

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Annual Compliance Report

Docket No. ACR2010

PUBLIC REPRESENTATIVE COMMENTS  
IN RESPONSE TO ORDER NO. 636

This proceeding commenced with the Postal Service's filing of its Annual Compliance Report on December 29, 2010. The Commission noticed the filing in Order No. 636 and appointed the undersigned as Public Representative. These comments address a number of issues including the Postal Service's financial situation, rate compliance issues, access to postal services, performance plans and reports as well as selected strategic initiatives.

**Postal Service Liquidity**

The Postal Service has indicated that it expects to have a cash shortfall and be unable to meet all of its financial obligations as of September 30, 2011.<sup>1</sup>

ACR 2010 is not the first proceeding where the possibility of a liquidity crisis in 2011 has been considered. In its 2009 Annual Compliance Determination (ACD), the Commission noted the Postal Service's projection that such a crisis could occur by the beginning of FY 2011. The Commission found that "[t]he reasons for the Postal Service's liquidity problems are complex".<sup>2</sup> No ruling being required, the Commission did not make any formal findings regarding the causes of the projected crisis.

The Issue of an impending liquidity crisis was revisited in the so-called Exigent Rate Increase Proceeding, Docket No. R2010-4. In this proceeding the Postal Service again raised the issue of a looming liquidity problem. Postal Service witness Masse

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<sup>1</sup> USPS 2010 Annual Report

<sup>2</sup> ACD 2009, at 21.

attributed the liquidity problem to the fact that the Postal Service had been stretched to the limit mostly as a result of funding retiree health benefits.<sup>3</sup>

The Postal Service had net losses of \$8,505 million, \$3,794 million and \$2,806 million for the years ended September 30, 2010, 2009, and 2008, respectively. It also experienced negative cash flows from operations in 2010 and 2008 and would have in 2009 as well had P.L. 111-68 not been enacted. P.L. 111-68 changed the PSRHBF pre-funding payment scheduled for September 30, 2009 from \$5.4 billion to \$1.4 billion. No such similar legislation was passed in 2010 and the Postal Service made the prefunding payment of \$5.5 billion on September 10, 2010. The PSRHBF payment scheduled for September 2011 is \$5.5 billion.<sup>4</sup>

By statute, the Postal Service is limited to an annual net increase in debt of \$3 billion and a total outstanding debt of \$15 billion. The Postal Service projects that it will exhaust its borrowing capacity in 2011 and experience a cash shortfall by September 2011 unless legislation similar to that passed in September, 2009 is passed to reduce, eliminate or defer the PSRHB pre-funding payment due on that date.<sup>5</sup> Table 1, shows the Postal Service's cash flow from FY 2007 through FY 2011. Net Income is heavily impacted by the RHBF obligation of approximately \$5.5 billion each year. Cash flows from financing activities show the Postal Service using the maximum permissible borrowing to help finance operations. In FY 2011, it expects to have used its full \$15 billion borrowing authority, and to be unable to fund projected expenses. Table 1 also shows the Postal Service's debt has grown substantially since the passage of the PAEA, which coincides with its RHBF prefunding obligation. In Order No. 547, the Commission noted that had the Postal Service been able to accumulate retained earnings prior to the precipitous loss of volume in 2009, it would have been able to use these funds to meet its obligations related to operations.<sup>6</sup>

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<sup>3</sup> Docket No. R2010-4, Order No. 547, at 68.

<sup>4</sup> USPS Annual Report P.53

<sup>5</sup> *Id.*

<sup>6</sup> Docket No. R2010-4, Order No. 547, September 30, 2010 at 71.

The PAEA's 10-year prepayment schedule calls for the Postal Service to make, on average, an annual payment to the RHB of nearly \$5.6 billion. These payments are in addition to payments made to fund retirement health benefits for its current annuitants. This has transformed what would have been considerable operating profits into significant losses. Tables 1 and 2, below illustrate this point.

**Table 1**  
**Postal Service Estimated Cash Flows FY 2007 – FY 2011**

	FY	FY	FY	FY	FY
	2007	2008	2009	2010	2011
Net Income/(Loss)	(5,142)	(2,806)	(7,794)	(6,440)	(6,999)
Less: RHB Relief			4,000		
Adj. Net Income/(Loss)	(5,142)	(2,806)	(3,794)	(6,440)	(6,999)
Non-Cash items and Other Cash Flows	2,539	2,367	5,367	2,183	1,146
Cash Flows from Investing Activities	500	(1,938)	(1,806)	(1,439)	(1,493)
Cash Flows from Financing Activities:					
Increase (decrease) in debt	2,100	3,000	3,000	3,000	1,800
Payments for Capital Leases	(19)	(29)	(46)	(47)	(49)
U.S. government appropriations - expensed	(76)	(61)	(64)	(63)	(63)
Net Cash (Used) provided by financing activities	2,005	2,910	2,890	2,890	1,688
Net Increase/(Decrease) in Cash	(98)	533	2,657	(2,806)	(5,658)
Cash Balance BOY	997	899	1,432	4,089	1,283
<b>Cash Balance EOY</b>	<b>899</b>	<b>1,432</b>	<b>4,089</b>	<b>1,283</b>	<b>(4,375)</b>
Debt Outstanding	4,200	7,200	10,200	13,200	15,000
<b>Source:</b> Docket No. 2010-4, Order No. 547, September 30, 2010, p. 76					

**Table 2**  
**Forecasted Postal Service Cash Flow Without RHBF Payments**  
**(\$ in Millions)**

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Net Income/(Loss)	(5,142)	(2,806)	(7,794)	(6,440)	(6,999)
Less: Statutory RHBF Payments	8,358	5,600	5,400	5,500	5,500
Adj. Net Income/(Loss)	3,216	2,794	(2,394)	(940)	(1,499)
Non-Cash items and Other Cash Flows	2,539	2,367	5,367	2,183	1,146
Cash Flows from Investing Activities	(2,458)	(1,938)	(1,806)	(1,439)	(1,493)
Cash Flows from Financing Activities:					
Increase (decrease) in debt	2,100	0	0	0	0
Payments for Capital Leases	(19)	(29)	(46)	(47)	(49)
U.S. government appropriations - expensed	(76)	(61)	(64)	(63)	(63)
Net Cash (Used) provided by financing activities	2,005	(90)	(110)	(110)	(112)
Net Increase/(Decrease) in Cash	5,302	3,133	1,057	(306)	(1,958)
Cash Balance BOY	997	6,299	9,432	10,489	10,183
<b>Cash Balance EOY</b>	<b>6,299</b>	<b>9,432</b>	<b>10,489</b>	<b>10,183</b>	<b>8,225</b>
Debt Outstanding	4,200	4,200	4,200	4,200	4,200

**Source:** Docket No. R2010-4, Order No. 547, September 30, 2010, p. 77.

Table 2 shows estimated end-of-year cash balances, absent RHBF payments. End of the year cash balances are high enough to obviate the need for any increase in borrowing. The Commission thus concluded that "...regardless of the time frame, without the overly optimistic prepayment requirement, the Postal Service would have had sufficient end-of-year cash reserves and no reason to increase its debt".<sup>7</sup>

The Public Representative believes that the Postal Service's debt ceiling of \$3 billion in a given year and total debt ceiling of \$15 billion are inadequate and should be increased substantially. Table 1 (above) shows that even under the current debt limitations, the Postal Service's borrowing authority has at times been the difference between paying its bills and insolvency. Also, lost in the confusion here, is the fact that the Postal Service's borrowing allows it some flexibility in day-to-day financing, although it has been used extensively to finance long-term operations. Having been forced to draw down its reserves to finance operations has left it with even less flexibility to

<sup>7</sup> Order No. 547 at 78.

finance short-term cash flow needs. It should also be noted that the current borrowing limits were established in 1992 and have not been adjusted, even for inflation, since. The CPI-U (NSA) has increased by over 54 percent during this time period.

*New Revenue Source.* Delivery points increased by 739,580 or .49 percent in FY 2010. This resulted in an increase of fixed delivery costs. Yet revenue per delivery point decreased by 2.0 percent in FY 2010 due to volume declines. The Postal Service needs a new source of revenue to cover the increasing costs of new delivery points. The Public Representative suggests that Congress be asked to add a second index to the price cap. This index would serve as a proxy for changes in delivery points. One such possible index would be the most recent annual change in the Census Bureau's estimate of housing units.<sup>8</sup> For example, the most recent data shows that the number of housing units in the U.S. increased 0.5 percent between July 2008 and July 2009. This percent increase would be multiplied by annual postal revenue to derive the extra income that could be raised from new rates. This income would be in addition to the income allowed by CPI-U.

*Standard Mail Flats.* This product failed to cover its attributable costs by \$582 million in FY 2010. This product also failed to cover costs in FY 2009. In the 2009 ACD the Commission directed the Postal Service to devise a plan for bringing flats cost coverage above 100 percent. Part of the Postal Service's plan was to raise the rates for flats by 5.1 percent in the exigent rate case.<sup>9</sup> That increase was, of course, denied.<sup>10</sup> However, in the recently filed rate case, the Postal Service has raised rates for standard flats by only 0.835 percent.<sup>11</sup> The Commission should hold the Postal Service to its plan.

The economy has improved since the Postal Service proposed a five-percent increase for standard flats. There is, thus, no reason why a price increase approaching

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<sup>8</sup> The percent change can be downloaded here: <http://www.census.gov/popest/housing/HU-EST2009.html>

<sup>9</sup> Docket No. R2010-4, Statement of James M. Kiefer on Behalf of the United States Postal Service, July 6, 2010, at 28, Table 4, and 31-32.

<sup>10</sup> Docket No. R2010-4, Order Denying Request for Exigent Rate Adjustments, September 30, 2010.

<sup>11</sup> Docket No. R2011-2, United States Postal Service Notice of Market-Dominant Price Adjustment, January 13, 2011, at 16, Table 7.

five-percent could not be borne by the users of the standard flats product. The price cap in the current rate case is 1.741 percent. Thus, a five-percent increase for standard flats would lead to rate decreases for standard products that are covering costs. Such decreases are only fair, as the profitable products have been subsidizing standard flats for several years.

### **Access to Postal Services**

The Postal Service's current retail network of approximately 32,000 facilities reflects a time when practically all retail revenue was generated through window transactions at brick and mortar Postal Service facilities, mail volume was growing and there was less alternate access to postal services. Today, the Postal Service estimates that 30 percent of retail revenue is generated by alternate access channels and its target for 2011 is to increase that amount to 35 percent (see Table 7).

Congress recognized in the PAEA of 2006 that the Postal Service had more facilities than needed and strongly encouraged the streamlining of the network. In 2009, the Postal Service began an initiative, referred to as the Stations and Branches Optimization and Consolidation Initiative ("SBOC").<sup>12</sup> It also has become apparent that many smaller, outlying Post Offices, which have either suffered lease termination or major maintenance issues due to natural disasters may be superfluous as well.

The Table 3 below shows the number of Postal Facilities, by type, in existence between 2006 and 2010. Delivery points by type are also shown.

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<sup>12</sup> Docket No. N2009-1.

**Table 3**

Number of Post Offices (in actual units indicated, unaudited)	2010	2009	2008	2007	2006
<b>Post Offices, Stations, and Branches</b>					
Postal-managed					
Post Offices	27,077	27,161	27,232	27,276	27,318
Classified Stations, Branches and Carrier Annexes	5,451	5,501	5,509	5,419	5,557
<b>Total Postal-Managed</b>	<b>36,322</b>	<b>36,496</b>	<b>36,723</b>	<b>36,721</b>	<b>36,826</b>
Contract Postal Units	2,931	3,037	3,148	3,131	3,014
Community Post Offices	763	797	834	895	937
<b>Total Offices, Stations, and Branches</b>	<b>36,222</b>	<b>36,496</b>	<b>36,723</b>	<b>36,721</b>	<b>36,826</b>
Residential Delivery Points					
City Delivery	80,531,231	80,187,505	79,848,415	79,470,894	78,949,153
Rural	38,638,280	38,264,946	37,684,158	37,022,488	36,068,838
PO Box	15,739,698	15,601,883	15,639,031	15,635,480	15,615,744
Highway Contract	2,607,138	2,576,166	2,516,783	2,473,323	2,345,255
<b>Total Residential Delivery</b>	<b>137,516,347</b>	<b>136,630,500</b>	<b>135,688,387</b>	<b>134,602,185</b>	<b>132,978,990</b>
Business Delivery Points					
City Delivery	7,457,500	7,483,461	7,436,965	7,411,582	7,343,020
Rural	1,453,292	1,439,266	1,407,942	1,360,478	1,297,022
PO Box	4,355,674	4,489,688	4,587,454	4,548,973	4,490,102
Highway Contract	72,648	72,966	71,538	69,304	65,062
<b>Total Business Delivery</b>	<b>13,339,114</b>	<b>13,485,381</b>	<b>13,503,899</b>	<b>13,390,337</b>	<b>13,195,206</b>
<b>Total Delivery Points</b>	<b>150,855,461</b>	<b>150,115,881</b>	<b>149,192,286</b>	<b>147,992,522</b>	<b>146,174,196</b>
Change in Delivery Points	739,580	923,595	1,199,764	1,818,326	1,847,831
Source: USPS Annual Report, 2010, p. 87					

On July 2, 2009, the Postal Service filed a request for an advisory opinion on its plans to consolidate the operations of some of its retail stations and branches. The Commission found that while it was appropriate for the Postal Service to adjust its retail network, to reflect changing customer needs, the Postal Service should improve its customer outreach efforts during the process.<sup>13</sup> The Postal Service Office of Inspector General issued a report on the Postal Service's proposed initiative.<sup>14</sup>

<sup>13</sup> ACD 2009, P. 57.

<sup>14</sup> United States Postal Service, Office of the Inspector General, Report No. EN-AR-10-005, August 17, 2010. Also see GAO Report GAO-08-41, "U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services" December, 2007.

The Inspector General's report specifically found:

- There are no established procedures for the SBOC Initiative, as it is a unique project the Postal Service implemented quickly;
- SBOC training does not adequately address strong stakeholder resistance and how the initiative affects other Postal optimization efforts and vice versa;
- ***Data entry errors, including misidentification of facilities, resulted in discrepancies in facilities identified for the SBOC Initiative;***
- The SBOC Initiative's lack of clear criteria may have caused inconsistencies in evaluating factors used for determining the feasibility of discontinuing operations.

Postal management indicated that centralized accounting systems were unable to generate a list of stations and branches because not all facilities have a unique identification number. As a result, Headquarters and field personnel spent many hours identifying and validating data that resulted in multiple SBOC Initiative universes ranging from 3,200 to 3,600 stations and branches reporting to a postmaster at or above the EAS-24 level. The final universe list was filed with the Commission on September 2009, almost 5 months after the SBOC initiative began.

From the universe of 3,600 stations and branches, district management used a pre-screening process to identify and prioritize some 759 facilities for full discontinuance studies. It was found that 26 of the 759 facilities had been incorrectly included in the universe. Of these 26, 2 units had already been closed; 6 were main Post Offices; 11 were Delivery/PO Box Units; 4 were non-personnel units and 3 were duplicates.

The Post Office Discontinuance Tracking System (PODTS) was used for many years to track Post Office and other retail unit discontinuances and suspensions. However, Postal Service witnesses stated in the September 30, 2009 official transcript of the proceeding before the PRC in Docket No. N2009-1, that the data in the system

was inaccurate.<sup>15</sup> Based on PODTS data, management reported to the Commission that a total of 96 stations and branches had been closed between FY 2005 and FY 2008. A number of data entry errors were found including misidentification of facilities. Subsequently, a revision was made which reduced the number of closures from 96 to 21 for the same period.

It was reported by the Postal Service that the 21 facilities identified above represented the number of closures for all facilities and not just facilities reporting to Postmasters at or above the EAS-24 level. The Office of the Inspector General (OIG) noted that a review of the Postal Service's Annual Reports revealed that stations and branches were reduced by 187 facilities between FY 2005 and FY 2008.<sup>16</sup> However, the Public Representative notes that Table 3 doesn't appear to support the number of closures as computed by the Postal Service Inspector General's report.

The Postal Service has not posted a status update on its website since February 2010. According to the Inspector General's audit, the Postal Service did provide an updated list dated March 20, 2010, showing that 156 facilities remained under consideration for discontinuance. District offices, it was reported, have forwarded 144 proposals recommending discontinuance of operations to Headquarters. Originally some 754 Stations and Branches had been examined as candidates for further discontinuance studies.

During 2010, the Commission conducted an investigation into the emergency suspension of Post Offices by the Postal Service, in Docket No. PI2010-1. It was noted by the Commission that approximately 397 Post Offices were under suspension because of an emergency during the past 5 years. Of the offices suspended, 31 had service restored after an average period of suspension of 10.3 months; 117 were closed after an average period of suspension of 3.7 years; and 249 have remained suspended for an average of 3.6 years.<sup>17</sup> The Postal Service has developed detailed policies for closing Post Offices in its Discontinuance Guide, Handbook PO-101. The

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<sup>15</sup> USPS, OIG Report at 17.

<sup>16</sup> *Id.*

<sup>17</sup> Initial Comments of the Public Representatives, March 2, 2010, at 10.

Discontinuance guide also provides the policies and procedures to be followed by postal personnel when an emergency requires the suspension of a post office.

Among these policies is that a suspension review team must be formed which makes a recommendation to be reviewed by the district manager of Customer Service and Sales, who must develop a plan of action to restore service, secure alternate quarters, take other necessary corrective action, or initiate a discontinuance study. The plan of action must be sent in writing to the Vice President, Delivery and Retail no later than the 90<sup>th</sup> day. *Id.* at 617. If the District manager does not establish a plan of action to restore service or take other corrective action, local officials should initiate a discontinuance study to gather information relevant to whether the office should be closed. The Postal Service indicated that the study often takes nine or ten months to complete. However, there is no time limit for completing the investigation and discontinuance study.

Database limitations have inhibited the Postal Service in implementing this policy. The Public Representative in Docket No. PI2010-1 sought access to the PODTS to assist in analyzing the occurrences of emergency suspensions. As noted above, this is the same database used to track discontinuance actions. The Postal Service claimed that the database suffered from a number of problems and would not provide the requested access. What was provided amounted to an excerpt from the PODTS database. However, an older version of the actual database itself was filed by the Postal Service as a library reference in Docket No. N2009-1.<sup>18</sup> An important element not present in the excerpted data provided by the Postal Service to the Public Representative is a data field listing the dates the 90 day 'action plans' were submitted to Headquarters. There is also a data field showing the date of suspension. By subtracting the two dates, one should be able to determine whether the required 90 day period for submitting a plan of action was actually met. In a similar fashion, one should be able to determine the duration of any given suspension. However, in many instances, the date entered into the "Headquarters Plan Date" field occurs *before* the

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<sup>18</sup> See Library Reference USPS-LR-N2009-1/10, Response to Question 20 of Commission Information Request No. 1: Discontinuance Tracking System Flat File, 8/28/2009.

actual suspension date. The treatment of this type of situation is unclear and should be better documented.

The Postal Service planned to replace the PODTS with the Post Office Discontinuance and Emergency Suspension System (PODESS). The PODESS was designed to track discontinuance and emergency suspension activities. It would have been linked in to the FDB. However, the Postal Service Inspector-General's report indicated that postal management stated that PODESS does not allow the import of PODTS historical data due to restrictions in the *Facilities Database*. In addition, Headquarters did not require field personnel to enter historical data into the new PODESS. The OIG's report also observed that field personnel were not even using PODESS, but rather were maintaining discontinuance activities manually. *Id* at 17.

The Postal Service has recently announced its intention to close or consolidate some 2,000 offices in the next two years. According to the Washington Post, "after years of using a confusing and laborious 21-month process panned by customers and Congress as too secretive and inconsistent, the mail agency is now relying on a computerized system that allows officials to review and determine a location's fate in no more than five months. If the plan succeeds, the mail agency could half its overall infrastructure by 2020, officials said."<sup>19</sup>

Will the new process described by the Postal Service be any less secretive and inconsistent simply because it is "computerized"? In addition, new computer systems may facilitate the identification of facilities for possible closure, but will they aid in the customer outreach necessary in the closure process? It would appear to the Public Representative that the Postal Service's procedures for closing/consolidating offices may simply be too cumbersome if and/or when applied to thousands of offices and need to be simplified. Finally, the Public Representative notes that such changes as the closure or consolidation of 2,000 offices would certainly appear to constitute a "change in the nature of postal services on at least a substantially nationwide basis." Does the Postal Service anticipate seeking an advisory opinion from the Commission?

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<sup>19</sup> "Postal Service to close 2,000 sites in next two years" Washington Post, 1/24/2011.

## Collection Boxes

In addition to closing and/or consolidating Postal Facilities, the Postal Service has also been reducing its footprint in terms of its once nearly ubiquitous blue collection boxes. The *Collection Point Management System* (CPMS) contains data on the number, location and type, as well as pickup times for collection boxes. We examined CPMS data for 2006 and 2010 to determine the changing trend in numbers and locations of collection boxes.

Table 4 on the following page illustrates the numbers and percentage changes in the number of collection boxes by state (or U.S. Territory) arrayed by the percent increase between 2006 and 2010. Only Washington, D.C., the Virgin Islands and Puerto Rico showed an increase in the number of collection boxes during this time period. Most states had decreases which ranged from a 1 percent decrease in Maryland to a 38 percent decrease in West Virginia. The average state/territory showed a decrease of 16 percent in the number of collection boxes. During the same time period, First-Class Single piece volumes dropped over 25 percent. Table 5 below shows the change in the number of collection boxes by location-type. Collection boxes at business locations declined by 19 percent and residential collection boxes declined by 29 percent. The Postal Service, in Docket No. N2009-1, explained that Box removals often are demand-based adjustments in areas with a high concentration of businesses. As collection mail volumes have declined, some boxes at stations and branch locations were considered excess and removed, leaving behind one or two boxes where formerly many more had stood. At other locations with multiple boxes 'overflow' boxes were removed in response to changes in customer mailing habits, leaving one box behind.<sup>20</sup>

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<sup>20</sup> Docket No. N2009-1, TR 2/228

Number of Collection Boxes by State/Territory				
State	Year		Pct. Change	
	2006	2010		
DC	1,338	1,988	49%	
VI	66	75	14%	
PR	750	778	4%	
MD	6,139	6,107	-1%	
NC	5,194	5,166	-1%	
ID	1,045	1,023	-2%	
AK	625	602	-4%	
WY	680	654	-4%	
NE	2,371	2,247	-5%	
MT	1,654	1,558	-6%	
KS	2,740	2,520	-8%	
OK	3,033	2,787	-8%	
OR	3,088	2,835	-8%	
NY	20,814	19,053	-8%	
CO	4,810	4,403	-8%	
AZ	3,001	2,733	-9%	
IA	3,702	3,363	-9%	
VA	6,243	5,642	-10%	
SD	1,148	1,037	-10%	
MA	10,831	9,621	-11%	
TX	12,715	11,130	-12%	
IL	13,847	12,116	-13%	
UT	1,428	1,249	-13%	
ND	1,122	981	-13%	
SC	2,997	2,587	-14%	
MO	6,674	5,737	-14%	
NV	1,481	1,270	-14%	
ME	2,232	1,913	-14%	
NH	1,786	1,501	-16%	
MN	5,004	4,158	-17%	
CA	28,770	23,815	-17%	
NJ	8,514	6,968	-18%	
HI	1,012	824	-19%	
CT	4,098	3,292	-20%	
OH	12,144	9,712	-20%	
PA	16,646	13,291	-20%	
MS	1,887	1,504	-20%	
MI	8,883	7,070	-20%	
WA	4,690	3,732	-20%	
AR	3,182	2,529	-21%	
IN	5,599	4,425	-21%	
TN	4,142	3,268	-21%	
DE	951	732	-23%	
NM	1,726	1,316	-24%	
AL	3,956	3,005	-24%	
KY	4,642	3,511	-24%	
FL	9,592	7,046	-27%	
WI	5,661	4,157	-27%	
VT	1,290	928	-28%	
GA	5,519	3,892	-29%	
RI	1,598	1,115	-30%	
LA	3,119	2,106	-32%	
WV	3,639	2,245	-38%	
GU	66	39	-41%	
MP	19	11	-42%	
AS	14		-100%	
Grand Total	269,918	227,367	-16%	

Source: Collection Point Management System

While volume declines may lessen the need for collection boxes, and in some locations multiple boxes may be completely unnecessary, reducing the availability of

collection boxes should be integrated with other realignment activities so as not to reduce access to Postal Services beyond what could be considered cost effective levels or on a geographically uneven basis.

<b>Number of Collection Boxes by Location Type</b>		
<b>Location Type</b>	<b>Year</b>	
	<b>2006</b>	<b>2010</b>
AIRPORT	152	138
BUSINESS	108,418	87,354
CONTRACT STATION	948	873
CUSTOMER DOCK	464	337
CUSTOMER LOBBY	4,057	2,729
GOVERNMENT BUILDING	68	233
MAIL ROOM	807	782
OTHER	3,191	4,357
POST OFFICE LOBBY	37,110	39,632
POST OFFICE OUTSIDE	53,665	47,566
RESIDENTIAL	61,038	43,323
Source: Collection Point Management System		

### **Performance Plans and Program Performance Reports**

The performance plans and the program performance reports required under sections 2803 and 2804, respectively are components of the Comprehensive Statement submitted annually by the Postal Service to Congress pursuant to section 2401(e). The Comprehensive Statement, among other things, must address postal operations, generally, including data on the speed and reliability of service provided for the various classes of mail and types of mail service, mail volume, productivity, trends in postal operations, and analysis of the impact of internal and external factors upon the Postal Service.

Section 2803 requires the Postal Service to include an “annual performance plan covering each program activity set forth in the Postal Service budget” in its 2010 Comprehensive Statement. Section 2803(a) requires the performance plan to establish goals for each program activity, express such goals in an objective and quantifiable

manner, describe the resources needed to meet the goals, establish performance indicators to measure the relevant outputs from each program activity, provide a basis for comparing actual program results with goals, and describe the means utilized to validate measure values.

Section 2804 requires the Postal Service to prepare a report on program performance each fiscal year to include in its Comprehensive Statement. Section 2804(b) requires that the program performance report includes a statement of the performance indicators along with the actual performance achieved compared to the performance goals.

In its 2010 Annual Performance Report and 2011 Annual Performance Plan, the Postal Service once again sets forth the same three corporate strategic goals: improve service, employee engagement and financial performance. The Annual Performance *Plan* explains how results will be measured and describes any indicator or measurement changes from prior years. The Annual Performance *Report* for the prior year is published at the same time as the Annual Performance *Plan* for the next year. The Performance report provides results against the prior year's objectives and serves as a baseline for setting new objectives.

The Postal Service's annual planning process consists of four steps: (1) establish high priority objectives to advance its strategic goals; (2) deploy resources and assign accountability; (3) implement actions to achieve results; and (4) review performance and make resource adjustments throughout the year.<sup>21</sup>

The summary table reproduced below summarizes the 2010 objectives and results as well as the 2011 plans.<sup>22</sup>

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<sup>21</sup> 2010 Comprehensive Statement, 2010 Annual Performance Report and 2010 Annual Performance Plan, P.1.

<sup>22</sup> *Id.* at 2.

Table 6

Strategic Goal	Performance Indicator	2008	2009	2010	2010	2011
		Actual	Actual	Plan	Actual	Plan
	Single-Piece First-Class Mail Overnight	96.5%	96.2%	96.6%	96.36%	96.65%
	Single-Piece First-Class Mail 2 Day	94.1%	93.7%	94.1%	93.71%	94.15%
<b>Improve Service</b>	Single-Piece First-Class Mail 3-5 Day <sup>1</sup>	92.7%	92.2%	92.8%	92.44%	92.85%
	Express Mail					
	Priority Mail	<i>Competitive product performance is not publicly reported</i>				
	Parcel Select					
<b>Improve Employee Engagement</b>	OSHA Illness and Injury Rate <sup>2, 3</sup>	5.74	5.62	5.52	5.49	5.39
	Voice of the Employee Survey Rate	63.7	64.0 <sup>4</sup>	63.8	62.3	64.5
	Total National Revenue (\$ billions) <sup>5</sup>	\$74.90	\$68.10	\$65.90	\$67.10	N/A
<b>Improve Financial Performance</b>	Total Factor Productivity <sup>5</sup>	(0.5%)	(0.9%)	1.2%	2.2%	N/A
	Operating Income (\$ billions) <sup>6</sup>	N/A				(0.9)
	Deliveries per Work Hour <sup>6</sup>	N/A				40.4
<sup>1</sup> Most Single-Piece First-Class Mail with a 3-, 4-, or 5-day service standard is delivered within 3 days. Only 0.24% of volume in this category has a 4- or 5-day service standard, and usually requires additional contracted transportation outside of the contiguous 48 states, such as to or from Hawaii, Puerto Rico, and Alaska.						
<sup>2</sup> "Actual" data for years 2008-2010 is different from that in the <i>2009 Comprehensive Statement</i> . This is due to data continually being updated as medical information is received and new accident reports are accepted by the Department of Labor, some which may have occurred in a prior time period. "Actual" rates shown are a snapshot of the values on a specific day in early November 2010. The data also contains adjustments associated with this year's change to an automated reporting system.						
<sup>3</sup> "Plan" is based on a percentage improvement over the previous year's actual data. As the "actual" data are updated, the "plan" target is correspondingly adjusted to maintain the planned percent improvement over "actual."						
<sup>4</sup> 64.0 is the <i>actual score</i> for the 2009 survey. 63.3 is the <i>baseline index score</i> established for the new VOE survey index used in 2010.						
<sup>5</sup> Discontinued as an indicator in 2011; will continue to be measured.						
<sup>6</sup> New indicator for 2011.						
Source: 2010 Performance Report and 2011 Performance Plan, p. 2						

The Postal Service, in response to the Commission's request in last year's ACD,<sup>23</sup> and the guidelines established by the Office of Management and Budget (OMB),<sup>24</sup> has provided additional information on the performance of individual programs and the connection between programs and its strategic goals.

<sup>23</sup> The Commission's staff identified over 30 initiatives described in the USPS 2009 Comprehensive Statement that were implemented to achieve the USPS's Strategic Goals. See ACD 2009, PP 46 – 48.

<sup>24</sup> Office of Management and Budget, *Preparation and Submission of Strategic Plan, Performance Plans and Annual Performance Reports*. July 2010.

Table 7

Strategic Initiative	Corporate Goals Supported	Results Indicator	2011 Target
<b>Intelligent Mail</b>	Service	Increase the percentage of workshared mail containing an	90% by end
	Employee Engagement	IM barcode.	of year
	Financial Performance	<i>(Full-Service and Basic, excluding Periodicals in-country volumes)</i>	
<b>Flats Sequencing System</b>	Service	Increase the percentage of flat mail in delivery point	72%
	Financial Performance	sequence for delivery zones on FSS that have been in operation at least six months.	
<b>Expand Access</b>	Service	Expand share of retail revenue generated by means other	35%
	Financial Performance	than at a postal retail counter.	
<b>Optimize Network</b>	Service	Reduce total interior facility space.	Reduce 2.8
	Financial Performance		mil sq/ft
<b>Flexible Workforce</b>	Service	Come in below the Integrated Financial Plan average	\$41.69/hour
	Employee Engagement	work hour rate.	
	Financial Performance	<i>(Bargaining and casual employees, including wages, benefits and existing contractual wage increases. Excludes current and prefunding payments for retiree health benefits.)</i>	
<b>Reduce Energy Use</b>	Financial Performance	Continue progress toward 2015 energy reduction goals.	On target
<b>Reduce Delivery Fixed</b>	Financial Performance	Increase average number of deliveries per route.	589 by end
		<i>(combination of city and rural delivery routes)</i>	of year
<b>Expand Products, Services, and Features</b>	Service	Create new products, services, and features.	15 new
	Employee Engagement		
	Financial Performance		
<b>Address Overfunded Legacy Costs</b>	Employee Engagement	Address legacy cost funding issues.	All three
	Financial Performance		addressed

Source: USPS Comprehensive Statement on Postal Operations 2010, p. 53

The Public Representative applauds the Postal Service's addition of its Appendix dealing with its Strategic Initiatives. Performance Targets for 2011 for each initiative are clearly defined. While long overdue, it will provide a baseline for future Performance Plans and Reports. In a cautionary note, the Postal Service has made changes in the indicators used to measure its strategic goal of Improving Financial Performance as shown in Table 6. Improvements, where warranted, are generally welcome. However, to the extent that these changes obscure the measurement of trends over time, it would be beneficial for the changes to be limited in number and not to totally disrupt continuity of measurement over time. The Public Representative has further comments on several of these strategic initiatives.

## **Flats Sequencing System (FSS)**

Two market-dominant products which have failed to cover their attributable costs are Standard Mail Flats and Periodicals. Standard Mail Flats according to the *Annual Compliance Report* had a negative contribution of \$582 million and the Periodicals class (as a whole) had a negative contribution of \$611 million. The introduction of the Flats Sequencing System (FSS) was intended to remedy this chronic situation. According to the 2010 Comprehensive Statement, “the focus of the FSS initiative is to reduce carrier sortation and associated costs through automated processing of flat mail into delivery sequence. FSS will replicate for flats the benefits achieved by letter sequencing.” The Postal Service anticipated that there will be “significant workhour reductions, less manual handling and fewer routes, vehicles and support staff.”<sup>25</sup> The 2011 target is 72 percent of flat mail in delivery point sequence for delivery zones on FSS in operation at least six months. *Id.* Some issues related to this Postal Service strategic initiative on the Flats Sequencing System (FSS) are discussed below.

### **FY 2010 Annual Compliance Report Costs for FSS Mail Processing Are Not Reported, Although Nearly 40 FSS Machines were Operational in FY 2010**

Table 8 lists the 40 Flats Sequencing System (FSS) machines that are currently operational. Most of the FSS machines on that list were processing live mail during FY 2010; however, the costs associated with the FSS machines are not presented along with the AFSM and FSM machines. Where are the FSS processing costs located? Are they included with the AFSM Flats costs? Have the FSS Flats costs been put into institutional costs and distributed to all other shaped mail products? Annually the Commission assesses whether the Postal Service has met the goals established under sections 2803 and 2804, but without FSS data an appropriate and accurate assessment is not likely.

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<sup>25</sup> USPS Comprehensive Statement, at 51.

**Table 8**  
**Current Operational FSS Machines (taken from the USPS Rapid Information Bulletin Board System (RIBBS) website)**

<b>Machine #</b>	<b>FSS Location</b>	<b>Machine Count at Location</b>
1	DULLES VA P&DC	1st
2	DULLES VA P&DC	2nd
3	DULLES VA P&DC	3rd
4	COLUMBUS OH FSS ANNEX	1st
5	KANSAS CITY MO P&DC	1st
6	DULLES VA P&DC	4th
7	WEST VALLEY AZ L&DC	1st
8	COLUMBUS OH FSS ANNEX	2nd
9	KANSAS CITY MO P&DC	2nd
10	WEST VALLEY AZ L&DC	2nd
11	WEST VALLEY AZ L&DC	3rd
12	SOUTH FLORIDA L&DC	1st
13	SOUTH FLORIDA L&DC	2nd
14	NEW JERSEY NDC	1st
15	MID-ISLAND NY P&DC	1st
16	NEW JERSEY NDC	2nd
17	NW BOSTON MA P&DC	1st
18	SOUTH FLORIDA L&DC	3rd
19	SOUTH FLORIDA L&DC	4th
20	CURSEEN-MORRIS DC P&DC	1st
21	MID-ISLAND NY P&DC	2nd
22	NW BOSTON MA P&DC	2nd
23	NEW JERSEY NDC	3rd
24	SOUTH FLORIDA L&DC	5th
25	MID-ISLAND NY P&DC	3rd
26	NW BOSTON MA P&DC	3rd
27	NEW JERSEY NDC	4th
28	CURSEEN-MORRIS DC P&DC	2nd
29	MID-ISLAND NY P&DC	4th
30	ORLANDO FL L&DC	1st
31	SE MI METROPLEX P&DC	1st
32	TRENTON NJ P&DC	1st
33	VAN NUYS CA FSS ANNEX	1st
34	PALATINE IL P&DC	1st
35	SAN JOSE CA P&DC	1st
36	SPRINGFIELD MA NDC	1st
37	ORLANDO FL L&DC	2nd
38	SE MI METROPLEX P&DC	2nd
39	TRENTON NJ P&DC	2nd
40	VAN NUYS CA FSS ANNEX	2nd

**The 2009-2010 Increase in Automated Flats Mail Processing Productivity was less than in the Previous Non-FSS Operational Years**

Another barrier to conducting a meaningful and more accurate assessment of the FSS initiative, as required in the Commission's annual review, is the lack of FSS productivity data in USPS-FY10-23. The selected operational groups used to calculate MODS productivities for Flats processing in ACR2010 included only the AFSM, UFSM, and Manual processing modes. However, more than one third of all the FSS machines that will eventually be deployed in the United States were fully operational in FY 2010. Why was no FSS machine processing data selected during the selection process to obtain the observations used to calculate Flats processing productivities? Again, the Commission needs FSS productivity data for a proper assessment of whether the Postal Service has met the goals established under sections 2803 and 2804. Furthermore, appropriate and accurate productivity measures are absolutely required for appropriate and accurate cost attribution. MODS productivities are direct inputs into the cost avoidance engineering models that determine costing and passthrough on the individual products.

Table 9 depicts Flats productivity changes from the previous year that were calculated from the MODS productivity data submitted in ACR-USPS-23. The Table does not show an expected and visible increase in automated Flats productivity moving from 2009 to 2010. This would be due to the expected reduction in mail processing workhours. In fact, the increase in Flats automated productivity (3.66 percent) is actually smaller than in the two previous periods 7.65 percent and 4.49 percent where the FSS was presumably not yet operational.

**Table 9**  
**2007-2010 Flats Automated Productivity Changes from the Previous Year**  
**(calculated from FY2007-FY2010 ACR-LR-23).**

	2007-2008	2008-2009	2009-2010
<b>Automated Flats Processing</b>	7.65%	4.49%	3.66%

**Flats Manual Productivity is Decreasing while Flats Manual Relative to Automated Mail Processing is Increasing.**

The productivity estimate for manual Flats processing derived from USPS-FY10-23, USPS-FY09-23, USPS-FY08-23, and USPS-FY07-23 and presented in Table 10 has decreased 21.31 percent from 2007 to 2010. This significant decrease in itself is troublesome enough, but even more troublesome is the evidence that Flats manual processing relative to Flats automated processing has been actually *increasing* during the same period. In other words, the Postal Service is using relatively more of a relatively more inefficient processing mode for Flats mail processing. Table 11 using 2007-2010 In-Office Cost System (IOCS) data submitted in ACR-USPS-NP21, calculates the number of times an IOCS data collector observed a clerk manually processing Flats (Letters) relative to the number of times a clerk was observed processing Flats (Letters) using automated equipment. Table 11 shows that the time spent in manual Flats processing is approaching the time spent in automated Flats processing. Since manual Flats processing per piece is more costly (less productive) than automated Flats processing per piece, this troublesome trend will undoubtedly continue to increase Flats costs into the future especially coupled with the other disturbing Flats trend of a decreasing manual Flats processing productivity.

**Table 10  
2007-2010 Productivity Changes by Shape and Sortation Mode  
(from FY2007-FY2010 ACR-LR-23)**

	<b>2007-2010</b>
<b>Automated Letters</b>	-4.07%
<b>Manual Letters</b>	9.01%
<b>Automated Flats</b>	16.60%
<b>Manual Flats</b>	-21.31%

**Table 11  
Manual to Automated Mail Processing for Letters and Flats  
(using 2007-2010 IOCS data)**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>ManFlat/AutoFlat</b>	78.20%	78.94%	89.86%	92.37%
<b>ManLetter/AutoLetter</b>	51.82%	49.15%	49.09%	46.26%

## **Excessive Passthroughs from Excessive Pre-barcoding Discounts are Not Justified**

The Public Representative does not agree with the Postal Service that excessive pre-barcoding discounts for Flats, that lead to excessive passthroughs, are still necessary to ensure the successful implementation of the FSS program.<sup>26</sup> In fact, extra barcoding incentives may actually impede the efficient operation of the Postal Service through the unnecessary revenue reductions they produce. Also, possible inefficiencies in FSS mail processing may be harder to identify and correct if the incentives for its use are excessively deep discounts. Finally, a good portion of the FSS program is already implemented, operational, and processing live mail.

## **MODS Data and Its Issues**

Management Operational Data System (MODS) data suffers from certain flaws described in greater detail below. MODS data is used to calculate the MODS productivities used in the Postal Service's cost avoidance models. These cost avoidance models and the resulting avoided cost estimates in turn, form the floor for worksharing discounts. PAEA Section 3622(e)(2) states that the Commission "shall ensure that such discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity." The Commission noted in a recent proceeding dealing with analytical principles regarding workshare discount methodology, "Limiting workshare incentives to the amount of the costs avoided by worksharing gives the mailer an incentive to do the work only if it is the least-cost producer. Society benefits from the section 3622(e) pricing rule because it lowers the cost incurred by the Postal Industry as a whole."<sup>27</sup> Productivity changes cause unit costs to change within the cost avoidance models, which in turn affects avoided costs and passthroughs. If MODS productivities are inaccurate due to errors in the underlying MODS data not being properly scrubbed out, then in turn, costs avoided (mail processing, transportation, delivery, etc.),

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<sup>26</sup> Docket No. ACR2010 at 57.

<sup>27</sup> Docket No. RM2009-3, *Consideration of Workshare Discount Rate Design*, Order No. 536, September 14, 2010.

worksharing discounts, and passthroughs will be inaccurate. It is important to maintain the accuracy of the measurement of avoided costs.

MODS data is also used to calculate the mail processing volume variability factors by cost pools that are used to calculate the premium pay adjusted mail processing costs that go into the Cost and Revenue Analysis (CRA) model that develops the Cost Segment and Components (CSC) Report. Cost estimates from these reports are used to calculate cost coverages and to test for cross-subsidies from market dominant to competitive products.<sup>28</sup> For example, if the aggregate revenues from competitive products is equal to or greater than the aggregate incremental costs of competitive products, then competitive products overall are considered to not be cross-subsidized by market dominant products. The usual proxy for competitive products' incremental costs is total attributable costs from competitive products plus causally-related group-specific costs which also come out of the CRA.

**A One Percent Top and Bottom Scrub May Not Be Appropriate for MODS Data that is Generally Very Dirty on the Lower Valued Ends of the Distribution**

The Management Operating Data System (MODS) data that is used in the development of the CSC report by component and to calculate MODS productivities that are used in the cost avoidance models has significant levels of measurement error present in it that are not corrected by the system. MODS data is extremely dirty as noted in a 2007 USPS-OIG Report:<sup>29</sup>

During a 3 month period, about 39 percent of the data records at these facilities contained four types of anomalous MODS data that logically should not occur:

1. Zero workhours but mail volume recorded in a MODS operation.
2. Zero mail volume but workhours recorded in a MODS operation.
3. MODS operations with FHP mail counts greater than TPH mail counts.
4. MODS operations with negative mail volume.

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<sup>28</sup> See 39 C.F.R. Section 3015.7(a).

<sup>29</sup> Office of the Inspector General, United States Postal Service, Audit Report – Management Operating Data System, (Report Number MSAR07003), 2007, p. 7.

Most of the measurement error described above takes place at the low end of any MODS distribution of data, and if those observations are ultimately scrubbed out (eliminated) it is the low valued end that is losing observations. Measurement errors at the higher valued end are much more difficult to detect if at all. Thus, a 1 percent top and bottom scrub may not be a desirable method to clean a dataset that will be used to accurately calculate inputs, such as operational group productivities, to calculate costs and cost coverage.

### **Aggregating MODS Piece Handlings and Hours *Before* Scrubbing May Hide Erroneous Observations that Should Not Be Included in a Productivity Analysis**

In light of the MODS measurement error problem noted in the OIG audit consisting of zero workhours paired with recorded volume, zero volume paired with recorded workhours, and negative recorded volume, it would be inaccurate to sum MODS piece handlings and workhours to a higher level of aggregation before scrubbing the data. Summing observations with zero values with observations that have non-zero values will result in non-zero values. The programs within the documentation submitted in USPS-FY10-23 indicate in its code: **\*\*\* Create sums of TPH, TPF, and hours before scrubbing \*\*\***. If zero values are summed along with non-zero values then the data errors are not likely to be scrubbed out and they will remain and bias the estimates.

### **Sample size (Observations) used to Calculate MODS Productivities is Continually Decreasing**

The number of observations used to calculate the MODS Productivities in USPS-FY10-23, USPS-FY09-23, USPS-FY08-23, and USPS-FY07-23 for the 85 selected plant operations has been consistently decreasing from 2007 to 2010. Table 12 depicts this trend. Generally, as sample size decreases, precision and accuracy in the computed estimates, i.e. MODS productivities, decrease. Furthermore, if there is systematic error (bias) in the selection process as well, there may be additional problems with estimate accuracy. This is problematic for product cost coverage.

Furthermore, this continued decrease in the number of observations used in recent years may be a significant change in analytic principles that would violate the rule established in 39 C.F.R. § 3050.11 stating procedures to change analytic principles relating to the Postal Service's periodic reports.

**Table 12**  
**Total Number of Observations used to Calculate MODS Productivities by Fiscal Year (from FY2007-FY2010 ACR-LR-23).**

	FY2007	FY2008	FY2009	FY2010
<b>Total number of observations for the 85 selected plant operations</b>	96,625	94,078	90,802	83,171

### **Intelligent Mail Implementation and Its Issues**

It is a strategic goal supported by Intelligent Mail in the Postal Service's Comprehensive Statement to improve service by increasing the amount of mail that can be measured and the information available to the Postal Service and to mailers to identify and correct any problems that may develop in the process.<sup>30</sup> Commission Rules 3055.20 through 3055.24 require annual reporting of service performance at the national level for all market dominant products. The Postal Service's service performance objectives are based on an improving Intelligent Mail barcode implementation and on mailers' successful involvement in the Full Service IMb program and the successful compilation of usable IMb data that are necessary to compute required service performance estimates. This partnership between the Postal Service and mailers that is essential to the successful implementation of IMb and the acquisition of sufficient usable IMb data points that can be measured, fails in a number of ways. For example, "nearly 40 percent of all Presort First-Class Mail was in the Full Service IMb format, a significant portion of these mailings had data errors that resulted in exclusion,

<sup>30</sup> 2010 Comprehensive Statement on Postal Operations, Appendix: Strategic Initiatives, page 51

resulting in a data yield of only 7 percent of the Presort First-Class Mail volume, or less than 20 percent of the source data”<sup>31</sup>.

Also, the “iMAPS system is designed to generate a service performance estimate for Destination Entry and End-to-End Standard Mail with a precision of +/- 1.0 percent with a 95-percent confidence level at the district level and entry type level. However, due to the limited system coverage in the SASP pilot system in Quarter 1 through Quarter 3 where there were limited data available for measurement for some locations, the actual precision was as high as +/- 6.0 percent at the 95-percent confidence level for some districts for the end-to-end entry type”.<sup>32</sup> Increases in data yield through the reduction of data exclusions will also help the Postal Service meet its level of precision for service performance targets.

Data exclusions from the source data can be identified at all three levels: container level, handling unit (tray) level, and the piece level. Since IMb coded containers, trays, and pieces are nested, exclusions at higher levels, e.g. containers, etc., are especially troubling as they result in the exclusion of many otherwise perfectly acceptable Full Service IMb coded pieces from the measurement data pool. If an IMb container is excluded then all the pieces inside the container, acceptable or not, are also excluded from service measurement. Container and handling level exclusions include non-unique IMb barcodes, unknown facility information, and FAST Appointment irregularities. Mail piece exclusions include no stop the clock date, non-unique IMb barcodes, address hygiene issues, and no consumer destination ZIP.

The Postal Service should be commended for the many simplifying solutions it has already implemented to achieve a reduction in data exclusions and increase measurable data yield. For example, the Postal Service now gives drop shipped mail a start the clock with a pallet scan when entered rather than relying on the cumbersome and complicated manifest data (eDoc) that had to be handed in during a business unit “appointment” for a start the clock. Prior to this simplifying change a drop shipped pallet

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<sup>31</sup> Docket No. ACR2010, USPS-FY10-29 at 10.

<sup>32</sup> *Id* at 13.

scan may or may not have occurred at the time entered. Even more simplifying and streamlining solutions need to be undertaken by the Postal Service to facilitate the reduction in data exclusions to increase data yield.

The Postal Service has started a process to certify mailers' electronic documentation (eDoc) to ensure the achievement of Full Service IMb data requirements to help reduce data exclusions. Errors are identified and the information/solutions are given to mailers to facilitate corrections and inclusion in the measurable IMb dataset. Expanded certification processes into areas beyond eDoc including possible software vendor certification and assistance will also help expedite solutions and corrections to increase data yield.

An internal solution for additional IMb implementation problems that affect service performance at the plant level, is the Postal Service's effort to expedite its work at the plant level to ensure that mailer complaints regarding capacity issues are adequately addressed. For example, there are efforts by the Postal Service to ensure that off-loading is accomplished in a prompt manner and the network size is adequate for the level of volumes entered. These types of checks, adjustments, and corrections will continue to improve service performance estimates and they should be continuously performed by the Postal Service in a service performance responsive and timely manner.

The Postal service should continue to work with mailers' to ensure that Customer-Supplier Agreements (CSAs) are frequently discussed, reviewed, and updated and start-the-clock entry times are service-responsive but not unrealistic. Also, the Postal Service could be more proactive and responsive to mailer concerns as to how they would like to use IMb in the future. For example, offering an Address Element Correction II (AEC II) option within Full Service IMb would help increase the percentage of mail that is properly addressed which would in turn help reduce mail exclusions and increase measurable data yield for service performance. In AEC the Postal Service can check an address list against the AEC program to correct common misspellings and

other errors, while AEC II uses Delivery Force Knowledge to correct the errors even further.

In conclusion, the Postal Service needs to work more closely with mailers' to solve the problems, in an expedient manner, with the IMb system that are resulting in low data yields for service performance measurement. The goals for the Postal Service would be to look at problem areas (address hygiene, start the clock, non-unique barcodes) and try to find solutions that simplify the process and reduce the number of ways the IMb system can fail to result in usable IMb data points for service measurement.

Respectfully submitted,

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