

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

Service Performance Measurement
Systems For Market Dominant Products

Docket No. PI2008-1

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(February 1, 2008)

The United States Postal Service hereby submits its reply to various comments filed by parties in response to Postal Regulatory Commission Order No. 48, Notice of Request For Comments On Service Performance Measurement Systems For Market Dominant Products (December 4, 2007).

I. Overview

Section 301 of the Postal Accountability and Enhancement Act (PAEA), Pub L. 109-435, 120 Stat. 3218, directs the Postal Service, after consultation with the Postal Regulatory Commission, to establish by regulation a set of modern service standards for its market dominant products.¹ By statute, achievement of the service standards for each market dominant product must be measured by an objective external performance measurement system, unless the Commission approves the use of an internal system. 39 U.S.C. § 3691(b)(1)(D) and (b)(2).

¹ Section 301 of the PAEA is codified at 39 U.S.C. § 3691.

The consultation process mandated by section 3691 has created an opportunity for the Postal Service and the Commission to constructively share their respective expertise and perspectives as the Postal Service designs the service performance measurement systems intended to meet the regulatory responsibilities assigned to the Commission by PAEA sections 3652 and 3653. The Postal Service conducted numerous consultations in 2007 with Postal Regulatory Commissioners and the Commission's technical staff regarding the development of modern service standards for market dominant products and the establishment of systems for measuring service standard achievement. On November 29, 2007, the Postal Service transmitted to the Commission a document entitled *Service Performance Measurement*,² which consists of a detailed description of its proposed service performance measurement systems for market-dominant products. On December 4, 2007, the Commission issued Order No. 48 to initiate the instant docket and solicit comment on the contents of the USPS Service Performance Measurement document. By January 18, 2008, nineteen parties filed comments.

These comments express the views and concerns of a broad spectrum of mailers, users of special services and other interested parties. Many of the comments express general support for the measurement systems that the Postal Service has submitted to the Commission for review and approval. The Postal Service is gratified by these expressions of support and grateful to those mailers whose cooperation and constructive criticism during the Mailers Technical Advisory Committee Workgroup 114

² Hereinafter, the "USPS Service Performance Measurement document."

process helped to refine some of the proposed systems.

A number of Docket No. PI2008-1 comments seek amendment or clarification of certain aspects of the proposed market-dominant product performance measurement systems. In response, the Postal Service has initiated a thorough review of its Service Performance Measurement document. In some cases, determinations have been made to refine and clarify certain portions of the text describing its proposed performance measurement systems. Incorporation of such changes can be expected in an addendum to the USPS Service Performance Measurement document, which will be transmitted to the Commission for review, further consultation and approval as soon as possible.

Many other comments relate to various policy, operational or customer communications issues that, while important, are beyond the scope of whether the market-dominant product service performance measurement systems proposed by the Postal Service merit the approval of the Commission.

II. The PAEA Provides Broad Discretion Regarding the Establishment of Appropriate Service Performance Measurement Systems

Subsection 3691(b) of the PAEA identifies the specific objectives that the Postal Service's modern service standards must achieve, while subsection 3691(c) lists the numerous factors that must be considered in establishing those standards. Subsection 3652(a)(2)(B) directs the Postal Service to report to the Commission on an annual basis:

measures of the quality of service afforded . . . in connection with . . . [each market-dominant] product, including --

- (i) the level of service (described in terms of speed of delivery and reliability) provided; and
- (ii) the degree of customer satisfaction with the service provided.

These measures are expected to play a role in the Commission's exercise of its authority under subsection 3653(b)(2) to determine whether service standards in effect during a given year were met, and its authority under subsection 3653(d) to evaluate annually whether performance goals established under PAEA sections 2803 and 2804 have been met.

PAEA subsections 3652(e)(1)(B) and (C) authorize the Commission to prescribe the content and form of public reports to be provided by the Postal Service, taking into consideration such factors as the avoidance of unnecessary and unwarranted postal administrative effort and expense and the protection of the confidentiality of commercially sensitive information. Otherwise, the PAEA does not specify any criteria by which to evaluate the service performance measurement systems that must be developed and maintained to meet its oversight functions.

One comment suggests that the performance measurement systems should be judged against criteria reflected in *Towards Postal Excellence -- The Report of the President's Commission on Postal Organization* (1968).³ The Postal Service is confident that its proposed measurement systems meet the criteria developed in response to different circumstances four decades ago. However, any evaluation of the Postal Service's proposed measurement systems should not rely exclusively on any

discrete set of criteria that were not specifically established in conjunction with the Commission's new regulatory responsibilities. The Postal Service encourages the Commission, in its review of the USPS Service Performance Measurement document and in any further consultations associated with approval, to be guided by the scope of its specific responsibilities under 39 U.S.C. §§ 3652 and 3653, and to give appropriate weight to the considerations expressed in subsections 3652(e)(1)(B) and (C).

III. The Measurement Systems Should Generate Data Reports Pertinent to the Commission's Oversight Responsibilities

Several comments suggest that the Postal Service measurement systems be required to generate service measurement data for various price categories within different market-dominant mail products. In some instances, the comments focus on price categories defined by mailpiece shape.⁴ Others assert that the Postal Service should be required to establish "open architecture" service performance database access which, would permit mailers to examine service performance data pertinent to various local nodes in the postal network, on the basis of different price categories within each product, and even their own customer-specific service performance data.

The Postal Service considers that PAEA subsection 3691(b)(1)(D) directs it to establish service standards and related measurement system data reports at the

³ Commonly referred to as the Kappel Commission Report.

⁴ Some comments press for measurement and reporting of service performance for letter vs. flat vs. parcel-shaped pieces within different market-dominant products. One presses for measurement and reporting of service performance for square vs. machinable letters within First-Class Mail.

market-dominant product level. The PAEA does not require the establishment of service standards that vary on the basis of price category or mailpiece shape to satisfy the Commission's section 3652 and 3653 regulatory responsibilities.

Several comments highlight the potential value of providing, for diagnostic purposes, customer-specific service performance data to bulk mailers who use Intelligent Mail and whose mail contributes to the aggregate data base upon which product service performance is determined. Although the PAEA does not require the generation of such customer-specific reports, the Postal Service intends to work further with the mailing industry to address issues in this area, and to define desired feedback elements and the granularity of any customer-specific data provided. In this context, one issue that may require further exploration by the Postal Service, the mailing community, and the Commission is the degree to which customer access to disaggregated service performance data (including customer-specific data that are not necessary to Commission product-level oversight) has the character of an ancillary postal service for which it may potentially be appropriate to consider the establishment of a special service and/or the assessment of fees. Accordingly, the Postal Service discourages the Commission from taking any action in the current consultative process now which forecloses, in an appropriate forum later, a full exploration of such issues.

IV. Many Comments Reflect Certain Common Concerns

Certain recurring themes run through a number of the comments filed in response to PRC Order No. 48. As the Postal Service prepares its addendum to the Service

Performance Measurement document, it will focus on these concerns, including those highlighted below.

A. External Reporting System Integrity

Comments were received about the external measurement system reporter panels, with a focus on such issues as quality, reliability and security of data. The Postal Service takes seriously its responsibility to develop service performance measurement systems that will permit the Commission to fulfill its regulatory oversight responsibilities. These systems will be subject to audit by the USPS Office of the Inspector General in accordance with PAEA subsection 3652(a). Under the terms of subsection 3652(d), the Postal Service will provide the Commission with access to the externally or internally generated data necessary to assure it that the measurement systems are as reliable as possible.

The Postal Service is satisfied that its external service performance measurement contractor has extensive quality control processes in place to ensure that mail receipt data generated by its reporters are accurate and reliable. All qualified reporter panel data, which will be combined with random samples of live mail with Intelligent Mail barcodes, will be used to calculate service performance measurement scores. Based on business rules to be developed in further consultation with the Commission, the external contractor will determine the qualification of applicable data. Since the inception of the External First-Class (EXFC) measurement system over 15 years ago, the external contractor has routinely reviewed processes, and has

implemented changes deemed necessary to protect the integrity of the performance data and the measurement system. All evidence of any attempt to breach the security of the system is thoroughly investigated and, as necessary, adjustments are made to ensure that the system remains uncompromised.

B. Clarification of Start-the-Clock

Several comments sought detailed explanations of the "start-the-clock" events for the distinct facilities where "start-the-clock" will occur. Additionally, comments expressed concern about using container scans as the "start-the-clock" event. The Postal Service proposes to use mailer appointments to "start-the-clock" wherever it is practical to do so, and will rely on container scans to verify accuracy of the mailing contents and electronic mailing information. As indicated below, specific "start-the-clock" events will differ by entry method and location:

- *Bulk Mail Entry Unit.* The "start-the-clock" for BMEU-entered mail is the mailer arrival time, as documented by the postal BME clerk.
- *Drop-Shipment Destination Entry Dock.* If the mailer arrives early for their appointment, the "start-the-clock" is the appointment time or truck unload time, whichever is earlier. If the mailer arrives on-time for their appointment, the "start-the-clock" is the mailer appointment. If the mailer arrives late for their appointment, the truck unload time is the "start-the-clock."

- *Plant Load.* For mail that is picked up by the Postal Service at a mailer's facility, the "start-the-clock" will leverage the scheduled pick-up time, appointment time or documented truck departure time.

These clarifications will be reflected in an addendum to the Service Performance Measurement document to be submitted to the Commission for review.

C. Critical Entry Times

Some comments pertained to local product-specific Critical Entry Times (CET), and reflect a desire for improved mailer access to such CET information, and notice regarding potential CET changes. The Postal Service will be centrally documenting local product-specific CETs on a facility-by-facility basis for the purpose of responding to mailer information access concerns. The Postal Service affirms its commitment to conducting further dialogue with the mailing community regarding CET information access. Mailers Technical Advisory Committee Workgroup 120 has been established to address these communications issues and to ensure that all communication channels utilized are consistent and reliable.

D. Exclusion Criteria

Several comments expressed concern regarding the business rules governing exclusions of mail in service measurement, and suggested regulation of the exclusion criteria. Commenters requested further clarification of the exclusion criteria the Postal Service intends to employ and emphasized the need for transparency in the exclusion

process. The Postal Service intends to consult further with the Commission in developing acceptable exclusion criteria and to publish the business rules that result from those consultations. Additionally, the Postal Service intends to provide customer-specific mailing verification results to participating mailers.

E. Measurement Approach

A number of comments reflect concern about the costs of the proposed measurement systems attributable to each market-dominant product and suggest that the Postal Service reduce the number of mail recipients participating in the reporter panel. The Postal Service will continue to rely upon external reporters to audit different aspects of delivery accuracy. Through the course of service measurement the Postal Service will periodically evaluate the number of external reporters deemed necessary to assure the provision of reliable and representative data.

Additionally, several comments suggest that the measurement systems be sufficiently flexible to accommodate future changes in mailing, and mailer characteristics. The Postal Service will continue to work with stakeholders to monitor the measurement systems and refresh them as needed.

F. Customer Satisfaction

Section 3652(a)(2)(B)(ii) of the PAEA requires the Postal Service to provide measures of the degree of customer satisfaction with the service provided for each market-dominant product. One commenter suggests that the Postal Service's

proposed measurement systems do not accurately measure the degree of customer satisfaction with Postal Service performance in the acceptance and delivery of mail, whether the Postal Service meets the needs of customers with physical impairments, or adequately determine customer requirements and preferences.

The Postal Service filed its FY 2007 Annual Compliance Report in PRC Docket No. ACR2007-1 on December 28, 2007. As acknowledged on page 18 of that report, the survey instrument used by the Postal Service to collect Customer Satisfaction Measurement data in FY 2007 was designed and implemented before the requirements of the PAEA were enacted. However, the Postal Service plans to meet the requirements of the PAEA by redesigning the survey so that it generates customer satisfaction data on a product-by-product basis.

One commenter proposes development of a Quality of Service Index, based upon an aggregation of the customer satisfaction measures for the various market-dominant products. However, such an undertaking would extend far beyond the task of measuring customer satisfaction for specific market-dominant products, which is the statutorily-defined scope of the Commission's regulatory oversight.

The commenter argues that, in order to assess customer satisfaction with the service standards for a particular market-dominant mail product in the future, the Postal Service is obliged by PAEA subsection 3691(c)(2) to measure customer satisfaction separately with regard to the acceptance of mail, then with respect to its processing, and then as it pertains to the delivery of the same mail. However, the Postal Service interprets the statute as not precluding surveys that seek to determine customer

satisfaction with a product on the basis of inquiries that treat acceptance, processing and delivery as inextricably intertwined elements of a product offering.

This commenter also asserts that the USPS Service Performance Measurement document does not provide any indication that Customer Satisfaction Measurement (CSM) data that will be reviewed in connection with future service standard changes will reflect consideration of the needs of postal customers with physical impairments, as required by PAEA subsection 3691(c)(3). The comment overlooks the fact that, because survey respondents are randomly solicited without regard to physical impairment status, CSM data can be expected to include the views of customers with such impairments.

The Postal Service is keenly interested in and will continue to conduct customer research on matters beyond the scope of the Commission's statutory oversight responsibilities. As explained in the Federal Register notice announcing the proposed modern service standard regulations, the Postal Service continuously conducts a variety of surveys to ascertain both residential and business customer satisfaction with various postal services, transactions and experiences. 72 FR 58948. Analysis of such information in conjunction with data received through product service performance measurement allows the Postal Service to obtain a more broadly-based assessment of customer satisfaction.

G. Reporting

Several comments suggest that the Postal Service consider revising its annual

service standard achievement reports to include variance beyond three days. Presently, the Postal Service is persuaded that providing data out to three days beyond the applicable service standard provides a sufficiently informative measure of consistency and reliability. The Postal Service is committed to measuring and reporting performance consistently and accurately against the recently implemented modern service standards for its market-dominant products in a manner that meets the Commission's needs. Accordingly, the Postal Service will take these comments under advisement for further consideration.

One commenter expresses concern that the Postal Service is not committed to reporting variance data for single-piece First-Class Mail on the same terms as are proposed for presorted First-Class Mail. If the USPS Service Performance Measurement document leaves any reader with that impression, the Postal Service takes this occasion to affirm that its intent is to report variance data that relate to both components of this mailstream.

H. Statistical Validity – Mailer Adoption

The proposed service performance measurement systems are intended to meet the Commission's regulatory oversight needs and to provide the Postal Service and its customers with sufficiently accurate and reliable data for assessing the general quality of mail service in a cost effective manner. Several of the comments discuss the issue of the relationship between the rate of mailer adoption to Intelligent Mail and the statistical validity of the proposed measurement systems, and urge the Postal Service

to assess and closely monitor adoption rates to ensure desirable levels of statistical validity. The Postal Service agrees that mailer adoption of Intelligent Mail barcodes (IMBC) and electronic mailing information will be key factors in the success of its proposed measurement approach. Accordingly, the Postal Service strongly encourages mailers to expeditiously adopt IMBC and electronic mailing information for service measurement.

A few comments expressed concern regarding the representativeness of the mail recipient reporters at the postal administrative district level. Reporter distribution is based on possible deliveries in each 5-digit ZIP Code within the 3-digit ZIP Code service area, and then by volume. Early in the adoption period, the Postal Service will monitor the IMBC populations to ensure that origin/destination volumes included in the sample design are representative.

Additionally, a number of comments suggest that the Postal Service avoid the use of EXFC data as a proxy for First-Class Mail presort flats. USPS Origin-Destination Information System data show that presorted First-Class Mail (25 percent of total mail) flats represent two percent of the total mail stream. There is a large volume of flat mail that does not go through postal automation and, therefore, does not have a reliable stop-the-clock. The Postal Service will continue to monitor flat volumes and the mix of mailflows, and it will explore other means of measurement when sufficient data warrant.

Several comments addressed the planned use of retail Parcel Post Delivery Confirmation scan data as a proxy for presort parcels. When implemented, the measurement approach for presort parcels shares a similar "start-the-clock" process

with presort letters and flats. As soon as mailer adoption warrants measurement via the presort method, the Postal Service will shift the measurement approach for presort parcels. The intent is to measure presort parcels separately from Single-Piece parcels in FY'09, but shift to the long-term approach is dependent on mailer adoption of electronic mailing information and other requirements. The Postal Service will strive to provide the Commission with data that are sufficiently reliable to meet its oversight responsibilities, and that provide postal management and customers a reliable foundation for the diagnostics and the pursuit of improved service.

V. Matters Beyond the Scope of This Docket

A number of comments seek resolution of operational and policy matters that are important to the Postal Service, but that are beyond the scope of the task of refining the measurement systems under review in this docket.

For example, one comment encourages the establishment of rate incentives to spur smaller-volume mailers to invest in IMBC technology. Putting aside any merits such a proposal may have, the Postal Service considers rate and classification matters to be outside the scope of this docket.

In response to one commenter's proposals regarding the establishment of performance goals for each market-dominant product, the Postal Service observes that the establishment of such goals will be undertaken as part of the upcoming development of the Postal Service Plan, as required by uncodified PAEA section 302(b)(1).

Another comment seeks examination of anecdotal allegations of local non-compliance with postal mail collection operational policies that are perceived to have an impact on the quality of service performance measurement data. The Postal Service will continue to reinforce its national mail collection policies at the local level and monitor compliance as a routine management oversight function. However, the Postal Service does not consider the resolution of all such concerns to be a necessary prerequisite to a determination of whether its proposed service performance measurement system for First-Class Mail should be approved by the Commission.

Several comments seek the establishment of service standards and a system for measurement of service performance for Caller Service. The Postal Service explained the basis for the service standards that were established on December 19, 2007, and the current impediments to the establishment of standards for market-dominant special services such as Caller Service. See 72 FR 58964 and 72 FR 72220-21. The comments in Docket No. PI2008-1 identify no development in the past 45 days to warrant re-examination of the status of Caller Service at this time.

Other comments suggest that separate service performance measurement data be generated for remittance mail, for mail delivered to post office boxes, and that service performance measurement data as well as customer satisfaction measurements be generated for undeliverable-as-addressed mail and forwarded mail. As indicated at 72 FR 72221, the Postal Service does not interpret the mandate to develop service standards for market-dominant products to require the establishment of service standards on the basis of the presumed content of a particular mail piece, or for

different types of mailpieces within a market-dominant class, or for the completion of the numerous discrete operational functions within a particular market-dominant product designation. Accordingly, no system for measuring service standard achievement of such mail is being proposed. However, the Postal Service reiterates the commitment expressed at 72 FR 72221 to continue to invest in resources and work with mailers to reduce transit times for mail subjected to forwarding, and to reduce the volumes of undeliverable-as-addressed mail. The Postal Service will also continue the long-standing practice of applying the same standard to all mail in a particular market-dominant class, regardless of mailpiece shape, content, or preparation.

These examples are illustrative, not exhaustive. The Postal Service views these and many other such matters in various comments as not being pertinent to whether the proposed external measurement systems, if implemented, would generate data sufficient to meet the Commission's regulatory obligations under PAEA subsections 3652 and 3653. However, it should be emphasized that the Postal Service has circulated all Docket No. PI2008-1 comments to headquarters managers with marketing, mail processing, finance, legal, retail service, market research, product development, customer outreach and other responsibilities for review and any attention deemed appropriate.

As soon as possible after the Commission's consideration of the comments filed in this docket, the Postal Service looks forward to further consultations with the Commission that can lead to its approval of the proposed Service Performance Measurement approach.

Respectfully submitted,

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