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

ANNUAL COMPLIANCE REVIEW, 2014	Docket No. ACR2014

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-2, 5-11 AND 13-14 OF CHAIRMAN'S INFORMATION REQUEST NO. 3

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 3, issued on January 23, 2015. Each question is stated verbatim and followed by the response. The responses to Questions 3-4 and 12 are still being prepared.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please explain why the unit costs for Every Door Direct Mail–Retail (EDDM—R) increased by11.9 percent from FY 2013 to FY 2014. *Compare* the Commission's analysis of the Postal Service's financial results and 10-K Statement for Fiscal Year 2013[1] *with* Library Reference USPS-FY14-1.

RESPONSE:

Attributable unit costs for Every Door Direct Mail – Retail (EDDM-R) increased by five-tenths of a cent to 4.4 cents in FY2014. Delivery costs accounted for two-tenths of the increase. EDDM-R attributable costs were first reported in the Cost and Revenue Analysis (CRA) report in FY 2013. The Carrier Cost Systems (CCS) have had identification issues specific to EDDM-R. Thus, EDDM-R and High Density and Saturation Flats and Parcels in-office tallies and carrier volumes are aggregated and assigned to each product based on respective Revenue Pieces and Weight (RPW) proportions. For more information, please see the preface to USPS-FY14-32 at 2. This costing method, combined with the fact that High Density and Saturation Flats and Parcels volume is over twelve times EDDM-R volume, means that changes in EDDM-R delivery costs are largely explained by changes in delivery costs for High Density and Saturation Flats and Parcels. In addition to delivery costs for EDDM-R, mail processing costs increased by one-tenth of a cent. A methodology change in the attribution and distribution of credit card fees also resulted in a one-tenth of a cent increase (See Docket No. RM2015-4, Proposal Eleven, November 4, 2014).

[1] Financial Analysis, Promoting Financial Transparency, Analysis of United States Postal Service Financial Results and 10-K Statement for Fiscal Year 2013, Revised April 10, 2014, at 53 (FY 2013 Financial Analysis Report).

2. The FY 2014 Cost and Revenue Analysis (CRA) reports a unit cost of 4.4 cents for EDDM—R. Library Reference USPS-FY14-1. By contrast, the CRA reports a unit cost of 6.2 cents for High Density and Saturation Letters. *Id.* Please explain what accounts for the difference in attributable costs between these two products.

RESPONSE:

EDDM-R and High Density and Saturation Letters both fall underneath the broad category of Standard Mail, but they are not prepared, entered, or handled similarly. EDDM-R uses simplified addresses and is entered at the Destination Delivery Unit (DDU), whereas High Density and Saturation Letters *cannot* use simplified addressing nor be entered at the DDU. Thus, the mail processing costs for High Density and Saturation Letters are 2.1 cents, as compared to 0.2 cent for EDDM-R. The 1.9 cent difference in mail processing unit costs largely explains the difference in their total unit costs. Due to the dissimilar nature of these products, however, the unit costs should not be expected to be the same.

5. This question concerns the Postal Service's Load Leveling Plan. In Docket No. N2014-1, the Postal Service acknowledged that it did not conduct a formal cost savings and network impact analysis.[2] It also explained that the Load Leveling Plan was established "primarily for the purpose of authorizing operational changes that will alleviate challenges resulting from a collision between current mail entry patterns and services standards that generate a disproportionate Monday delivery workload." *Id*. at 20. In its Advisory Opinion, the Commission recommended that the Postal Service "undertake a cost-benefit analysis at the nationwide level to develop necessary information before proceeding with a nationwide rollout of the Load Leveling Plan."[3]

a. Has the Postal Service undertaken the recommended cost-benefit analysis?

b. Has the Postal Service quantified the cost savings (or cost increases) associated with the implementation of the Load Leveling Plan?

c. If so, please indicate the cost savings or increases associated with the Load Leveling Plan.

d. Please indicate the products and shapes with which any cost savings or increases are associated.

e. Please identify where the savings or increases associated with Load Leveling are reflected in the FY 2014 ACR cost data.

RESPONSE:

a&b. No. The Postal Service has not developed a methodology for systematically measuring the facility-specific or network operational costs and benefits unique to Load Leveling.

c. N/A.

d. Because Load Leveling affects carrier street delivery operations generally, it is fair to associate those effects with all mail delivered by carriers.

e. Please see the response to parts (a) and (b). If there were capturable savings associated with Load Leveling during fiscal year 2014, those savings would have

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[2] *See* Docket No. N2014-1, Reply Brief of the United States Postal Service, February 27, 2014, at 18.
[3] Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014, at 32.

been reflected in the expenditures for delivery operations, in Cost Segments 7 and 10, although it is not possible to isolate those costs from the aggregate.

6. In Docket No. N2012-1, the Postal Service projected an annual cost reduction of $1.2 billion upon completion of Phase I.[4] The Postal Service has indicated that the actual savings were approximately $0.9 billion per year. *See* Key Facts on Network Rationalization, available at *http://about.usps.com/news/electronic-press-kits/our-future-network/ofn-usps-key-fact-on-network-rationalization.htm.*

a. Please explain why the Postal Service did not realize the full level of savings it projected in Docket No. N2012-1.

b. Please identify the products and shapes in which these savings have been realized and quantify the savings associated with each class and shape.

RESPONSE:

a. This question is difficult to answer due to a factual inaccuracy in its premise. The Postal Service projected that when fully implemented, its network rationalization initiative would generate an annual net cost reduction of $2.1 billion. See Docket No. N2012-1, USPS-T-2, at 11-12. The decision to implement the network rationalization in two distinct phases was made during the Commission's review of the initiative. The evidentiary record for Docket No. N2012-1 makes clear that the Postal Service did not develop cost reduction estimates for each distinctive phase of the initiative. Instead, the record shows that, in exploring the feasibility of phased implementation of a system-wide network consolidation initiative, the Postal Service analyzed a hypothetical set of initial facility consolidations and used a very rough cost estimation methodology (significantly different from that presented in support of its advisory opinion request). This analysis surmised that implementation of this hypothetical set of

[4] Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 64.

consolidations could generate an annual net cost reduction of approximately $1.2 billion. See Docket No. N2012-1, Tr. Vol. 9 at 2716-18.

Furthermore, when the Postal Service ultimately determined to implement its network rationalization initiative in phases, it made no effort to apply this rough estimation methodology to the actual set of facility consolidations designated in May 2012 for implementation in Phase 1. During Docket No. 2012-1, the $1.2 billion figure was never presented as a postal projection of the net cost reduction expected to be realized from the facility consolidations that were ultimately included in Phase I. As indicated by the evidentiary record, postal management established the $1.2 billion figure derived from the hypothetical phasing exercise as a cost savings target for Phase I. See Docket No. N2012-1, Tr. Vol. 9 at 2716-17, 2739, 2756 and 2797. At the conclusion of the case, the Commission observed that "[t]he information provided in this docket does not isolate the expected cost impact of the changes for each phase of network consolidation." Docket No. N2012-1, PRC Advisory Opinion on Mail Processing Network Rationalization Service Changes, at 66.

Accordingly, the Postal Service does not agree with the characterization in the question of the $1.2 billion figure as a Postal Service projection of "the full level of [annual] savings" for Phase I. The Postal Service is therefore in no position to explain why Phase I did not achieve that level of savings.

b. A broad spectrum of mail products of every shape flow through postal facilities and transportation affected by network consolidation. The Postal

Service has not developed a methodology for quantifying any network rationalizations savings or costs on the basis of specific products or mailpiece shapes.

7. The following request concerns the number of pieces for Total Competitive Products reported in the FY 2014 International Cost and Revenue Analysis (ICRA). Refer to USPS-FY14-NP2, Excel files "Reports (Booked).xls" and "Reports.xls," and the worksheets A Pages (c). In the column headed "Pieces" in Table A-2 of each file, please confirm that the number of pieces for "Total Competitive Products" should exclude special services transactions. If not confirmed, please explain.

RESPONSE:

Confirmed.

8. The following request concerns financial results for Inbound Direct Entry Contracts with Foreign Postal Administrations. Both the booked and imputed versions of the FY 2013 ICRA presented financial results for products under the heading "Inbound Direct Entry Contracts with Foreign Postal Administrations." Refer to USPS-FY13-NP2, Excel files "Reports (Booked).xls" and "Reports.xls," and the worksheets A Pages (c), Table A-2, in each file. By contrast, the FY 2014 ICRA does not present financial results for such products. Please discuss the status of contracts, and explain the absence of financial results, for products within Inbound Direct Entry Contracts with Foreign Postal Administrations in the FY 2014 ICRA.

RESPONSE:

Please see the response filed under seal as part of USPS-FY14-NP33.

9. The following requests concern product-specific costs reported in the booked version of the FY 2014 ICRA.

a. For the Priority Mail International product, FY 2014 product-specific costs decreased nearly 23 percent from FY 2013. Please explain the causes of the decrease.

b. For the Outbound International Expedited Services product, FY 2014 product-specific costs decreased nearly 79 percent from FY 2013. Please explain the causes of the decrease.

c. For products reported under the heading "Global Reseller Expedited Package Contracts," FY 2014 product-specific costs increased more than 2,777 percent from FY 2013. Please explain the causes of the increase.

d. For products reported under the heading "Global Expedited Package Services (GEPS)—Non-Published Rates," FY 2014 product-specific costs increased more than 101 percent from FY 2013. Please explain the causes of the increase.

RESPONSE:

Please see the response filed under seal as part of USPS-FY14-NP33.

10. The following request concerns the financial results for Inbound Market Dominant Exprès Service Agreement 1 and the Market Test of Experimental Product—International Merchandise Return Service—Non-Published Rates (IMRS—NPR). Under the heading "Inbound Market Dominant Exprès Service Agreement 1," the Postal Service reports financial results for IMRS—NPR (Docket No. MT2013-2). Refer to USPS-FY14-NP2, Excel files "NSA Summary (Booked).xls" and "NSA Summary (Imputed).xls," and the worksheets Summary, in each file. Please explain why the financial results for IMRS—NPR are reported under Inbound Market Dominant Exprès Service Agreement 1 and where such results are reported in the booked and imputed versions of the FY 2014 ICRA.

RESPONSE:

The financial results for IMRS—NPR were inadvertently reported under Inbound Market Dominant Exprès Service Agreement 1. Revisions will be filed reflecting the corrected NSA Summary (Imputed) and NSA Summary (Booked) files.

11. This request concerns a difference in the reported financial results for the International Business Reply Service (IBRS) Competitive Contracts 3 product. For FY 2014, the USPS reports financial results for the IBRS Competitive Contracts 3 product by contract. Refer to USPS-FY14-NP2, Excel files "NSA Summary (Booked).xls" and "NSA Summary (Imputed).xls," and the worksheets Summary, in each file. The sum of the financial results by contract is greater than the total financial results for IBRS Competitive Contracts reported in both the booked and imputed versions of the FY 2014 ICRA. Please explain and reconcile the IBRS financial results by contract with the IBRS financial results reported in the booked and imputed versions of the FY 2014 ICRA.

RESPONSE:

The amount for CP2013-36 should not be included in the total shown on the <IBRS> tabs of NSA Summary (Imputed).xls and NSA Summary (Booked).xls. Revisions will be filed reflecting the corrected NSA Summary (Imputed) and NSA Summary (Booked) files.

13. This request concerns a difference in the reported financial results for the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 (Competitive Multi-Service Agreements) product. For FY 2014, the Postal Service reports financial results for the Competitive Multi-Service Agreements product by agreement. Refer to USPS-FY14-NP2, Excel files "NSA Summary (Booked).xls" and "NSA Summary (Imputed).xls," and the worksheets Summary, in each file. The sum of the financial results by agreement is less than the total financial results for the Competitive Multi-Service Agreements product reported in both the booked and imputed versions of the FY 2014 ICRA. Please explain and reconcile the Competitive Multi-Service Agreements financial results by agreement with the Competitive Multi-Service Agreements product financial results reported in the booked and imputed versions of the FY 2014 ICRA.

RESPONSE:

The financial results for the Competitive Multi-Service Agreements product reported in both the booked and imputed versions of the FY 2014 ICRA files incorrectly included the Inbound Surface Parcel Post amounts for CP2012-60 and CP2014-35 in the Inbound Competitive Multi-Service Agreements product. The amounts reported in the NSA Summary (Booked).xls and NSA Summary (Imputed).xls files correctly excluded the Inbound Surface Parcel Post amounts for CP2012-60 and CP2014-35 from the Inbound Competitive Multi-Service Agreements product. Revisions will be filed reflecting the corrected Reports (Booked).xls and Reports.xls files.

14. The following requests concern the financial results for three agreements within the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product. The three agreements are Royal PostNL (Netherlands) in Docket No. CP2013-24 and the Hongkong Post agreements that were the subject of Docket Nos. CP2013-22 and CP2014-21. Under both the booked and imputed versions of the FY 2014 ICRA, costs exceeded revenues for each of these agreements. Refer to USPS-FY14-NP2, the Excel files "NSA Summary (Booked).xls" and "NSA Summary (Imputed).xls", worksheet tabs Summary.

a. For the Royal PostNL (Netherlands) agreement (Docket No. CP2013-24), please explain why costs exceeded revenue during FY 2014.

b. For the Hongkong Post agreements (Docket Nos. CP2013-22 and CP2014-21), please explain why costs exceeded revenue during FY 2014.

c. Please provide an analysis of the contract period volumes, negotiated rates, and costs for the Docket No. CP2013-22 agreement, as amended. If costs exceeded revenue during the contract period, please explain.

RESPONSE:

Please see the response filed under seal as part of USPS-FY14-NP33.