

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2014

Docket No. ACR2014

CHAIRMAN'S INFORMATION REQUEST NO. 2

(Issued January 16, 2015)

To clarify the basis of the Postal Service's estimates in its FY 2014 Annual Compliance Report (ACR), filed December 29, 2014, the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than January 23, 2015.

Periodicals Billing Determinants

1. Please confirm that Library Reference USPS-FY14-4 File "FY 2014 Periodicals.xls" tab "Total FY 2014" columns M and N (Units and Postage for all of FY 2014) should include the quarter 4 volume and revenue information in columns K and L. If not confirmed, please explain. If confirmed, please update this file to reflect quarter 4 volume and revenue.

PHI NSA (Docket No. MC2014-21)

2. Please provide the quarterly discount thresholds for contract year 1 for the PHI Negotiated Service Agreement (NSA).
3. Please provide PHI volumes for FY 2014 by quarter.
4. Please confirm that, using the accepted method for analysis, the PHI NSA had a negative financial result in contract year 1, quarter 1 of -\$128,090.

5. In its FY 2014 ACR, the Postal Service stated:

The Potpourri NSA was implemented in Q4 of FY 2014. During the period July 2014 through September 2014, Potpourri had NSA volume of 66.4 million pieces, after-rebate revenue of \$15.8 million, and attributable costs of \$11.2 million, resulting in attributable cost coverage of 141 percent. The volume-based agreement earned a rebate of approximately \$175,000 during the July 2014 to September 2014 period. The Commission reviews NSAs from a contract year perspective, and it focuses on the net benefit of an NSA to the Postal Service.

2014 ACR at 37-38.

- a. Please confirm that the PHI NSA has independent rebate thresholds for each quarter.
- b. Please confirm that PHI could receive rebates for the contract year while having annual volume below the aggregate of the 4 quarter (annualized) rebate threshold.
- c. Please discuss the advantages and disadvantages of reviewing the PHI NSA quarterly, annually, or both.

Postal Service Docket No. R2013-11, FY 2014 Projections

6. The following table contains the Postal Service's projection of FY 2014 financial results from Docket No. R2013-11 and the FY 2014 financial results from the FY 2014 Cost and Revenue Analysis. The Docket No. R2013-11 data are from the file Nick.Statment.Attach.Rev.11.22.13, tab "Attach 25 2014 Cont AR 1-26." This tab shows a projection of financial results given a January 26, 2014, implementation of the Consumer Price Index and exigent prices.

Nick.Statmnt.Attach.Rev.11.22.13								
	Volume	Revenue	Attributable Cost	Contribution	Cost Coverage	Revenue Per Piece	Cost Per Piece	Contribution Per Piece
			(Millions)				(Dollars)	
Market Dominant Mail								
All	149,932	\$ 51,243	\$ 27,162	\$ 24,080	188.7%	\$ 0.342	\$ 0.181	\$ 0.161
Standard Mail								
Carrier Route	9,517	\$ 2,504	\$ 1,707	\$ 797	146.7%	\$ 0.263	\$ 0.179	\$ 0.084
Flats	5,516	\$ 2,228	\$ 2,416	\$ (188)	92.2%	\$ 0.404	\$ 0.438	\$ (0.034)
Periodicals								
Outside County	5,533	\$ 1,602	\$ 1,984	\$ (382)	80.7%	\$ 0.290	\$ 0.359	\$ (0.069)
FY 2014 CRA								
Market Dominant Mail								
All	151,927	\$ 49,530	\$ 26,874	\$ 22,656	184.3%	\$ 0.326	\$ 0.177	\$ 0.149
Standard Mail								
Carrier Route	8,980	\$ 2,364	\$ 1,686	\$ 678	140.2%	\$ 0.263	\$ 0.188	\$ 0.076
Flats	5,054	\$ 2,037	\$ 2,497	\$ (460)	81.6%	\$ 0.403	\$ 0.494	\$ (0.091)
Periodicals								
Outside County	5,459	\$ 1,552	\$ 2,048	\$ (496)	75.8%	\$ 0.284	\$ 0.375	\$ (0.091)

- a. Please confirm that in Docket No. R2013-11, the Postal Service projected that, with January 2014 implementation of exigent prices, the FY 2014 cost coverage for Standard Mail Flats would be 92.2 percent. Please confirm the actual cost coverage for Standard Mail Flats in FY 2014 was 81.6 percent, 10.6 percent lower than projected in November of 2013. If not confirmed, please explain.
- b. Please confirm that in Docket No. R2013-11, the Postal Service projected that, with January 2014 implementation of exigent prices, the FY 2014 cost coverage for Periodicals would be 80.7 percent. Please confirm the actual cost coverage for Periodicals Outside County in FY 2014 was 75.8 percent, 4.9 percent lower than projected in November of 2013. If not confirmed, please explain.
- c. Please discuss the divergence between the projected cost overages and the realized cost coverages for Standard Flats and Periodicals Outside County for FY 2014.

Periodicals Mail Processing Costs

7. The following table details Periodicals Outside County Mail Processing Costs by Management Operating Data System (MODS) operation. The MODS operations are broken into processing functions using the methodology described on page 74 of the 2011 USPS/PRC Joint Periodicals Study. The data for each year is from USPS-LR-26, shpFYprc.xls. Workbook No. 1 attached to this CHIR contains the source data and calculations for this table.

Periodicals OC Flats Mail Processing Cost 2007 to 2014									Percent Change	
(Cents per Piece)										
Type of Processing	2007	2008	2009	2010	2011	2012	2013	2014	2007 to 2014	2009 to 2014
Plant Manual	1.10	1.02	1.26	1.19	1.20	1.21	1.09	1.28	38.44%	1.16%
NONMods Facility	4.73	5.19	5.74	5.10	4.71	4.89	4.53	4.54	2.57%	-20.92%
Plant Mechanized	3.55	3.34	3.67	3.48	4.80	5.22	5.34	5.53	66.28%	50.89%
Bundle Operations	2.74	2.76	2.71	2.60	2.51	2.45	2.18	2.36	-12.02%	-13.00%
Plant Allied	4.62	4.54	4.54	4.34	4.10	4.30	3.94	4.26	2.72%	-6.20%
Other Allied	1.11	1.63	1.68	1.91	1.81	1.83	1.66	1.72	67.51%	2.05%
Total	17.83	18.48	19.60	18.62	19.12	19.92	18.75	19.68	19.10%	0.41%

- a. Periodicals Outside County Mail Processing costs have increased by 19 percent since FY 2007, across all operational areas other than bundle processing. For each of the six listed processing functions, please explain the changes in operations that have led to unit cost increases.
- b. In FY 2011, the Postal Service ended the Hot2C program for manual processing Periodicals. Please explain why manual processing costs for Periodicals have not decreased concurrent with the removal of the Hot2C program.
- c. Plant mechanized unit costs have increased 51 percent since FY 2009. In FY 2014, the unit cost of the Flats Sequencing System (FSS) cost pool was 2.3 cents per piece, from USPS-LR-FY14-26 file "FY14-26.shp14prc.xls" tab "Flats(4)" cell F30. Is this increase in unit mechanized cost due to the implementation of FSS processing?

- d. In FY 2013, Periodicals Outside County Mail processing decreased 1.17 cents per piece from FY 2012. In FY 2014, unit costs increased by 0.97 cents per piece, leaving processing costs essentially flat since FY 2009. Please explain the oscillation in Periodicals mail processing costs since FY 2009.

Flat Mail Processing Equipment Productivity

8. The following table details the productivity of incoming operations for the major equipment used to process flat-shaped mail. The data is from Library Reference USPS-FY14-23, file yrscrub.xls. Workbook No. 1 attached to this CHIR contains the source data and calculations for this table.

Flats Processing Equipment Productivity (TPF/Hour)										
	2007	2008	2009	2010	2011	2012	2013	2014	2007 to 2014	2009 to 2014
AFSM100 Incoming Secondary	3,096	3,273	3,138	2,998	2,898	2,692	2,725	2,685	-13%	-7%
SPBS/APBS Incoming	265	252	224	208	201	220	232	219	-17%	9%
APPS Incoming	548	498	451	430	397	361	350	319	-42%	-20%
FSS					833	816	798	766		

- a. Please confirm that the productivity of the Automated Flats Sorting Machine (AFSM) 100 Incoming Secondary operation decreased 13 percent from FY 2006 to FY 2014. If not confirmed, please explain.
- b. Please confirm that the productivity of the Small Parcel Bundle Sorter (SPBS)/Automated Parcel Bundle Sorter (APBS) incoming operation decreased 17 percent from FY 2006 to FY 2014. If not confirmed, please explain what year was the APBS upgrade from the SPBS completed?
- c. Please confirm that the productivity of the APPS Incoming operation decreased 42 percent from FY 2006 to FY 2014. If not confirmed, please explain.
- d. Please confirm that the productivity of the FSS operation decreased 8 percent $((766/833)-1)$ from FY 2011 to FY 2014. If not confirmed, please explain.

- e. It appears that the mechanized productivity for processing flat mail has systemically declined during the Postal Accountability Enhancement Act era. Please describe the changes in operations that have led to these systemic declines.

Standard Mail Flats Mail Processing Costs

9. The following table details Standard Mail Flats Mail Processing Costs by MODS operation. The MODS operations are broken into processing functions using the methodology described on page 74 of the 2011 USPS/PRC Joint Periodicals Study. See http://www.prc.gov/Docs/76/76767/Periodicals%20Mail%20Study_final_2131_2149.pdf. The data for each year is from Library Reference USPS-FY14-26, shpFYprc.xls. Workbook No. 1 attached to this CHIR contains the source data and calculations for this table.

Standard Mail Flats Mail Processing Cost 2006 to 2014										Percent Change	
(Cents per Piece)											
Type of Processing	2006	2007	2008	2009	2010	2011	2012	2013	2014	2006 to 2014	2009 to 2014
Plant Manual	0.65	0.66	0.77	1.04	0.90	0.84	0.89	0.98	1.00	54.55%	-3.74%
NONMods Facility	4.40	4.69	5.41	6.09	5.76	6.25	5.72	5.97	6.29	42.99%	3.28%
Plant Mechanized	5.33	6.33	8.00	9.16	9.19	10.07	10.40	9.29	10.74	101.50%	17.25%
Bundle Operations	2.25	2.27	2.68	2.87	2.80	2.68	2.66	2.57	2.66	18.31%	-7.16%
Plant Allied	4.10	4.42	5.74	6.39	5.83	6.09	6.29	6.50	6.90	68.34%	7.97%
Other Allied	0.18	0.22	0.29	0.40	0.48	0.49	0.50	0.43	0.45	147.06%	13.48%
Total	16.91	18.58	22.89	25.95	24.97	26.42	26.46	25.75	28.05	65.86%	8.09%

- a. Standard Mail Flats Mail Processing costs have increased by 66 percent since FY 2006, across all operational areas. For each of the six listed processing functions, please explain the changes in operations that have led to unit cost increases.
- b. Plant mechanized unit costs have increased 1.58 cents per piece, or 17 percent, since FY 2009. In FY 2009, the unit cost of processing flats on the FSS was not explicitly measured. In FY 2014, the unit cost of the FSS cost pool was 2.75 cents per piece, from Library Reference

USPS-FY14-26 file "FY14-26.shp14prc.xls" tab "Flats(4)" cell F25. The increase in Standard Mail Flats mechanized processing from FY 2009 to FY 2014 was less than the increase in cost associated with the FSS.

- i. Did the cost of processing Standard Flats on mechanized piece equipment other than the FSS, such as the AFSM100, decrease from FY 2009 to FY 2014?
- ii. Has the increase in mechanized cost due to the FSS surpassed the decrease in costs in other operations, or has there been a shift in processing from other piece equipment to the FSS during this time frame?
- iii. In FY 2013, Standard Mail Flats Mail processing decreased 0.7 cents per piece from FY 2012. In FY 2014, unit costs increased by 2.30 cents per piece, with processing costs up 8 percent since FY 2009. Please explain the oscillation in Standard Mail Flats mail processing costs since FY 2009.

Performance Measurement

First-Class Mail

Presort Letters/Postcards

10. Please provide the percentage of First-Class Mail Presort Letters/Postcards meeting Full Service Intelligent Mail requirements.
11. Please refer to page 4 of Library Reference USPS-FY14-29.
 - a. Please explain why the percent on-time performance for First-Class Mail Flats was below the performance target for FY 2014.
 - b. Please discuss whether the Postal Service has a plan to increase the percent on-time performance for First-Class Mail Flats and, if applicable, explain such plan.

Standard Mail

12. Please refer to page 11 of Library Reference USPS-FY14-29.
 - a. Please discuss why limited data were available for measurement of service performance of Standard Mail Parcels.
 - b. Please discuss whether the Postal Service has a plan to increase the percentage of Standard Mail Parcels measured for service performance and, if applicable, explain such plan.
13. Please explain why the percentage of mailpieces that fell into mixed product categories has decreased. See Library Reference USPS-FY14-29 at 12.

Periodicals

14. Please refer to page 15 of Library Reference USPS-FY14-29.
 - a. Please explain why the percent on-time performance for Periodicals was below the performance target for FY 2014.
 - b. Please discuss whether the Postal Service has a plan to increase the percent on-time performance for Periodicals and, if applicable, explain such plan.

Package Services

15. Please refer to page 21 of Library Reference USPS-FY14-29.
 - a. Please discuss why limited data were available for measurement of service performance of Bound Printed Matter (BPM) Parcels in FY 2014.
 - b. Please discuss whether the Postal Service has a plan to increase the percentage of BPM Parcels measured for service performance and, if applicable, explain such plan.

Package Services

16. The Postal Service provides avoided dropship costs for BPM Flats and BPM Parcels in Library Reference USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," tabs "Bound Printed Matter Flats" and "Bound Printed Matter Parcels." The avoided costs from that file are shown below and appear to be partially based on FY 2013 data. In the attached Workbook No. 2, the Commission calculated avoided costs using the data provided in Library Reference USPS-FY14-15, Excel file "USPS-FY14-15.BPM.xlsx," tab "Summary," cells "C5, C6, C7." The updated data in the file are color coded. The chart below shows the avoided costs calculated by the Postal Service and the Commission.

Dropship (dollars/piece)	Postal Service Avoided Cost	Commission Avoided Cost
BPM Flats, Basic, Carrier Route DSCF	0.607	0.583
BPM Flats, Basic, Carrier Route DDU	0.776	0.751
BPM Parcels, Basic, Carrier Route DSCF	0.607	0.583
BPM Parcels, Basic, Carrier Route DDU	0.776	0.751

- a. Please confirm the Commission calculations of avoided cost are correct. If not confirmed, please provide an explanation for the Postal Service avoided cost calculations.
- b. If part a. is confirmed, please file a revised USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," with updated avoided costs rounded to 3 digits and updated passthroughs for BPM Flats and BPM Parcels.

Standard Mail

17. USPS-FY14-3 does not include data on the Destination Flat Sequence System workshare discounts for Standard Mail Flats, Carrier Route Flats, and High Density and Saturation Flats.

- a. For these categories, please provide the FY 2014 discount, avoided costs and passthroughs.
- b. If the passthroughs are above 100 percent, please provide an explanation for why this discount exceeds avoided costs and provide a statutory justification pursuant to 39 U.S.C. § 3622(e).

Discover NSA

18. Please refer to page 38 of the FY 2014 ACR, where it states “As shown in USPS-FY14-30, the net benefit of the Discover NSA for the contract year of April 2013 to March 2014 is estimated to be between \$18.2 million and \$23.1 million It is clear, then, that the Discover NSA improved the net financial position of the Postal Service.”
 - a. Please confirm that Library Reference USPS-FY14-30 file “FY14.30.ACR_NSA.xls” tab “5_PRC Methodology” cell F34 shows that the total net value to the Postal Service of contract year 3 of the Discover NSA was negative \$14,151,180 using the approved methodology. If not confirmed please explain.
 - b. If confirmed, please correct the FY 2014 ACR to reflect the approved methodology. Please include a revised discussion explaining whether the Discover NSA satisfies section 3622(c)(10)(A) and the Commission’s rules.
19. In the FY 2013 Annual Compliance Determination, the Commission directed the Postal Service to “provide in its FY 2014 ACR, a detailed analysis of the lessons learned from the DFS [Discover Financial Service] NSA.” FY 2013 ACD at 68. The Commission stated “(s)pecifically, the Postal Service shall address: (1) how well the NSA achieved its goal of maintaining DFS’s total contribution from First-Class Mail and Standard Mail; (2) how well the NSA achieved its goal of providing an incentive for growth in net contribution beyond that; (3) the lessons

the Postal Service has learned regarding methods for staunching First-Class Mail volume declines; and (4) what efforts the Postal Service has made to develop a net value method with quantitative inputs.” *Id.* at 68-69. Please provide this analysis.

Mailing Fees

20. In Docket No. ACR2013, in response to CHIR No. 7, question 4, the Postal Service provided a table showing the distribution of the FY 2013 mailing fees for Market Dominant mail categories. Please provide the FY 2014 Market Dominant mail fees distributed to the list of mail categories shown in Excel file CHIR_No.2_Attachment_A.xls, tab worksheet “MD Distribution.” In doing so, please provide all underlying calculations and source workpapers.
21. In Docket No. ACR2013, in response to CHIR No. 7, question 5, the Postal Service provided a table showing the distribution of the FY 2013 mailing fees for Competitive Product mail categories. Please provide the FY 2014 Competitive Product mail fees distributed to the list of mail categories shown in Excel file CHIR_No.2_Attachment_A.xls, tab worksheet “Competitive Distribution.” In doing so, please provide all underlying calculations and source workpapers.

Postal Service Partial Supplemental Response to Order No. 2313

22. On January 15, 2015, the Postal Service filed a Partial Supplemental Response to Order No. 2313. The following table contains Machine Throughput per hour data for the FSS, APBS and Automated Package Processing System (APPS) from pages 5 and 6 of Attachment A. The table also contains productivity data from the file Library Reference USPS-FY14-23.

Machine Throughput				
		2013	2104	Percent Change
FSS		8,985	8,746	-3%
APBS		3,825	4,113	8%
APPS		6,000	5,896	-2%
Productivity				
		2013	2014	Percent Change
FSS		798	766	-4%
APBS		232	219	-6%
APPS		350	319	-9%

- a. Please explain the difference between Machine Throughput, as measured using WebEOR, and productivity as detailed in USPS-LR-23.
- b. Please provide the Machine Throughput for FY 2013 and FY 2013 for the processing equipment listed in Library Reference USPS-FY14-23.
- c. The APBS and APPS equipment are used to process both parcels and bundles of flat mail. Can the Postal Service identify the Machine Throughput of these machines for operations where only bundles of flats are being processed? If so, please provide the Machine Throughput of the APBS and APPS for sorting bundles only.
- d. The APBS and APPS equipment are used to process both parcels and bundles of flat mail. Can the Postal Service identify the Machine Throughput of these machines for operations where only parcels are being processed? If so, please provide the Machine Throughput of the APBS and APPS for sorting parcels only.
- e. What percentage of APBS operation time in FY 2014 was used for sorting parcels exclusively?
- f. What percentage of APBS operation time in FY 2014 was used for sorting flat bundles exclusively?
- g. What percentage of APPS operation time in FY 2014 was used for sorting parcels exclusively?

- h. What percentage of APPS operation time in FY 2014 was used for sorting flat bundles exclusively?
- i. In 2014, the Machine Throughput of the APBS increased by 8 percent, but the productivity of the APBS operation decreased by 6 percent. Please explain why the productivity declined as the throughput increased.
- j. The measured productivity for each piece of flats sorting equipment declined in FY 2014 at rate greater than the change in Machine Throughput. Was this phenomenon ubiquitous for all processing equipment or isolated to equipment used to process flats?

By the Acting Chairman.

Robert G. Taub