

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

SEMI-PERMANENT EXCEPTION FROM PERIODIC  
REPORTING OF SERVICE PERFORMANCE  
MEASUREMENT

Docket No. RM2015-1

**UNITED STATES POSTAL SERVICE REQUEST FOR SEMI-PERMANENT  
EXCEPTION FROM PERIODIC REPORTING OF SERVICE PERFORMANCE  
MEASUREMENT FOR ALASKA BYPASS SERVICE**

(October 1, 2014)

Pursuant to 39 C.F.R. § 3055.3, the United States Postal Service (Postal Service) submits this request for a semi-permanent exception from periodic reporting of service performance measurement and customer satisfaction for Alaska Bypass Service. In the 2013 Annual Compliance Determination Report, the Commission concluded that since Single-Piece Parcel Post was transferred to the competitive product list, and thus is not subject to periodic reporting requirements, it is an inappropriate proxy for Alaska Bypass Service.<sup>1</sup> In its determination, the Commission directed the Postal Service to propose an alternate measurement system for Alaska Bypass Service items.<sup>2</sup> On June 25, 2014, the Postal Service replied to this directive and informed the Commission that it would request a semi-permanent exception from periodic reporting for Alaska Bypass Service in Quarter 4 of fiscal year 2014. The Postal Service accordingly requests this semi-permanent exception for Alaska Bypass

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<sup>1</sup> Fiscal Year 2013, Annual Compliance Determination Report, Docket No. ACR2013 (March 27, 2014) at 114.

<sup>2</sup> *Id.* at 148.

Service due the prohibitive cost of implementing a performance measurement system for this product relative to its respective revenue.

The Postal Service is filing as redacted information regarding the costs of the service performance measurement systems identified in this request. The justification for these redactions appears in Attachment 1, Application for Non-Public Treatment

## **I. BACKGROUND**

### **A. Requirements for Semi-Permanent Exceptions**

Pursuant to 39 U.S.C. § 3652 and 39 C.F.R. Part 3055, Subpart A, the Postal Service is required to submit an annual service performance report for each market dominant product. This annual report must include the on-time service performance, a description of the applicable service standard and service goal, a description of the system used to measure performance and what is being measured, a description of the methodology used to develop reported data from measured data, and a description of any changes to the measurement system or data reporting methodology implemented within the reported fiscal year. In addition to the annual service performance report, the Postal Service is also required to submit quarterly reports of service performance measurements for each market dominant product. See 39 C.F.R. Part 3055, Subpart B. These quarterly reports must include service performance data, both on time percentage and service variance, for market dominant products, broken down by applicable service standard and for various levels of disaggregation.

The quarterly and annual service performance reporting requirements for market dominant products described above were established at the conclusion of Docket No. RM2009-11. During this proceeding, in its initial comments, the Postal Service informed the Commission of products and product components for which the Postal Service

would not be able to report performance data as contemplated by the then-proposed rules.<sup>3</sup> In Order No. 465, the Commission established a formal process for the Postal Service to apply for “semi-permanent exceptions from reporting service performance in “instances that . . . should be readily identifiable and justifiable.”<sup>4</sup>

This formal process, codified in 39 C.F.R. § 3055.3, provides an avenue for the Postal Service to request exceptions from the general requirement to report on service performance. A semi-permanent exception is justified when the Postal Service demonstrates one of the following:

- 1) The cost of implementing a measurement system would be prohibitive in relation to the revenue generated by the product, or component of a product;
- 2) The product, or component of a product, defies meaningful measurement; or
- 3) The product, or component of a product, is in the form of a negotiated service agreement with substantially all components of the agreement included in the measurement of other products.

39 C.F.R. § 3055.3. Once granted, assuming that circumstances remain the same, the Postal Service is not required to reapply for exceptions on a regular basis.<sup>5</sup>

After the Commission issued Order No. 465, the Postal Service filed a request for 31 semi-permanent exceptions from periodic reporting of service performance measurement for various market dominant postal services, including Standard Mail High Density, Saturation, and Carrier Route parcels; Inbound International Surface Parcel Post (at UPU Rates); hard-copy Address Correction Service; various Special Services,

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<sup>3</sup> United States Postal Service Comments in Response to Order No. 292 (hereinafter “USPS Initial Comments”), Docket No. RM2009-11 (November 2, 2009), at 29-37.

<sup>4</sup> PRC Order No. 465, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Docket No. RM2009-11 (May 25, 2010), at 22.

<sup>5</sup> PRC Order No. 531, Order Concerning Postal Service Request for Semi-Permanent Exceptions from Periodic Reporting of Service Performance Measurement, Docket No. RM2010-11 (September 3, 2010), at 5.

Within County Periodicals; and various negotiated service agreements.<sup>6</sup> The Commission granted 27 of the 31 requested semi-permanent exceptions.<sup>7</sup> Since the initial request, the Postal Service has submitted additional requests for semi-permanent exceptions. For example, in 2010, the Postal Service filed a request for semi-permanent exception from periodic reporting of First-Class Mail Flats at the district level.<sup>8</sup>

### **B. Alaska Bypass Service**

Alaska Bypass mail, the predecessor to the Alaska Bypass Service, was introduced in 1972.<sup>9</sup> The program was established as a solution to a boom in rural population and the increased need for package delivery of food and other commodities.<sup>10</sup> Under Alaska Bypass mail and the current Alaska Bypass Service, businesses in Alaska's larger cities, such as Anchorage and Fairbanks, can ship directly to rural customers. Shrink-wrapped pallets of goods, weighing a minimum of 1,000 pounds, are prepared by authorized shippers and are flown to regional hubs, where the pallets are broken down and then flown by air carriers for delivery directly to the recipient, either by the air carrier or its agent. Neither Postal Service employees nor its facilities are involved in the acceptance, processing, or delivery of these shipments.

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<sup>6</sup> United States Postal Service Response to Order No. 465 and Request for Semi-Permanent Exceptions from Periodic Reporting of Service Performance Measurement, Docket No. RM2010-11 (June 25, 2010) at 1.

<sup>7</sup> *Id.* at 3.

<sup>8</sup> United States Postal Service Request for Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement or, in the Alternative, Petition for Rulemaking Concerning 39 C.F.R. § 3055.45(a), Docket No. RM2011-4 (November 23, 2010).

<sup>9</sup> Alaska Bypass: Beyond Its Original Purpose (U.S. Postal Service Office of Inspector, 2011) at 1. Available at: <https://uspsaig.gov/sites/default/files/document-library-files/2013/rarc-wp-12-005.pdf>

<sup>10</sup> *Id.*

Section 301 of the Postal Accountability and Enhancement Act (PAEA) required the Postal Service, after consultation with the Commission, to establish a set of modern service standards for market dominant products. After consulting with the Commission, the Postal Service published proposed modern service standards for market dominant products and initiated a notice-and-comment rulemaking in October 2007.<sup>11</sup> After considering public comments, the Postal Service published a final rule establishing modern service standards for market dominant products in December 2007.<sup>12</sup>

At the time, Alaska Bypass mail was not an independent product; rather, it was a small, but very distinct component of Parcel Post. Until January 27, 2013, Parcel Post, a Package Services product, included Single-Piece Parcel Post and Alaska Bypass mail. When drafting the modern service standards in 2007, the Postal Service established a set of service standards for Parcel Post as a whole. However, because of its unique character, Alaska Bypass mail was excluded from being subject to those service standards.<sup>13</sup>

In 2012, the Postal Service requested three changes to the Mail Classification Schedule.<sup>14</sup> First, the Postal Service requested that Parcel Post be removed from the market dominant product list. Second, the Postal Service requested that a nearly identical product, Standard Post, be added to the competitive product list. Third, the Postal Service requested that Alaska Bypass Service be added to the market dominant

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<sup>11</sup> 72 Fed. Reg. 58,946 (2007) (proposed Oct. 17, 2007).

<sup>12</sup> 72 Fed. Reg. 72,216 (2007) (codified at 39 C.F.R. Parts 121 and 122).

<sup>13</sup> See 39 C.F.R. Appendix A to Part 121, Table 2, which depicts the end-to-end service standard day ranges for mail originating and/or destinating within the states of Alaska and Hawaii, and the territories of Guam, Puerto Rico, and U.S. Virgin Islands. See the footnote to Table 2 indicating that the 2-4 day service standard for Package Services originating and destinating within Alaska excludes bypass mail.

<sup>14</sup> Request of the United States Postal Service to Transfer Parcel Post to the Competitive Product List, Docket No. MC2012-13 (April 26, 2012) at 1. See PRC Order No. 1411.

list. The effect of the request was to transfer most Parcel Post mail from the market dominant to the competitive product list, with the exception of Alaska Bypass mail.<sup>15</sup> The Commission granted the Postal Service request, and effective January 27, 2013, Single-Piece Parcel Post was transferred to the competitive product list, while Alaska Bypass Service was described on the market dominant product list as a separate product. When Alaska Bypass Service was listed as a market dominant product, no corresponding service standard for the new product was established. Notwithstanding, the Postal Service has maintained a “transit time” standard for Alaska Bypass Service. In Handbook PO-508, the Postal Service established a transit time standard that varies depending day of tender, transit duration, weather conditions, and delivery.<sup>16</sup> Those transit times are two days at a minimum but there is no maximum range because environmental factors may prevent Alaska Bypass Service items from being carried by air, thereby extending the transit time for an undetermined period.<sup>17</sup>

### **C. Revenue Generated and Cost Incurred by Alaska Bypass Service**

During fiscal year 2011, Alaska Bypass mail earned approximately \$29.5 million in revenue.<sup>18</sup> During fiscal year 2012, Alaska Bypass mail earned approximately \$31.2 million in revenue, and in fiscal year 2013, Alaska Bypass Service again earned \$31.2 million in revenue. During quarters 1 to 3 of fiscal year 2014, Alaska Bypass Service earned \$24.1 million in revenue.

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<sup>15</sup> *Id.*

<sup>16</sup> See Handbook PO-508, *Intra-Alaska Mail Service by Air, Instructions for Certificated Air Carriers and Bypass Mail*, Section 8-4: Bypass Mail Transit Times, (March 2012) at 45. Available at: <http://about.usps.com/handbooks/po508.pdf>.

<sup>17</sup> *Id.*

<sup>18</sup> United States Postal Service Response to Chairman Information Request No. 1, Attachment 1.xls, Docket No. MC2012-13 (May 11, 2012); available at: <http://prc.gov/Docs/82/82470/Attachment1.xls>.

The cost incurred by the Postal Service for Alaska Bypass Service may be presented in two different manners: total expense and attributable cost. Total expense is the total expense incurred by the Postal Service in transporting Alaska Bypass Service items from Anchorage or Fairbanks to the hub or bush points and ultimate delivery. Total expense includes the air carrier charge for transporting Alaska Bypass Service items (this expense is determined by distance and weight, and terminal handling fees) and the excise tax. Attributable cost is the cost that would have been incurred if highway transportation were available. Attributable cost is determined by multiplying the total expense by the Alaska Air Adjustment Factor.<sup>19</sup> The remainder of total expense that is not attributed to the Alaska Bypass Service is treated as institutional costs of the Postal Service.<sup>20</sup>

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<sup>19</sup> The Alaska Air Adjustment Factor is the ratio of hypothetical highway costs in Alaska to actual air costs incurred from the Alaska Bypass Service. The factor is calculated by computing the ratio of nationwide long distance unit highway costs to actual Alaska Bypass Service unit air costs. In Docket No. RM2013-6, the Commission approved Proposal One, which proposed a new method for calculating the Alaska Air Adjustment Factor. Before the proposal was approved, the Alaska Air Adjustment Factor used Department of Transportation data, surface densities, linehaul, and terminal handling costs to compute the ration of hypothetical highway costs to air costs. The new method uses data from the Transportation Cost System maintained by the Postal Service, relevant costs from Cost Segment 14, and data supplied by the operational system Surface Air Management System – Alaska.

<sup>20</sup> In its Opinion and Recommended Decision for Docket No. R97-1, the former Postal Rate Commission concluded that most of the costs for Alaska Bypass mail were due to the Postal Service's universal service obligation, which extends to citizens of all regions of the United States. The Commission determined that it would not be appropriate to recover the much higher costs of transporting Alaska Bypass mail from the nonpreferential classes carried by intra-Alaska Air. Opinion and Recommended Decision, Docket No. R97-1, (May 11, 1998) at 220. See *United Parcel Service v. U.S. Postal Service*, 184 F.3d 827 (D.C. Cir. 1999).

The total expense and attributable cost incurred by Alaska Bypass mail for fiscal year 2011 to present are presented below:

	<b>Total expense (millions)</b>	<b>Attributable cost<sup>21</sup> (millions)</b>
<b>FY2011</b>	\$105.4	\$7.4
<b>FY2012</b>	\$105.4	\$7.4
<b>FY2013</b>	\$108.2	\$15.2 <sup>22</sup>
<b>Quarters 1 to 3 of FY2014</b>	\$83.3	\$11.7

## **II. DESCRIPTION AND COST ANALYSIS OF POTENTIAL SERVICE PERFORMANCE MEASUREMENT SYSTEMS**

### **A. Option 1: Quarterly and Annual Reporting**

The Postal Service has explored an external measurement system that would use the existing Alaska Bypass Service postage label information from select shipments to establish the origin and destination location, transportation standard, and start-the-clock date and time. Stop-the-clock data will be obtained from surveyed customers who order and receive Alaska Bypass Service. The collection of stop-the-clock data envisions customers reporting receipt data and providing information from the Alaska Bypass Service label. Under this measurement plan, a third-party contractor will provide final results each quarter and annually for reporting purposes. The Postal

<sup>21</sup> For fiscal years 2011 and 2012, the Alaska Air Adjustment Factor was 0.0702. For fiscal year 2013 the Alaska Air Adjustment factor was 0.1402. For this comparison, the Postal Service assumed that the Alaska Air Adjustment Factor will not change from the factor used in fiscal year 2013 and applied the Alaska Air Adjustment factor of 0.1402. However for purposes of the 2014 Annual Compliance Review, a different Alaska Air Adjustment Factor may be applied.

<sup>22</sup> For purposes of the 2013 Annual Compliance Review, the Postal Service reported that the attributable cost for Alaska Bypass Service was \$10.3 million dollars. This was determined by multiplying the accrued costs of the Alaska Bypass Service from January 27, 2013 to September 30, 2013 by an Alaska Air Adjustment Factor of 0.1402. For the purposes of this comparison, the Postal Service determined the attributable cost for fiscal year 2013 by multiplying the total expense of the Alaska Bypass Service from October 1, 2012 to September 30, 2013 by the same factor, 0.1402.



Service estimates that such a service performance measurement system would cost approximately \$ [REDACTED] per year.

### **B. Option 2: Biennial Special Study**

The Postal Service also explored the possibility of conducting a biennial study to coincide with the special study that reports on service performance to the remote areas of Alaska, Caribbean and Honolulu districts. Such a study could be feasible, but like the current offshore special study, it only would observe service performance over a limited duration at a specific time, resulting in the review of fewer Alaska Bypass Service deliveries. The cost of a biennial study would be approximately \$ [REDACTED] per study year.

### **III. THE COST OF IMPLEMENTING A MEASUREMENT SYSTEM WOULD BE PROHIBITIVE IN RELATION TO THE REVENUE GENERATED BY THE ALASKA BYPASS SERVICE.**

Pursuant to section 3055.3, the Postal Service requests a semi-permanent exception from periodic reporting for Alaska Bypass Service as the cost of implementing a measurement system would be prohibitive in relation to the revenue it generates. As set forth above, the Postal Service estimates that it would cost approximately \$ [REDACTED] annually to implement a system that measures service performance for Alaska Bypass mail. Last fiscal year, Alaska Bypass Service generated \$31.2 million in revenue. The cost of the measurement system proposed by the Postal Service represents [REDACTED] percent of the total revenue generated by Alaska Bypass in fiscal year 2013. This cost to revenue percentage is significant and prohibitive. The cost of the measurement system would result in an increase in costs on a product which is subject to a price cap and a product over which the Postal Service exercises little control and no "hands on" operational role. As such, the cost of the proposed Alaska Bypass Service

measurement system is prohibitively high in relation to the revenue it generates. The Commission should accordingly grant a semi-permanent exception.

The prohibitive cost of measuring Alaska Bypass Service is further demonstrated when compared with relative service performance measurement costs of other market dominant products. For example, during fiscal year 2013, First-Class Mail single piece letters, cards, and flats generated \$12.5 billion in revenue. The estimated cost of the External First-Class (EXFC) measurement system used to measure service performance in fiscal year 2013 was approximately \$[REDACTED]. The cost of EXFC represents less than [REDACTED] percent of the total revenue generated by First-Class Mail single-piece letters, cards, and flats. Thus, the cost of implementing the measurement system for Alaska Bypass Service would exceed [REDACTED] times the relative cost for First-Class Mail single-piece letters, cards, and flats. This dramatically higher measurement cost in comparison to First-Class Mail is evidence of why service performance measurement for Alaska Bypass Service is cost prohibitive.

While 39 C.F.R. § 3055.3(a)(1) focuses on the revenue generated by the product in determining the appropriateness of a semi-permanent exception, the Commission should also look beyond the revenue to the cost coverage of Alaska Bypass Service in determining whether a semi-permanent exception should be granted. As explained above, the total expense for Alaska Bypass Service averages about \$105 million per year. In contrast, the product only produces revenue of approximately \$31 million on average. Thus, when focusing on total expenses and revenue, the Postal Service must cover more than \$80 million per year in providing Alaska Bypass Service through institutional costs. An additional \$[REDACTED] in costs to a product for which total

expenses exceed revenue by a multiple of three would be detrimental to Postal Service finances at this precarious time.

Analysis of the calculated attributable costs for Alaska Bypass Mail also supports a semi-permanent exception. Using fiscal year 2013 as the last complete cost year, implementing the new measurement system would increase attributable costs by almost [REDACTED] percent. Such a significant increase is not justified when one considers that the Postal Service has little control over the product's acceptance, handling, and delivery.

#### **IV. CONCLUSION**

For the reasons set forth above, the Commission should grant this request for a semi-permanent exception for periodic reporting of service performance measurement for Alaska Bypass Service.

Respectfully submitted,

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## **APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC TREATMENT OF MATERIALS**

In accordance with 39 C.F.R. § 3007.21, the United States Postal Service (Postal Service) hereby applies for non-public treatment of the costs associated with the Postal Service's third-party service performance measurement and the proposed costs for a service performance measurement system for Alaska Bypass Service. The Postal Service is providing this cost information to the Commission in support of its request for a semi-permanent exception to service performance measurement for Alaska Bypass Service. The unredacted version of the request is being filed under seal, while a redacted copy is included as an enclosure to this transmittal. The Postal Service hereby furnishes the justification required for this application by 39 C.F.R. § 3007.21(c) below.

### **(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);**

Information of a commercial nature, which under good business practice would not be publicly disclosed, as well as third party business information, is not required to be disclosed to the public. 39 U.S.C. § 410(c)(2); 5 U.S.C. § 552(b)(3). The Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A).<sup>1</sup> Because the portions of materials filed non-publicly fall within the scope

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<sup>1</sup> The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement

of information not required to be publicly disclosed, the Postal Service asks the Commission to support its determination that these materials are exempt from public disclosure and grant its application for their non-public treatment.

**(2) Identification, including name, phone number, and e-mail address for any third party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;**

The Postal Service has not identified a third party with a proprietary interest in redacted information.

**(3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;**

In support of its request for a semi-permanent exception to service performance measurement reporting for Alaska Bypass Service, the Postal Service is relying on the assessment that the cost of implementing a service measurement system is prohibitive in relation to the revenue generated by the product. In support of that argument, the Postal Service is providing cost information related to current measurement systems for market dominant products and the proposed measurement costs for Alaska Bypass Service. This information is commercially sensitive and should be entitled to protection pursuant to 39 C.F.R. § 3007.21.

**(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;**

If the information that the Postal Service determined to be protected from disclosure due to its commercially sensitive nature were to be disclosed publicly, the Postal Service considers that it is quite likely that it would suffer commercial harm. This

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interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. Potential bidders seeking awards as suppliers to the Postal Service could use this information game the procurement process. Disclosure of such information would be prejudicial to the bidding process and would result in significantly increased costs to the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted material.

**(5) At least one specific hypothetical, illustrative example of each alleged harm;**

Harm: Third-parties seeking to bid to provide the Postal Service with service performance measurement services for market dominant products would use the information to inform their bids and increase Postal Service costs.

Hypothetical: The existing and estimated costs of market dominant service measurement systems for Alaska Bypass Mail are disclosed publicly. Third-parties bidders use this information to structure their bids based on the disclosed costs. This deprives the Postal Service of achieving best value in the context of a competitive procurement process.

**(6) The extent of protection from public disclosure deemed to be necessary;**

The Postal Service maintains that the redacted portions of the cost information filed non-publicly should be withheld from persons involved in or who may become involved in the provision of service performance measurement for the Postal Service, as well as their consultants and attorneys.

**(7) The length of time deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and**

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the

Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

**(8) Any other factors or reasons relevant to support the application.**

None.

***Conclusion***

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.