classes.[7]

This becomes clear when comparing passthroughs for First-Class Mail, Marketing Mail, Periodicals, and Package Service from Docket No. R2021-1 through Docket No. R2021-2, *i.e.,* price cases before and after the 10-Year Review rules took effect and added regulations governing passthroughs below 100 percent. In Docket No. R2021-1, there were 21 passthroughs below 85 percent that in Docket No. R2021-2 were made compliant under 39 C.F.R. § 3030.284(e) by setting the passthrough

[4] *See* NPPC Comments at 7-8.
[5] *See* Comments of Pitney Bowes, Inc., Docket No. ACR2021 (Jan. 31, 2022) at 1-3.
[6] *See* Comments of Ass'n for Postal Commerce, Docket No. ACR 2021 (Jan. 31, 2022) at 3-4.
[7] 39 C.F.R. § 3030 subpart J.

percentage between 85 percent and 100 percent. Of those 21, 11 fell between 85 percent and 88.9 percent, and 10 fell between 89.0 percent and 100 percent, hardly evidence of minimal compliance. Please see the table below.

Table: Passthroughs below 85% in Docket No. R2021-1 brought into compliance in Docket No. R2021-2 under 39 C.F.R. § 39 C.F.R. § 3030.284(e)

Passthroughs in R2021-2 between 85% and 88.9% in red

Passthroughs in R2021-2 between 89.0% and 100% in green

	2021-1 Passthrough	2021-2 Passthrough
First Class Mail		
Automation 5-digit Letters	78.9%	85.4%
Periodicals		
Outside County		
Presorting		
CR Basic	66.4%	85.9%
High Density	78.6%	91.7%
Non-machinable Non-auto 3D/SCR Flats	84.6%	85.5%
Presorting Automation Letters		
ADC Automation Letter	84.2%	86.4%
3-Digit Automation Letter	0.0%	100.0%
Within County		
Presorting		
3-Digit Automation Letter	0.0%	87.5%
Marketing Mail		
Nonprofit Marketing Mail Parcels		
NDC Machinable Parcels	68.7%	100.0%
5-digit Machinable Parcels	48.8%	85.3%
SCF Irregular Parcels	68.5%	92.9%
Commercial and Nonprofit Marketing Mail HD / Saturation Flats and Parcels		
High Density Flats	77.5%	97.0%
Commercial and Nonprofit HD, HD+ and Saturation Flats		
DNDC	80.4%	94.5%
DSCF	84.6%	88.3%
DDU	82.3%	90.4%
Media Mail		
Presorting Basic	64.2%	93.2%
Presorting 5-digit	65.3%	89.8%
Library Mail		
Presorting Basic	61.2%	89.0%
Presorting 5-digit	62.4%	85.5%

BPM Flats		
Drop Ship		
Basic, Carrier Route DNDC Flats	84.6%	87.4%
Basic, Carrier Route DDU Flats	78.8%	87.0%
BPM Parcels		
Drop Ship		
Basic, Carrier Route DDU Parcels	79.6%	88.1%

Note: Nonautomation First Class Presort Letters eliminated in 2021-2 and not included.

Finally, the new part 3030, subpart J, governing workshare discounts has only been in effect for one Market Dominant price case. As such, and even assuming that the provision requires the Postal Service to increase passthroughs towards 100 percent and ignoring the progress being made in that regard, it is premature to assert that the provision is not accomplishing its purportedly mandated effect. In short, there is no basis for the Commission to conclude that the Postal Service is not complying with its obligation to raise passthroughs with the bands required by the Commission's rules. And there is no reason for the Commission to raise the passthrough floor to 95 percent.

Commentors also requested further information regarding new products offered by the Postal Service, including USPS Connect Local Mail.[8] The National Association of Presort Mailers (NAPM) raised concerns regarding (1) mail service providers' ability to participate in USPS Connect Local Mail; and (2) terms and conditions associated with participation in USPS Connect Local Mail.[9]

[8] *See, e.g.*, Comments of the Nat'l Ass'n of Presort Mailers (hereinafter NAPM Comments), Docket No. ACR2021 (Jan. 31, 2022) at 16-17.
[9] *Id*.

With respect to eligible participants for USPS Connect Local Mail, NAPM requests the Postal Service clarify specifically whether mail service providers submitting mail from multiple business customers would be eligible.[10] This question is easily resolved; the Postal Service hereby confirms that mail service providers may participate in USPS Connect Local Mail by signing up for a Click-N-Ship business account and agreeing to the USPS Connect Local Mail terms and conditions.

With respect to the applicable terms and conditions, NAPM states USPS Connect Local Mail "customer agreements are formed between the USPS and the business participant, with no public information on what the requirements are for participation, similar to the Negotiated Service Agreement (NSA) process."[11] This is incorrect. USPS Connect Local Mail requires the customer to agree to a standard set of terms and conditions at the time they register for the program (i.e., the customer is asked to check a box indicating they have reviewed, understand, and agree to the terms and conditions). USPS Connect Local Mail customers are not permitted to negotiate individual terms, and potential customers can review the terms and conditions simply by registering for USPS Connect Local Mail.

Finally, another commenter, the Greeting Card Association (GCA), has asked the Postal Regulatory Commission to reconsider its decision in Docket No. R2021-2 favorably reviewing the Postal Service's decision to increase the non-machinable surcharge from $0.20 to $0.30.[12] GCA claims the surcharge should be considered an economically independent price, with the result being a 50 percent price increase for the

[10] NAPM Comments at 17.
[11] *Id*.
[12] Initial Comments of the Greeting Card Ass'n (hereinafter GCA Comments), Docket No. ACR2021 (Jan. 31, 2022) at 1-2.

non-machinability surcharge following Docket No. R2021-2.[13] The Commission should again reject this invalid assertion. The Commission considered this argument already in Docket No. R2021-2 and found there that the non-machinable surcharge is a price added onto the price for a Single-Piece First-Class Mail Letter. As the Commission explained in Order No. 5937, the increase in the non-machinable surcharge contributes to an overall price increase from $0.75 to $0.88 for Single-Piece First-Class Mail Non-machinable Letters, an increase of approximately 17 percent rather than 50 percent.[14] GCA does not bring anything new to disturb this finding.

Similarly, as it did in Docket No. R2021-2, GCA argues against decoupling the non-machinability surcharge from the extra-ounce price (both prices were set to $0.20 prior to Docket No. R2021-2). On this issue, the Commission pointed out non-machinable pieces require manual processing, distinguishing the non-machinability surcharge from the extra-ounce price, and pointed out that one of the aims of the non-machinabilty surcharge is to "disincentivize pieces requiring manual processing."[15] Again, GCA does not bring anything new to disturb the Commission's conclusion. GCA's attempt to relitigate Docket No. R2021-2's increase to the non-machinable surcharge should therefore be rejected.

The Postal Service continues as well to review the financial performance of its International Competitive Products. The Public Representative offered a number of observations on these products,[16] which were largely mitigated by information furnished

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[13] *See* GCA Comments at 1-3.
[14] Order No. 5937, Docket. No. R2021-2 (Jul. 19, 2021) at 86-7.
[15] *Id*. at 87.
[16] Public Representative Comments (PR Comments), Docket No. ACR2021 (Jan. 31, 2022) at 21-3.

by the Postal Service in the FY 2021 Annual Compliance Report and responses to information requests.[17]

With respect to International Money Transfer Service (IMTS), as for IMTS-Inbound, the Public Representative anticipates that the recent termination of international postal money order agreements with thirteen foreign postal operators as set forth in notices in the Postal Bulletins published on July 29, 2021,[18] and October 21, 2021,[19] "will have a positive effect on FY 2022 cost coverage." Thus, the Public Representative concludes that the Postal Service "has made reasonable progress in addressing the cost coverage shortfall of the IMTS—Inbound."[20] As for IMTS-Outbound, the Public Representative acknowledges the Postal Service's statements about IMTS costing being subject to variation and the recent 15.8 percent increase for Postal Money Orders and Money Transfer Service that went into effect on January 9, 2022, but "is troubled by the persistent cost coverage shortfall of IMTS-Outbound," noting that "the Postal Service did not explain how it intends to bring IMTS-Outbound into compliance with § 3633(a)(2)."[21] The Postal Service provided additional information about the IMTS-Inbound and IMTS-Outbound products in response to Question 9 in Chairman's Information Request No. 7.[22] Also, the recent termination of international postal money order agreements with thirteen foreign postal operators should not only lead to a significant reduction in the volume of international postal money orders, but also would

[17] FY 2021 ACR at 85-88.
[18] *See* IMM Revision: Termination of International Postal Money Order Service, *Postal Bulletin 22577* (July 29, 2021), available at https://about.usps.com/postal-bulletin/2021/pb22577/html/updt_005.htm.
[19] *See* IMM Revision: Termination of International Postal Money Order Service, *Postal Bulletin* 22583 (Oct. 21, 2021), available at https://about.usps.com/postal-bulletin/2021/pb22583/html/updt_001.htm.
[20] PR Comments at 21-22.
[21] PR Comments at 22.
[22] *See* Response to Question 9, Responses of The United States Postal Service to Questions 1-14 of Chairman's Information Request No. 7, Dk No. ACR2021 (Feb. 3, 2022).

hopefully lead to a decrease in reported costs for international postal money orders for ITMS-Outbound in FY 2022 (although sampling variation could potentially interfere with realization of that expectation).

As for Inbound Competitive International Registered Mail, the Public Representative acknowledged that the Postal Service listed in the FY 2021 ACR the scheduled Universal Postal Union increases for the additional payment per item for Inbound Registered Mail.[23] However, the Public Representative did not acknowledge the Postal Service's statements about how the voluntary supplementary remuneration for inbound registered items, as well as the Inbound Competitive PRIME Registered Service Agreement 1 multilateral agreement that is the subject of Docket No. MC2020-73, create other separate sources of improved contribution associated with Inbound Registered Mail.[24] The Public Representative expresses concern "that the failure of the Inbound Competitive International Registered Mail price category to cover its costs will continue to persist," and that the Postal Service "did not provide a plan for eliminating the cost coverage shortfall", recommending "that the Commission seek additional information from the Postal Service."[25] However, subsequently the Postal Service provided additional information concerning inbound registered items, in response to question 3 in Chairman's Information Request No. 10, following up on its statements in the FY 2021 ACR about the positive impact of not only the voluntary supplementary

[23] PR Comments at 23.
[24] *See* FY 2021 ACR at 85-86.
[25] PR Comments at 23.

remuneration for inbound registered items, but also the Inbound Competitive PRIME Registered Service Agreement that is the subject of Docket No. MC2020-73 [26]

For Outbound International Insurance, the Public Representative acknowledged the Postal Service's explanations concerning an increase in costs, especially related to Window Service and International Indemnities, and the implementation of a 4.8 percent price increase for Outbound International Insurance on January 9, 2022. The Public Representative also suggested that the Postal Service "set prices for Outbound International Insurance that are compensatory, and would not hinder the ability of the International Ancillary Services product to cover its cost,"[27] but the Public Representative's comments do not provide an analysis of how practicable such an increase in prices for Outbound International Insurance would be.

II. Costing Issues

In highlighting what it claims are "particularly notable" items in the ACR, commenter Lexington Institute make erroneous allegations that completely reverse actual circumstances through a number of interpretative missteps. To begin, Lexington Institute's comments claim that the Postal service reports "that mail covered its costs better than packages."[28] Granted, the scope of the terms "mail" and packages" is not entirely clear in this statement, but as the CRA confirms, the support cited by Lexington only compares relative cost coverage among Market Dominant classes—First-Class Mail at 193.7 percent and Market Mail at 130.5 percent, versus Package Services at

[26] *See* Response to Question 3, Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 10, Docket No. ACR2021 (Feb. 9, 2022).
[27] PR Comments at 23.
[28] Comments of the Lexington Institute (hereinafter Lexington Comments), Docket No. ACR2021 (Jan. 31, 2022) at 1.

"only 93.2 percent."[29] What Lexington apparently overlooks, however, is that the Market Dominant class of Package Service constitutes content-restricted products with small volumes, and therefore does not represent the major part of "packages," which instead can be found in Competitive products.

Apparently oblivious to this error, Lexington then shifts its discussion to actually focus on "competitive packages," with reported contribution recovering 39.2 percent of total institutional costs, and revenue representing 44 percent of FY 2021 total revenue.[30] Lexington next leaps to the claim that the institutional cost recovery share for packages should be well over 44 percent, given "the dramatically lower profitability of packages."[31] Putting aside for the moment the hollowness of the claim that the institutional cost recovery share should be linked to revenue, Lexington totally mischaracterizes the relative "profitability" of Competitive (packages) and Market Dominant (mail) products by the standard Lexington has chosen—cost coverage. In fact, the actual profitability is the exact opposite of what Lexington claims: the overall Competitive product cost coverage this year is 162.7 percent and the overall Market Dominant cost coverage (including Package Services) is nearly ten percentage points lower at 152.7 percent.[32] In reality, in FY 2021, Competitive packages covered their costs "better" than mail.

Thus, when Lexington claims that "[a]s it has for quite some time," mail covered its costs in FY 2021 better than packages,[33] not only is that wrong, but Lexington misses what actually is a "particularly notable item" in the ACR this year and last. What had

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[29] *See* FY 2021 CRA Report at 1.
[30] Lexington Comments at 1.
[31] *Id.*
[32] FY 2021 CRA Report at 2-3 (cost coverages derived from reported revenues and attributable costs).
[33] Lexington Comments at 1.

been true "for quite some time"—that the cost coverage for Competitive products was lower than the corresponding cost coverage for Market Dominant products—became no longer true in FY 2020, and remained no longer true in FY 2021. Given the dynamic state of the market for package delivery, the Postal Service does not expect that it will necessarily be able to keep cost coverage for Competitive products higher than that for Market Dominant products. The current relationship in that regard between the two categories may be as much a reflection of the impediments imposed by the price cap in the past on the ability to keep Market Dominant cost coverages at previous levels as it is of the recent developments in the package market. Nevertheless, FY 2021 is a particularly unsuitable year for Lexington to be complaining about the relative "profitability" of packages, or suggesting (as its comments do on page 2) that the record high percentage of 39.2 percent of institutional cost recovery is instead "quite low."

In contrast with the missed opportunity on page 1 to recognize a development that truly is notable, another portion of the Lexington comments (page 2) merely reflects a total miscomprehension of the ACR text. As background, in years in which the Postal Service is conducting market tests of new experimental Competitive products under the provisions of section 3641 of title 39, it is necessary to take account of any potential losses or gains associated with those market tests when determining compliance with the appropriate share provisions of section 3633(a)(3).[34] Because no such market tests were in effect in FY 2021, however, the net contribution after allowing for any effect from such tests "remains" at the level it was prior to that (for this year, inapplicable) step. Lexington somehow misconstrues the portion of page 88 of the ACR text explaining the

[34] *See* 39 § 3641(b)(3).

equality of net contribution in FY 2021 both before and after consideration of (nonexistent) Competitive market tests as a representation by the Postal Service that Competitive contribution remained static between FY 2020 and FY 2021.[35] In fact, nothing is stated or implied on pages 88-89 of the FY 2021 ACR text regarding FY 2020. The further notion that the Postal Service "should have done the competitive market tests and be held to account for not doing so"[36] is entirely inapposite.

III. Service Issues

a. Notwithstanding Continuing Pandemic Impacts on Service Performance, the Postal Service Began to Implement Long-term Solutions through its Plan.

In FY 2021, service performance was undeniably impacted by the effects of the COVID-19 pandemic, which, among other things, caused significantly high employee absences, historically high peak season package volume, and substantially reduced supplier transportation capacity.[37] But, as the United States and the Postal Service worked to overcome these effects, overall service performance for market dominant products improved to the point that performance for some products exceeded pre-pandemic levels.[38] Nevertheless, the Postal Service also recognizes that while this improvement is noteworthy, it has had long-standing service performance challenges; the Postal Service has therefore published a strategic plan to achieve service

[35] Lexington Comments at 2.
[36] *Id*.
[37] While some commenters acknowledged the pandemic's effects (*see, e.g.,* PR Comments at 2; Comments of the National Ass'n of Presort Mailers (hereinafter NAMP Comments), Docket No. ACR 2021 (Jan. 31, 2022) at 3), others seemed to be of the view that the pandemic should somehow not have had a material impact on Postal Service operations—unlike all other sectors of the economy—simply because it has stretched for multiple years (NPPC Comments at 19), while others simply ignored them.
[38] *See* PR Comments at 47, 52;

excellence for the future through the creation of a more reliable, predictable, and resilient network.

Further, as the Public Representative candidly acknowledged, the pandemic did not end in FY 2020; to the contrary, the impacts of the pandemic on service performance have continued throughout FY 2021 and indeed into FY 2022.[39] The Postal Service is keenly aware that performance for some products has not yet returned to their pre-pandemic levels, and more generally that further improvements are needed. At the same time, however, as the Public Representative also acknowledged, the Postal Service is not merely reacting to the disparate effects of the pandemic on an ad hoc basis, but instead has already begun to implement broader strategic steps to improve service.[40]

Most notably, during FY 2021 the Postal Service initiated a strategy designed not only to address the near-term challenges of the pandemic, but to help ensure quality and sustainable postal services for the long term.[41] Specifically, on March 23, 2021, the Postal Service published its 10-year strategic plan, entitled *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Plan).[42] The Plan sets forth a comprehensive and balanced set of initiatives to address the Postal Service’s long-standing financial, service, and operational challenges. Ultimately, the Plan is designed to achieve two fundamental goals: service excellence, defined as meeting or exceeding 95 percent on-time delivery across all product categories, and financial sustainability, by enabling the Postal Service to achieve break-

[39] *See* PR Comments at 28-29, 43, 60.
[40] *See id.* at 2, 31.
[41] *See id.*
[42] *See* ACR21 at 53-56.

even performance over the next 10 years while making the necessary investments in its people and infrastructure. By achieving these goals, the Plan will ensure that the American people receive prompt, reliable, and efficient universal postal services, through a postal system that is self-sustaining and capable of meeting their evolving needs.[43]

Through affirmative initiation and active litigation of Docket No. N2021-1, the Postal Service duly ensured proper Commission review of one important aspect of its Plan during FY 2021, which then enabled it to implement service standard changes for some First-Class Mail and Periodicals effective at the beginning of FY 2022. The Postal Service filed its case in accordance with the governing statute, 39 U.S.C. § 3661, and with the Commission's applicable regulations and procedures specific to such a docket, 39 C.F.R. Part 3020. The Lexington Institute, nevertheless, noted that the Commission was constrained by its own resources in evaluating the Postal Service's proposal in Docket No. N2021-1.[44] Notwithstanding the Commission's finite resources, it, too, fulfilled the statute's mandate in conducting a thorough review of the Postal Service's proposal. For example, through the proceeding's Presiding Officer, the Commission issued over 90 separately numbered information request questions to the Postal Service, many of which also contained numerous subparts. This far exceeded the level of active participation of intervenors or other interested persons; indeed, the

[43] *See id.; see also* Response to Question 20, Responses of the United States Postal Service to Questions 1-29 of Chairman's Information Request No. 1, Jan. 18, 2022. In addition to the Plan as part of the long-term solution, the Public Representative further pointed to the Commission's conclusion of its review of its own system of regulating Postal Service market dominant rates and classes. *See* PR Comments at 2. The Commission commenced its review in 2016 as required by statute, 39 U.S.C. § 3622(d)(3) (Order No. 3673), and the Commission completed its review about four years later in November 2020 (Order No. 5763).

[44] Lexington Comments at 3.

participation of the Lexington Institute itself was limited to a five-page "Statement of Position" opposing the Postal Service's proposal.[45] The Commission's extensive review, on the other hand, culminated in its Advisory Opinion on July 20, 2021, which (including Commissioner statements and appendices) consisted of 232 pages of detailed analysis.[46]

In addition to adjusting certain service standards, during FY 2021 the Postal Service also adjusted its targets for certain market dominant products.[47] The Public Representative alleged that the Postal Service has not clearly explained the reasons for the new targets. However, on the record, the Postal Service has repeatedly explained its rationale for setting the FY2021 targets as it did.[48] In seeking to set realistic targets, the Postal Service utilized actual historical data to help forecast performance.[49] However, the trajectory of the pandemic proved unpredictable; when targets were set, for example, it was expected that employee availability would continue to improve, yet the resulting reality was not as simple.[50] Target setting is an inherently faceted process, and the unpredictable nature of the pandemic has made it only more complex. Moreover, the Postal Service has further explained that it set the FY 2021 targets as

[45] Statement of Position of the Lexington Institute, Docket No. N2021-1, June 11, 2021.
[46] Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, Docket No. N2021-1, July 20, 2021.
[47] NAPM observed that the Postal Service's website still shows the FY 2020 targets, suggesting that these could be updated for public transparency. NAPM Comments at 14. In fact, the FY 2021 market dominant targets have been disclosed publicly and remain available through the Commission's website; they appear in the "Service Performance Report" in public folder 29 of this docket, USPS-FY21-29, Docket No. ACR2021, Dec. 29, 2021, available at https://www.prc.gov/dockets/document/120601 . In addition, key targets for both FY 2021 and FY 2022 have also been filed publicly as part of the Fiscal Year 2021 Annual Report to Congress, available at https://www.prc.gov/dockets/document/120553 . That report is also available on the Postal Service's website at https://about.usps.com/what/financials/annual-reports/fy2021.pdf .
[48] *See* ACR Report at 51; Response to Question 24.a, Responses of the United States Postal Service to Questions 1-29 of Chairman's Information Request No. 1, Jan. 18, 2022.
[49] *See id.* (Question 24.b).
[50] *Id*.

one-year targets, with an expectation that they could be adjusted upward as the Plan continues to be implemented in FY 2022 (and beyond); indeed, the FY 2022 targets are higher than the FY 2021 targets, as the Postal Service moves forward with implementation of the Plan.[51]

Against the new FY 2021 targets, the Association of Magazine Media (MPA) lamented poor annual on-time service performance for Periodicals and Marketing Mail Flats.[52] MPA's comments, however, acknowledged neither the continuing impact of the COVID-19 pandemic on service performance in FY 2021, nor the significant strides made by the Postal Service against those pandemic headwinds to improve service performance for Periodicals and Marketing Mail Flats over the course of the year by 12.7 and 15.8 percentage points, respectively.[53] Indeed, as the Public Representative observed, by the end of FY 2021, on-time service performance for Marketing Mail Flats had exceeded pre-pandemic performance levels.[54]

Among the effects of the pandemic was an unprecedented increase in peak season package volume that inundated mail processing facilities, contributing to reduced service performance for First-Class Mail and Marketing Mail. In that regard, the NPPC expressed "dismay[ ] that the Postal Service's declared decision to pivot to a packages-focused business is impairing the quality of service provided to First-Class Mail."[55] This assertion is baseless in a number of respects. To be clear, the Postal

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[51] *See* Response to Question 15, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 6, Feb. 1, 2022.
[52] *See* MPA Comments at 2.
[53] Service performance improved for Periodicals from 69.5 percent in Q1 to 82.2 percent by year's end (*see* USPS-FY21-29, FY21 ACR Periodicals.xlsx, "Annual Result Aggregation for Periodicals") and for Marketing Mail Flats from 66.9 percent in Q2 to 82.7 percent by year's end (*see* USPS-FY21-29, FY21 ACR Marketing Mail.xlsx, "Annual Result Aggregation for Marketing Mail").
[54] *See* PR Comments at 52.
[55] *See* NPPC Comments at 19; *see also* Lexington Comments at 3-4.

Service's recognition of increasing package volume trends and its efforts to accommodate that volume were not what impaired peak season service performance for First-Class Mail in FY 2021; rather, the impairment resulted from the fact that the network was unable to accommodate the unprecedented surge in package volume consequent to changes in consumer behavior in response to the pandemic—in addition to significantly high employee absences and substantially reduced supplier transportation capacity. The Postal Service's recognition of increasing package volume trends and its efforts to adjust its network to accommodate that volume will therefore serve to ensure better service performance for all products, as the Postal Service's performance in the FY 2022 peak season helps demonstrate.[56] Nor do these efforts indicate that the Postal Service is becoming a "packages-focused business"; to the contrary, the Plan commits to continuing to deliver the mail six days a week, and in a much more reliable, predictable, and consistent manner. Overall, adjusting the network to better handle growing package volumes not only advances the Postal Service's mission (given that packages are equally a part of the Postal Service's universal service obligation as letters and flats, and also provide essential contribution to covering the institutional costs of the network), but also directly advances the Postal Service's ability to provide reliable service for the mail.

Equally baseless is NPPC's assertion that the Postal Service only provides excellent service if it is achieving 100 percent compliance with the service standards.[57] While the Postal Service seeks to structure its operations to be service-responsive based on the service standards, the practicalities of delivering billions of pieces of mail

[56] *See* USPS FY 2021 Annual Compliance Report at 49-50.
[57] NPPC Comments at 20.

across the country six days a week throughout the year necessarily means that not every mailpiece is going to be delivered in accordance with the established service standards. This is why the Commission has always measured compliance under Section 3653 by reference to service performance targets. *See APWU v. PRC*, 842 F.3d 711, 718 (D.C. Cir. 2016). The Delivering for America Plan reasonably and appropriately defines service excellence as meeting 95 percent performance targets across all product categories.[58]

Finally, NAPM suggested that the Commission should pursue what it claims are "the significant volumes of mail" that are not in measurement; it is apparent, though, that NAPM had no basis for that claim, because it then admitted in the next sentence that "[i]t is not clear [to NAPM itself] whether USPS has visibility of mail not in measurement."[59] In fact, as the Commission is well aware, the Postal Service not only has visibility of mail in measurement, but already reports to the Commission publicly on a quarterly basis on mail in measurement.[60] In such reporting, it is clear and transparent how much mail is in measurement.[61] In short, given the extensive data

[58] NPPC also questions the FY2022 interim service performance targets by asserting that the Postal Service expected to achieve 95 percent performance simply upon the implementation of the revised service standards considered in Docket No. N2021-1. NPPC Comments at 20 n. 11. However, as witness Cintron noted, the standard changes were not the only elements of the Plan that needed to be implemented in order to achieve 95 percent performance. *See* Docket No. N2021-1, Tr. 2/388, 405-06 (responses of witness Cintron). The Postal Service further made this clear in its final rule announcing the service standard changes. 86 Fed. Reg. 43,942 (Aug. 11, 2021). Operational changes will also be critical to achieving the intended performance targets. For example, the Postal Service will aim to meet operating plans, will seek better utilization rates for its surface transportation network, will aggregate and consolidate loads at origin locations, will pair certain dispatches with package volumes, and will more optimally route and transfer via hubs and surface transportation centers. See Tr. 2/388-89, 405-10.
[59] NAPM Comments at 15.
[60] *See, e.g.*, FY 2021 Q4 Service Performance Measurement System – Audit Report, Audit Response, and Measured/Unmeasured Volumes Report (Nov. 29, 2021).
[61] As reflected in the quarterly Measured/Unmeasured Volumes Report, *see id.*, mail must be Full Service, meet certain business rules, and utilize the Intelligent Mail barcode (IMb) to be included in the mail in measurement; in other words, certain mail is excluded *purposefully*.

collection and reporting that the Postal Service already performs (including the quarterly public reporting for mail in measurement), pursuing additional reporting is unnecessary and likely counter-productive (especially if the reporting that is being laboriously provided is not even being recognized by interested persons such as NAPM, let alone productively used).[62]

As for international service performance, the Public Representative states that "both International First-Class Mail products failed to meet their on-time targets," but acknowledges that "actual results for Two-Day, Three-to-Five Day, and Combined Inbound Single Piece First-Class Mail International improved over actual results in FY 2020."[63] The Postal Service is striving for further improvements in service performance for International First-Class Mail in FY 2022, as discussed in the response to question 3 of Chairman's Information Request No. 2,[64] and as outlined in Sections I and II of the Supplement to the Annual Report on Service Performance for Market Dominant Products – Additional Information concerning First-Class Mail International Inbound and

[62] Indeed, as another participant in this case commented in the context of certain other data, after first recognizing the "exhaustive information" that the Postal Service already currently reports: "[t]o the extent that the Postal Service must expend additional resources collecting and supplying information on … performance, the overall costs of the Postal Service – which are ultimately borne by mailers – will increase. If there are no corresponding improvements in productivity or performance, the Commission's actions will further compound an already acute problem." PostCom Comments at 7-8.

[63] PR Comments at 44. We also note that in the USPS FY 2021 Compliance Report at 52, the Postal Service had (correctly) indicated that service performance had improved during the course of the year by more than 15 percentage points over corresponding first quarter results for (among other products) Outbound Single-Piece First-Class Mail International (in all three of its categories). The Public Representative (PR Comments at 47) acknowledged that improvement. To be clear, that improvement compared the FY 2021 first quarter results to the FY 2021 fourth quarter results (not the changes between each individual intervening quarter).

[64] *See* Response to Question 3, Responses of the United States Postal Service to Questions 1-36 of Chairman's Information Request No. 2, Docket No. ACR2021, Jan. 25, 2022.

Outbound, which the Postal Service included in Folder FY21-29 of the FY 2021 Annual Compliance Report.[65]

b. Notwithstanding the Challenges Posed by the Pandemic, the Postal Service Has Not Wavered in its Commitment to Providing Access to All Customers.

Noting a recent decline in contractor-operated postal units, the Public Representative speculates that "[t]he continuing decline in non-postal-managed facilities likely has a disproportionate effect on rural and remote areas," and "presum[es] that communities most readily served by non-postal-managed facilities had to spend a greater amount of travel time in order to access postal facilities."[66] The closures of such units do not, however, conform to tidy geographical patterns. In any event, the Public Representative merely, and by his own admission, *presumes* that the noted decline has disproportionately affected rural customers. He does not supply any evidence to support this assumption.

The Public Representative expresses concern over the recent lack of progress in resolving the current set of suspended Post Offices, which comprises both those suspensions flagged by the Commission in 2016, and those that have since transpired. The Public Representative also observes that no detailed plan or timeline for the resolution of these suspensions has yet been produced.[67]

As explained in recent filings, two developments in particular contributed to this recent delay: the restructuring announced on August 7, 2020, impacted the Delivery Operations and the Field Performance group that then coordinated the Postal Service's

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[65] *See* Docket No. ACR2021, USPS-FY21-29, December 29, 2021, file "FY21-29 Supplement – International.pdf," at 1-23.
[66] PR Comments at 65.
[67] *Id*. at 68.

Handbook PO-101 activities; and on August 24, 2020, the Postal Service announced that all customer-facing activities for the remaining Post Offices would be paused. Furthermore, in FY 2021, the Postal Service issued its 10-year Delivering for America plan, which delineates the Postal Service's retail strategy moving forward. The Postal Service then began to assess, in light of this strategy, all aspects of its retail operations, including the resolution of the remaining suspended Post Offices. That assessment, which is still on-going, together with the continuing pause on customer-facing activities, precluded further steps toward the resolution of the remaining Post Offices, aside from those reopenings mentioned above. As an intermediary measure, the Postal Service scrutinized the existing set of suspended Post Offices more closely than it has done in the past, in the hope of identifying those suspensions that can be resolved outside the PO-101 discontinuance process and independently of the customer-facing activities on which that process relies. It also undertook to categorize the various causes underlying the remaining suspensions, and to map the steps taken with regard to each discrete suspension. This information should allow the Postal Service to efficiently mobilize the discontinuance process, once that process resumes.[68]

The Public Representative notes a "minor reduction" in the number of collection boxes, and voices support for "the Commission's intention to continue to lessen any potential concerns over the declining number of boxes by continuing to monitor the number of collection boxes as part of its annual ACR review."[69] The Postal Service

[68] *See, e.g.* Ninth Response of the United States Postal Service to Commission Request for Additional Information in the FY 2020 Annual Compliance Determination, Docket No. ACR2021 (Feb. 9, 2022).
[69] *Id.* at 75.

reiterates that in its management of collection boxes, it has continued to observe the procedures specified by the Postal Operations Manual, Chapter 3.[70]

The Public Representative notes that from FY 2020 to FY 2021, the national Wait Time in Line average increased from 2 minutes, 26 seconds, to 2 minutes, 48 seconds; and while he acknowledges that, "in absolute terms," the increase is small, he also deems the trend to be "clearly moving in the wrong direction."[71] In its response to ACR2021 ChIR No. 1, Question 7, the Postal Service listed several factors that contributed to the increased Wait Time in Line. For instance, FY 2021 saw an increase of 3 percent in non-revenue packages and drop-offs, as well as an increase of 1.95 percent in walk-in revenue. Passport services also surged; there were in fact 1,846,207 more passport applications accepted than in the previous year—an increase of approximately 42 percent. Finally, and perhaps most crucially, the COVID-19 pandemic continued to impact employee availability.[72] Insofar as these factors are due to the COVID-19 pandemic, it stands to reason that the trend to which they contribute will diminish as the pandemic wanes.

c. The Postal Service Continues to Prioritize Customer Satisfaction.

The Postal Service continues to emphasize the need to listen to its customers and provide them with the highest levels of service and satisfaction across all classes of mail. Accordingly, it carefully reviews the results of each of its customer surveys and is considering the customer-satisfaction-related comments made by outside parties in this

[70] *See* Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 5., Docket No. ACR2021 (Jan. 31, 2022).
[71] PR Comments at 74.
[72] Response of the United States Postal Service to Question 7 of Chairman's Information Request No. 1, Docket No. ACR2021 (Feb. 9, 2022).

docket. Specifically, the Public Representative made a number of comments related to the Postal Service's customer satisfaction results, and the Postal Service will address some of these comments in these reply comments.

The Public Representative noted that the Postal Service updated its Business Service Network (BSN), Business Mail Entry Unit (BMEU), and USPS.com surveys to provide a Spanish-language option in order to capture a higher volume of feedback from Spanish-speaking customers.[73] The Public Representative agreed with this initiative to improve the inclusivity of these surveys and commended the Postal Service for meeting the needs of its primarily Spanish-speaking customers.[74] However, the Public Representative noted a concern that this change could affect the comparability of the FY 2020 and FY 2021 the Customer Experience (CX) Composite scores because the inclusion of the Spanish-speaking customers changes the overall representation of customers in the BSN, BMEU, and USPS.com surveys.[75] The Postal Service strives for continuous improvement, and having Spanish-language surveys broadens its ability to hear from more customers. Spanish-language surveys ask the same questions as the English-language surveys. Having this additional option should increase response counts as the survey is now more inclusive.

The Public Representative also questioned the Postal Service's adjustments to its calculation of the overall satisfaction (OSAT) score for the Customer Care Center (CCC) survey.[76] The CCC survey's OSAT score was calculated by combining the Live Agent and Voice Interactive Response (IVR) OSAT scores. As the Postal Service noted

[73] PR Comments at 80.
[74] *Id*. at 81.
[75] *Id*.
[76] *Id*. at 81-82.

in its ACR, in FY 2021 the Postal Service discontinued applying any pre-defined weighting (*e.g.*, 50-50) to the IVR and Live Agent category results and instead adopted a superior approach that consolidated all responses into one overall calculation.[77] This means that all the CCC surveys were combined into a single score.

Moreover, the Public Representative noted that the Postal Service set its FY 2022 survey targets at the levels achieved in FY 2020, and, with the exception of the BSN target, the Public Representative agreed with these targets and believed that these targets are in line with the Commission's recommendation to "consider the prior year's result when setting the subsequent year's [customer satisfaction] target."[78] For the BSN target, the Public Representative observed that the Postal Service kept the FY 2020 level as the target for the BSN survey, despite the Postal Service implying that the BSN customer satisfaction may decrease in FY 2022.[79] When setting targets for its customer satisfaction surveys, the Postal Service takes into account more than one year of customer satisfaction results. Accordingly, when setting the target for its BSN survey, the Postal Service used more than one year of customer satisfaction results.

The Public Representative also noted some concerns about whether the Postal Service took into account the Commission's recommendation to consider methodological changes to the Delivery and Large Business surveys.[80] The Commission recommended that the Postal Service continue asking general questions relating to service performance for Market Dominant products and to consider asking

[77] FY 2021 ACR at 58.
[78] PR Comments at 86-88.
[79] *Id*. at 86-88 and 91-92.
[80] *Id*. at 96.

specific questions for each Market Dominant product relating to service performance.[81] The Postal Service considered this recommendation, but did not adopt it because of possible negative consequences. For instance, increasing the length of the survey could increase the abandonment rate, which would lead to fewer responses and decrease the statistical significance of the results.

Lastly, the Public Representative observed that the Postal Service did not satisfy the Commission's directive to provide information on actions taken to improve customer satisfaction for each customer type, residential, small/medium business, and large business.[82] Although the Postal Service believes that it provided ample information to satisfy this directive, the Postal Service provides here additional information in response to the Public Representative's request.[83] Regarding large businesses, the Postal Service strived to increase customer satisfaction by improving customer service performance for USPS Marketing Mail, which was successfully achieved by the end of FY 2021.[84] The Postal Service also cultivated customer relationships with large mailers by educating customers through such initiatives as the Mailer Technical Advisory Committee, which consists of industry associations and alliance partners. In addition, the Postal Service increased the size of First-Class Mail commercial postcards, which allows for more advertising space and increases the associated value of the mail piece.[85] A 22.6 percent increase in presorted card volumes during the four months

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[81] FY 2020 ACD at 234; PR Comments at 96.
[82] PR Comments at 101; FY 2020 ACD, Appendix A, at 16; FY 2020 ACD, at 235
[83] FY 2021 ACR at 75-76.
[84] *See* Response of the United States Postal Service to Question 1 of Commission Information Request No. 1, Periodic Reports (March 18, 2021); Postal Service's FY 2021 Quarter 4 Service Performance Measurement Data (https://www.prc.gov/dockets/document/120179).
[85] PRC Order No. 546, Order Approving Update to the Maximum Size Limit for Presorted First-Class Mail Postcards, Docket No. MC2021-104 (July 28, 2021).

following the August 2021 introduction of the larger cards, as compared to the same period last year (SPLY), indicates a possible increased customer satisfaction with the new card size. Additionally, the Postal Service made enhancements to Informed Delivery which provides personalized information and notifications that are useful to mailers and their customers. In FY 2021, the Postal Service also simplified requirements for promotions to help make it easier for mailers and shippers to understand and participate.[86] Promotions provide incentives for mailers to stay in or increase their mail campaigns and offer new technologies and mail enhancements to further increase engagement with their target audiences.[87] Overall volume during such promotions increased 6 percent over SPLY, which indicates a possible increase in satisfaction with the promotions and the Postal Service. The Postal Service also continued to offer new innovations for businesses to interact with their customers, such as the Plus One card.

In reference to small/medium businesses, the Postal Service worked closely with small and medium businesses at Postal Customer Council events and through Postal Service-organized workshops and meetings in order to educate these stakeholders about how to mail and ship effectively and provide information about new and enhanced product offerings. The Postal Service also made the Every Door Direct Mail Retail website more user friendly, which helped simplify the process for local business to mail items to local consumers.[88] Additionally, the Postal Service introduced a new Connect

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[86] PRC Order No. 5937, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, Docket No. 2021-2 (July 19, 2021).
[87] *Id*.
[88] *See* Using Every Door Direct Mail (https://www.usps.com/business/every-door-direct-mail.htm).

Local (package) market test in an effort to make shipping local packages easier and faster, so that small/medium businesses could compete in an increasingly demanding marketplace.

Finally, regarding residential, the Postal Service made enhancements to Informed Delivery, which increased the usefulness of this free service for individual recipients of mail. Moreover, the some of the Postal Service's efforts to increase satisfaction for business mailers also had a positive spill-over effect for residential customers by making mail more targeted and valuable for individuals.

IV. Conclusion

The Postal Service appreciates the opportunity to comment on the issues raised by the parties in their initial comments.

Respectfully submitted,

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