

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton; and
Robert G. Taub

Annual Compliance Report, 2011

Docket No. ACR2011

NOTICE OF POSTAL SERVICE'S FILING OF ANNUAL COMPLIANCE REPORT
AND REQUEST FOR PUBLIC COMMENTS

(Issued January 3, 2012)

I. INTRODUCTION

On December 29, 2011, the United States Postal Service (Postal Service) filed with the Commission, pursuant to 39 U.S.C. 3652, its Annual Compliance Report (ACR) for fiscal year (FY) 2011.¹ Section 3652 requires submission of data and information on the costs, revenues, rates, and quality of service associated with postal products within 90 days of the closing of each fiscal year. In conformance with other statutory provisions and Commission rules, the ACR includes the Postal Service's FY 2011 Comprehensive Statement, its FY 2011 annual report to the Secretary of the Treasury on the Competitive Products Fund, and certain related Competitive Products Fund material. *See, respectively*, 39 U.S.C. 3652(g), 39 U.S.C. 2011(i), and 39 CFR

¹ United States Postal Service FY 2011 Annual Compliance Report, December 29, 2011 (FY 2011 ACR). Public portions of the Postal Service's filing are available at the Commission's website, <http://www.prc.gov>.

3060.20–23. In line with past practice, some of the material in the FY 2011 ACR appears in non-public annexes.

The filing begins a review process that results in an Annual Compliance Determination (ACD) issued by the Commission to determine whether Postal Service products offered during FY 2011 are in compliance with applicable title 39 requirements.

II. OVERVIEW OF THE POSTAL SERVICE'S FY 2011 ACR

Contents of the filing. The Postal Service's FY 2011 ACR consists of a 72-page narrative; extensive additional material appended as separate folders and identified in Attachment One; and an application for non-public treatment of certain materials, along with a supporting rationale filed as Attachment Two. The filing also includes the Comprehensive Statement, Report to the Secretary of the Treasury, and information on the Competitive Products Fund filed in response to Commission rules. This material has been filed electronically with the Commission, and some also has been filed in hard-copy form.

Scope of filing. The material appended to the narrative consists of: (1) domestic product costing material filed on an annual basis, summarized in the Cost and Revenue Analysis (CRA); (2) comparable international costing material, summarized in the International Cost and Revenue Analysis (ICRA); (3) worksharing-related cost studies; and (4) billing determinant information for both domestic and international mail. *Id.* at 2. Inclusion of these four data sets is consistent with the Postal Service's past ACR practices. As with past ACRs, the Postal Service has split certain materials into public and non-public versions. *Id.* at 3.

"Roadmap" document. A roadmap to the FY 2011 ACR appears in the form of library references USPS-FY11-9. This document provides brief descriptions of the materials submitted, as well as the flow of inputs and outputs among them; a discussion of differences in methodology relative to Commission methodologies in last year's ACD;

a list of special studies; and, as required by Commission rule 3050.2, a discussion of obsolescence. *Id.* at 3-4.

Methodology. The Postal Service says the scope of new methodologies has been minimized because it has placed heavy reliance on replicating the methodologies used most recently by the Commission. However, it observes that postal operations and data collection are not entirely static, so there are some minor changes. These are identified and discussed in a separate section of the roadmap document and in the prefaces to each of the appended materials. *Id.* at 5.

Proposals for which the Postal Service has filed to change analytical principles since the filing of the FY 2010 ACR are identified and summarized in a table. *Id.* at 4-6. Generally, with respect to proposed changes that were pending resolution as of the date of the filing, the Postal Service prepared two versions of the materials for its ACR. *Id.* at 6.²

Market dominant product-by-product costs, revenues, and volumes. With one exception, costs, revenues, and volumes for all market dominant products of general applicability are shown directly in the FY 2011 CRA or ICRA. The one exception is International Reply Coupon Service. *Id.* at 8.

Market dominant negotiated service agreements. The FY 2011 ACR presents information on market dominant negotiated service agreements (NSAs) in two ways. *Id.* at 9. First, on a fiscal year basis, it extracts revenue, cost, and volume data from the relevant CRA lines. These data are further disaggregated by individual NSA in library references USPS-FY11-30. Second, library references USPS-FY11-30 also presents similar data for the NSAs by contract year. *Id.* This latter method is required by 39 CFR 3020.21(1) to allow net benefit calculations for NSAs that have discounts

² The three exceptions to this practice are with respect to Proposals Ten, Eleven, and Eighteen. *Id.* at 6-7. The Postal Service also identifies the reasons why it did not prepare two versions for these proposals in its ACR and requests that the Commission waive the requirements of 39 CFR 3050.10 with respect to these three proposals. *Id.* at 7.

based on volume thresholds reached during a contract year. *Id.* Such net benefit calculations also appear in library references USPS-FY11-30.³

Service performance. The Postal Service notes that the Commission issued rules on periodic reporting of service performance measurement and customer satisfaction in FY 2011. Responsive information appears in library references USPS-FY11-29. *Id.* at 10-11. The Postal Service says it set aggressive on-time targets of 90 percent or above for all market dominant products and, overall, has been successful in continuously improving these scores. It asserts that its targets have already been met or exceeded for some products and in some districts, but says there are several instances where target scores have not yet been met at the national level. Specific reasons for these results are discussed in library references USPS-FY11-29. *Id.* at 12.

Customer satisfaction. The FY 2011 ACR discusses the Postal Service's new approach for measuring customer experience and satisfaction; describes the new methodology and other changes; presents a table with survey results; and compares the results from FY 2010 to FY 2011. *Id.* at 10-13.

Product analysis and other information. The FY 2011 ACR includes a detailed analysis of each market dominant product, including domestic NSAs in effect during FY 2011. *Id.* at 14-48. It also presents information responsive to 39 U.S.C. 3652(b) on worksharing discounts. *Id.* at 50-60.

Competitive products. The FY 2011 ACR provides costs, revenues, and volumes for competitive products of general applicability in the FY 2011 CRA (or ICRA). For competitive products not of general applicability, data are provided in non-public library references USPS-FY11-NP2 and USPS-FY11-NP27. The FY 2011 ACR also addresses the competitive product pricing standards of 39 U.S.C. 3633. *Id.* at 60-64.

³ The Postal Service notes that there is a distinction between the "net benefit calculations" and the data reported in the CRA line item for NSAs. The net benefit calculations are intended to isolate the incremental benefit of the NSA while the CRA reports the entire volume to the NSA, regardless of whether it is deemed "incremental." *Id.* at 9.

Market tests; nonpostal services. The Postal Service also addresses the three market dominant market tests conducted during FY 2011, the two competitive market tests conducted during FY 2011, and nonpostal services. *Id.* at 64-68. With respect to the latter, it notes that in the last ACD, the Commission linked further reporting on nonpostal services to the approval of classification language in Docket No. MC2010-24, and that docket was still pending as of the end of FY 2011. The Postal Service states that it has attempted to improve its nonpostal services reporting in this ACR, but it considers the information it is providing as generally comparable to what it previously provided. *Id.* at 67.

III. PROCEDURAL STEPS

Statutory requirements. Section 3653 of title 39 requires the Commission to provide interested persons with an opportunity to comment on the ACR and to appoint a Public Representative to represent the interests of the general public. The Commission hereby solicits public comment on the Postal Service's FY 2011 ACR and on whether any rates or fees in effect during FY 2011 (for products individually or collectively) were not in compliance with applicable provisions of chapter 36 of title 39 (or regulations promulgated thereunder). Commenters addressing market dominant products are referred in particular to the applicable requirements (39 U.S.C. 3622(d) and (e) and 3626); objectives (39 U.S.C. 3622(b)); and factors (39 U.S.C. 3622(c)). Commenters addressing competitive products are referred to in 39 U.S.C. 3633.

The Commission also invites public comment on the cost coverage matters the Postal Service addresses in its filing; service performance results; levels of customer satisfaction achieved; progress toward goals established in the annual Comprehensive Statement; and such other matters that may be relevant to the Commission's review. Comments on these topics will, *inter alia*, assist the Commission in developing appropriate recommendations to the Postal Service related to the protection or promotion of the public policy objectives of title 39.

Access to filing. The Commission has posted the publicly available portions of the FY 2011 ACR on its website, <http://www.prc.doc>.

Comment deadlines. Comments by interested persons are due on or before February 3, 2012. Reply comments are due on or before February 17, 2012. The Commission, upon completion of its review of the FY 2011 ACR, public comments, and other data and information submitted in this proceeding, will issue its ACD. Those needing assistance filing electronically may contact the Docket Section supervisor at 202-789-6846 or via email at PRC-DOCKETS@prc.gov. Inquiries about access to non-public materials should also be directed to the Docket Section.

Public representative. Kenneth E. Richardson is designated to serve as the Public Representative to represent the interests of the general public in this proceeding, assisted by Lawrence Fenster and Elena Patel. Neither the Public Representative nor any additional persons assigned to assist him shall participate in or advise as to any Commission decision in this proceeding other than in their designated capacity.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. ACR2011 to consider matters raised by the United States Postal Service's FY 2011 Annual Compliance Report.
2. Pursuant to 35 U.S.C. 505, the Commission appoints Kenneth E. Richardson as officer of the Commission (Public Representative) in this proceeding to represent the interests of the general public.
3. Comments on the United States Postal Service's FY 2011 Annual Compliance Report to the Commission, including the Comprehensive Statement of Postal Operations and other reports, are due on or before February 3, 2012.

4. Reply comments are due on or before February 17, 2012.
5. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary