

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 1-4, 8-9 AND 13-17 OF CHAIRMAN'S INFORMATION REQUEST NO. 4

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 4, issued on January 29, 2015. Each question is stated verbatim and followed by the response. The responses to Questions 5-7 and 10-12 are still being prepared.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. For the discount between 3-Digit Automation Flats and 5-Digit Automation Flats, the Postal Service identifies the exception claimed under 39 U.S.C. 3622(e)(2)(B) as justification for the passthrough exceeding 100 percent.
 - a. Please explain how this exception applies to this discount. Provide qualitative description and/or quantitative analysis (*e.g.*, economic damage or disruption to business plans) to support use of this exception.
 - b. Please provide a schedule for phasing out the amount of the discount above costs avoided.

RESPONSE:

- a. Reducing this discount to the level of avoided cost (15.2 cents) would lead to a disproportionately high increase of 14.1 percent for First-Class Mail 5-Digit Automation Flats. As can be seen in the Postal Service's filing in Docket No. R2015-4, this 14.1 percent increase would be much larger than the overall increase for First-Class Mail (under 2 percent). Also, this increase would be larger than the increases for less presorted Automation Flats, such as the increase for Mixed ADC. Increasing the prices for Mixed ADC and ADC Automation Flats by a higher percentage is also not an option because all of the presort levels are linked. The Postal Service does not believe that giving much larger increases to more presorted mail provides the right signal to the mailing community.
- b. Bringing this passthrough down to 100 percent depends on a number of factors, such as availability of CPI cap, cost coverage for First-Class Mail Automation Flats, and future estimates of cost avoidance between 3-Digit and 5-Digit Automation. As the following table illustrates, this particular cost avoidance estimate has fluctuated quite bit in the past, ranging from 11.9 cents to 18.8 cents, with fluctuations in both directions.

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Year	Discount	Cost Avoidance	Passthrough
ACR 2007	10.1	11.9	85.0%
ACR 2008	11.5	16.2	70.9%
ACR 2009	16.2	16.9	96.1%
ACR 2010	16.2	17.4	93.1%
ACR 2011	17.4	18.8	92.6%
ACR 2012	18.8	14.3	131.5%
ACR 2013	18.8	14.1	133.3%
ACR 2014	18.3	15.2	120.4%

If the available CPI remains around 2 percent, and the cost avoidance estimate is not reduced drastically, the Postal Service anticipates that at least 4 pricing cycles will be needed to equalize the discount to the estimated cost avoidance.

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2. In Library Reference USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," tab "Bound Printed Matter Flats," the Postal Service does not provide workshare discount information for "Drop Ship (dollars / piece), Basic DFSS Flats, Basic Origin Flats." Please file a revised Library Reference USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," with discount, avoided cost, and passthrough information for "Drop Ship (dollars / piece), Basic DFSS Flats, Basic Origin Flats."

RESPONSE:

The discount, avoided cost, and passthrough information are highlighted in

"ChIR4.Q2.FY14 BPM Flats Discount Table.xlsx", filed as part of USPS-FY14-46.

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3. Please refer to the Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015 (Supplemental Response). On page 4 of the Supplemental Response, the Postal Service states that it "continues using an 'FSS scorecard,' which measures critical aspects of FSS performance at each processing location...to develop a list of specific sites with the greatest opportunity for improvement."
- a. Please provide the FSS scorecards for FY 2014 and FY 2013.
 - b. Please explain how the DPS percentage is calculated for the FSS operation.
 - c. Please explain what "Mail Pieces AT-Risk" measures.
 - d. Please explain how the "Mail Pieces AT-Risk" percentage is calculated.
 - e. In FY 2014 the productivity of the FSS operation decreased. Please describe in detail all reasons for this productivity decline.

RESPONSE:

- a. The FY13 and FY14 excel files included with USPS-FY14-46 include the Daily report, which also has tabs for weekly, QTD and YTD. This is based on a six week rolling period.
- b.
$$\text{FSS sequenced pieces} + \text{Auto Flats} + \text{Unit Recorded} = \text{Total Denominator}$$
$$\text{FSS sequenced pieces} / \text{Total Denominator} = \text{FSS DPS percentage}$$
- c.-d. Please see the PDF File: Maintenance Management Order (MMO) 034-2012 FSS included as part of USPS-FY14-46.
- e. Workloads declined around 2.5 percent in both 530 (SAMP) and 538 (the main machine). Overall FSS system work hours were up 1.1 percent.

The declines in the workload resulted in an increase of the ratio of support time (setup and tear down) relative to the operational time. This resulted

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in decreases to the efficiency of the operation. In addition, a high turnover rate was experienced in the operations for both the Supervisors and employees, resulting in a lack of understanding of the approved methods and metrics needed to drive the performance during the declines.

To address these deficiencies, the Postal Service provided on-site training at 5 select FSS locations during August and September 2014. A minimum of two Supervisors from every FSS site nationally attended these training sessions. The sessions provided the supervisors with information regarding accepted methods and metrics used in the FSS operation to use and train others in their home sites.

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4. On page 5 of the Supplemental Response identified in Question No. 3, the Postal Service states that “the percentage of flats processed manually increased to 9.8 percent in FY 2014.”
- a. Please confirm that the percentage of manually processed flats increased from 8.5 percent in FY 2012 to 9.4 percent in FY 2013 to 9.8 percent in FY 2014.
 - b. Please identify the data sources used to calculate the percentage of manually processed flats in FY 2014 that are reported in the Supplemental Response.
 - c. Please provide the data used to calculate the percentage of flats processed manually in FY 2014.
 - d. Has the methodology for calculating the percentage of manually processed flats changed since FY 2012? If so, please explain any changes that have been made; state when those changes were made; and provide the reason(s) for each such change.

RESPONSE:

- a. Confirmed.
- b. The data source is WebMODS for all Flat shaped operations.
- c. Please see table below.

FY	FSS	AFSM	UFSM	Manual	% Man
2012	4,469,879,390	17,776,464,670	443,954,260	2,121,387,810	8.5%
2013	4,302,961,530	16,661,964,790	331,711,190	2,199,919,484	9.4%
2014	4,189,230,700	15,791,185,680	223,913,400	2,194,532,209	9.8%

- d. During the period of time in question, there has not been a change to the methodology used to calculate the percentage of manually processed flats.

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8. On pages 10 and 11 of the Supplemental Response identified in Question No. 3, the Postal Service discusses FSS Scheme bundles and pallets. Regarding FSS Scheme bundles, the Postal Service states that it "experienced a reduction of over 14 million bundles over the same period last year."
- a. Please identify the source data used to estimate the 14 million bundle reduction in quarters 3 and 4 of FY 2014, and provide the workbooks used for this calculation.
 - i. Does the Postal Service attribute the reduction of 14 million bundles in FY 2014 quarters 3 and 4 to the implementation of FSS scheme bundle preparation requirements?
 - ii. Of the 14 million bundle reduction, how many would have been destined for FSS zones?
 - iii. Please provide the total number of bundles in FY 2013 and FY 2014.
 - iv. Please provide the number of pieces per bundle in FY 2013 and FY 2014.
 - b. Please quantify the cost impact of the 14 million bundle reduction.

RESPONSE:

- a. i.-iv. On pages 10 and 11 of Supplemental Information in Response to Order No. 2313, January 15, 2015 (Supplemental Response), the 14 million bundle reduction in quarters 3 & 4 refers to the increase in the number of Standard Mail and Periodicals bundles prepared on FSS Scheme pallets as measured by the Mail Characteristics Study (MCS). Bundles prepared on FSS Scheme pallets can be taken directly to the FSS operation without incurring additional bundle handling. As such, the increase in the number of bundle prepared on FSS Scheme pallets is one possible measure of the reduction in bundle sorting workload due to the FSS preparation requirement. The reduction in bundles handled between

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quarters 3 and 4 of FY13 and quarters 3 and 4 of FY14 was greater. In FY13, 506 million Periodicals Outside County and Standard Mail Flats and Carrier Route bundles were prepared. In FY14, 436 million Periodicals Outside County and Standard Mail Flats and Carrier Route bundles were prepared. The 70 million reduction cannot be attributed specifically to required FSS preparation, as numerous covariates also affected the number of prepared bundles. These include the general decline in volume, expansion of co-mailing, and fluctuations in customer mailing behavior. The MCS estimates of Standard Mail Flats & Carrier Route and Periodicals Outside County bundles and average bundle size by container level and quarter can be found in the Excel file provided as part of USPS-FY14-46.

- b. While it is not possible to measure the precise reduction in cost due to 14 million additional bundles being presented on FSS Scheme pallets, if it is assumed that, in the absence of FSS Scheme pallet preparation, these bundles would have incurred a sort on the APPS at a cost of 25.66 cents per bundle (See "USPS-FY14-11 PER_OC_flats.xls," tab "BUNDLE OPERATION COSTS" cell X45) the reduction in bundles sorting costs would have been \$3.6 million ($25.66 * 14,000,000$).

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9. On pages 11 and 12 of the Supplemental Response identified in Question No. 3, the Postal Service discusses bundle breakage.
- a. Please describe the data and methodology used to estimate bundle breakage.
 - b. In FY 2008, the Postal Service performed a facility study to estimate bundle breakage. The results of that study are used in the Periodicals mail processing cost model. See "USPS-FY14-11 PER_OC_flats.xls," tab "BUNDLE DATA." That study resulted in an estimate that 0.61 percent of bundles entered on pallets break upon induction. Can the Postal Service gather IMb data from the APPS and APBS machines to determine whether this estimate is still valid? If so, please provide the workpapers the Postal Service has developed using IMb data to quantify bundle breakage.
 - c. On page 12 of the Supplemental Response, the Postal Service states that there is a Lean Six Sigma initiative aimed at reducing the breakage rate. Has the Postal Service quantified the current cost of bundle breakage as part of this initiative? If so, please provide that estimate and the workpapers used to develop the estimate.
 - d. On page 12 of the Supplemental Response, the Postal Service states that there is a Lean Six Sigma initiative aimed at reducing the breakage rate. Has the Postal Service developed a target for reduction in the cost of bundle breakage as part of this initiative? If so, please provide that target.

RESPONSE:

- a. Methodologies for determining bundle breakage are being evaluated by a Lean Six Sigma project team.
- b. A study of IMb data from the APPS and APBS cannot be directly compared to the estimates of bundle breakage rates used in USPS-FY14-11. The study relied upon in USPS-FY14-11 sampled bundles from the universe of mailed bundles. An analysis of IMb scans on the APPS and APBS would only be applicable to a subset of this universe, that is, the proportion of mail entered with Full Service IMb documentation.

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- c. The Lean Six Sigma philosophy is such that the team reviews multiple potential data sources and methodologies for measuring bundle breakage, and has also conducted their own observations to determine the extent of breakage. The project is still in the early phases and it would be premature to provide their estimates of the extent of the issue at this point.

- d. Postal Service leadership has not developed a target for reduction in the cost of bundle breakage. However, as part of the Lean Six Sigma project the teams routinely use an informal target of a 50 percent reduction until sufficient data has been gathered or reviewed, root causes are identified, potential solutions evaluated, a solution tested, and the results validated. At that point a formal national target can be developed.

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- 13.** Please provide the FY 2014 daily MODS volumes and workhours by plant, operation and tour. For each record, please include the following information: Finance number–(plant finance number, 6 digits), Date–(YYYYMMDD format), MODS tour–(1, 2, or 3), Operation–(3-digit MODS operation), FHP–(MODS First-Handling Pieces), TPH–(MODS Total Pieces Handled), TPF–(MODS Total Pieces Fed), Nonaddtph–MODS Non-Add TPH, Hours–MODS workhours, and Facility type, e.g., MODS, NDC, REC, ISC, etc.

RESPONSE:

The requested MODS dataset has been provide under seal as part of USPS-FY14-NP34.

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14. The following questions and requests concern Library Reference USPS-FY14-37, specifically program "ALB103" and the data file "SPLTPARM.dat". One of the purposes of the program ALB103 is to "split costs related to pieces with 'FSS' markings." Library Reference USPS-FY14-37 at 12 (preface).

a. Page 16 of program "ALB103" contains the following SAS Code:

```
data SpltFSS;
set spltparm;
if Attribut3='FSS';
drop Value1 Value2 Value3;
length Action $12.;
TotVal=Value1+Value2+Value3;
Pct=Value1/TotVal;
Action='NoChange';    *Standard Regular;
output;
Pct=Value2/TotVal;
Action='ChangeTo2312'; *ECR Basic;
output;
Pct=Value3/TotVal;
Action='ChangeTo2317'; *ECR High Density;
output;
format TotVal comma12.0;
format Pct percent8.1;
run;
proc print data=SpltFSS;
title SpltFSS summary;
```

i. Please confirm that the observation "FSS" in USPS-FY14-37 data file "SPLTPARM.dat" is used as a distribution key for IOCS tallies for mailpieces with FSS markings. If not confirmed, please explain.

ii. Please provide the source data for the file "SPLTPARM.dat".

b. Page 17 of program "ALB103" contains the following SAS code:

```
if f251='2340' & q23j05='Y' then
output FSS;
```

i. Please confirm that "f251" is the variable for "Encircled" Activity codes. If not confirmed, please explain.

ii. Please confirm that "q23j05" is the variable for identifying mailpieces with "FSS" markings. If not confirmed, please explain.

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- iii. Please confirm that the code "2340" is used to identify Standard Mail Regular Flats. If not confirmed, please explain.
 - iv. Please confirm that the purpose of this SAS code is to isolate IOCS tallies for Standard Mail Regular Flats with "FSS" markings and then redistribute the costs between Standard Mail Flats, Carrier Route, and Saturation/High Density Flats and Parcels. If not confirmed, please explain.
 - v. Please confirm that, in the program "ALB103," there is no SAS code for identifying the following categories with "FSS" markings: Standard Mail Letters (code 1340), First Class Flats (code 2060), Postal Service Mail Flats (code 2510), Standard Parcels (code 3340), Mixed Mail Flat Size (code 5620), or Mixed Mail all Shapes (code 5750). If not confirmed, please explain.
 - vi. Please confirm that IOCS tallies were recorded in FY 2014 for the following categories with "FSS" markings: Standard Mail Letters (code 1340), First Class Flats (code 2060), Postal Service Mail Flats (code 2510), Standard Parcels (code 3340), Mixed Mail Flat Size (code 5620), and Mixed Mail all Shapes (code 5750). If confirmed, please explain why the program does not include these tallies for redistribution and quantify the number of tallies and IOCS dollar weights for these types of mail. If not confirmed, please explain and provide a list of all mail codes for which tallies with "FSS" markings were recorded.
- c. Library Reference USPS-FY14-37, program "ALB103" is used to "split costs related to pieces with "FSS" markings."
- i. Please provide the total number of IOCS tallies for mail with "FSS" markings, disaggregated by mail type code for the following: mail processing operations tallies, in office carrier operations tallies, and other operations tallies.
 - ii. Please provide the dollar weights of IOCS tallies for mail with "FSS" markings, disaggregated by mail type code for the following: mail processing operations tallies, in office carrier operations tallies, and other operations tallies.

RESPONSE:

- a. i). Confirmed.
- ii). The SPLTPARM.dat file contains volumes by rate category for pieces in Standard Mail FSS bundles, used to split the costs for Standard flat tallies with FSS markings. The source data are PostalOne eVS Mail.dat files. Because the

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eVS Mail.dat data comprise several terabytes of data in tens of thousands of files per quarter for Standard Mail flats alone, it that were considered the “source data,” it would not be practical to attempt to provide them.

b. i)-vi). Confirmed. Note that of the 644 unique tallies with an FSS marking recorded, only 21 (4 percent of the dollar-weighted tallies), were assigned to the categories listed. The primary reason these tallies were excluded from the redistribution is that the redistribution is only necessary to ensure that tally weights for FSS bundles of flat-shape Standard Mail are not excessively assigned to the Standard Flats product. With respect to the tallies from the categories cited:

- First-Class Flats (2060). The one tally observed was a Standard Mail piece that was forwarded, for which First-Class Single Piece Flats is the correct product assignment irrespective of the FSS marking;
- U.S. Postal Service Mail Flats (2510): These six tallies were paid using a G-10 permit, which determines the product (which is not affected by the presence of an FSS marking);
- Mixed Mail Flat Size (5620) and Mixed Mail All Shapes: These five tallies either had inconsistencies in the recorded data, (for example their weight exceeded the maximum weight for Standard mail), or they were selected from a large container during a carrier reading. IOCS procedures intentionally assign such tallies to mixed mail codes when the product-identifying information may be ambiguous;
- Standard Mail Letters (1340) and Standard Parcels (3340). These nine tallies have shapes that are inconsistent with the FSS marking.

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c. The following table details the number and dollar-weights of IOCS tallies that have FSS markings, prior to redistribution.

IOCS tallies with FSS marking, FY2014				
Operation	IOCS Activity Code	Description	Number of tallies	Dollar-weights (000)
Mail Processing				
	1340	Standard Mail Letters	4	481
	2060	First Class Flats	1	92
	2312	Standard Mail Carrier Route	4	396
	2340	Standard Mail Flats	430	45,559
	2510	Postal Service Mail Flats	6	916
	3340	Standard Mail Parcels	2	196
	5620	Mixed Mail Flats	3	544
	5750	Mixed Mail All Shapes	1	90
Carrier In-Office				
	1340	Standard Mail Letters	3	285
	2312	Standard Mail Carrier Route	12	1,217
	2317	Standard Mail HD/Sat Flats/Parcels	3	287
	2340	Standard Mail Flats	172	15,385
	5750	Mixed Mail All Shapes	1	106
Other Operations				
	2340	Standard Mail Flats	2	258
Total			644	65,813

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15. The following request concerns the Global Expedited Package Services—Non-Published Rates (GEPS—NPR) product. Refer to Library Reference USPS-FY14-NP2, Excel files NSA Summary (Booked).xls and NSA Summary (Imputed).xls, and the worksheet tabs Merged ICM Data in each file.
- a. GEPS—NPR contract, Serial No. NPR2-FY13-OCT12-N-T5-0109, is included in the GEPS—NPR 3 product. Please confirm that this contract is part of the GEPS—NPR 3 product. If not confirmed, please explain.
 - b. GEPS—NPR contract, Serial No. NPR4.2-FY14-JAN14-N-T7-0002, is included in the GEPS—NPR 4 product. Please confirm that this contract is part of the GEPS—NPR 4 product. If not confirmed, please explain.
 - c. For Docket No. CP2014-18, the GEPS—NPR 4.2 contract named Cont250 is not identified with a serial number. Please provide the serial number for Cont250 or explain why Cont250 has no serial number.

RESPONSE:

- a. Confirmed. There was a typo in the NPR section. The correct serial number is NPR3-FY12-OCT12-N-T5-0109. As such, the contract is properly included as part of the GEPS-NPR3 product. The correction is reflected in USPS-FY14-NP2 (Revised 2/5/15).
- b. Confirmed. The correction is reflected in USPS-FY14-NP2 (Revised 2/5/15).
- c. Docket No. CP2014-18 is a GEPS 3 contract that was incorrectly identified as GEPS-NPR 4.2. The correction is reflected in USPS-FY14-NP2 (Revised 2/5/15).

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16. This request concerns the number of Outbound International Negotiated Service Agreements (NSAs) in FY 2014. Please confirm that Table 1, below, lists the correct number of NSAs for the corresponding Outbound International product (e.g., GEPS 3, Global Plus 1c). If not confirmed, please provide the correct number(s).

Table 1
Number of NSAs by Outbound International Product

Global Expedited Package Services (GEPS) Contracts 3		
GEPS 3	16	
Global Plus Contracts		
Global Plus 1C	6	
Global Plus 2C	1	
Subtotal	7	
Global Reseller Expedited Package Contracts		
Global Reseller Expedited Package Services 1	5	
Global Reseller Expedited Package Services 2	3	
Global Reseller Expedited Package Services 4	2	
Subtotal	10	
Global Expedited Package Services—Non-Published Rates		
Global Expedited Package Services—Non-Published Rates 3	24	
Global Expedited Package Services—Non-Published Rates 4	205	
Subtotal	229	
TOTAL		262

RESPONSE:

Not confirmed. The table below shows the correct amounts, and further information is provided under seal attached to the Preface of USPS-FY14-NP34:

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Table 1
Number of NSAs by Outbound International Product

Global Expedited Package Services (GEPS) Contracts 3		
GEPS 3		17
Global Plus Contracts		
Global Plus 1C		6
Global Plus 2C		<u>2</u>
Subtotal		8
Global Reseller Expedited Package Contracts		
Global Reseller Expedited Package Services 1		5
Global Reseller Expedited Package Services 2		3
Global Reseller Expedited Package Services 4		<u>1</u>
Subtotal		9
Global Expedited Package Services—Non-Published Rates		
Global Expedited Package Services—Non-Published Rates 3		24
Global Expedited Package Services—Non-Published Rates 4		<u>202</u>
Subtotal		226
TOTAL		260

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17. This request concerns the final Calendar Year (CY) 2013 and CY 2014 preliminary year-to-date monthly (January-November) quality of service measurement results for the link to terminal dues for Inbound Letter Post. Refer to Responses of the United States Postal Service to Questions 1-2, 3a-b, 3d, 4, 6, 7a-e, 8-9, and 11-21 of Chairman's Information Request No. 1, January 16, 2015, question 1(a)-(b). The preliminary service performance scores for January through November 2014 show, with exception of one month, a decrease in the monthly on-time performance scores compared to the same monthly scores reported in CY 2013. Also, none of the available monthly scores for CY 2014 meet or exceed the Universal Postal Union (UPU) quality of service target.
- a. Please explain the causes of the overall decrease in the CY 2014 preliminary year-to-date on-time service performance percentages compared with the CY 2013 annual performance for Inbound Letter Post items presented in the "FINAL 2013 UPU Quality Link to Terminal Dues" report.
 - b. Please explain why the CY 2013 final on-time service performance scores for Inbound Letter Post, which includes the first quarter (October-December 2013) of FY 2014, did not exceed the UPU quality of service target in CY 2013. Also, please provide the additional revenue the Postal Service would have received if its on-time service performance scores equaled or exceeded the UPU quality of service target by quarter (if possible) for CY 2013.

RESPONSE:

Please see the response filed under seal as part of the Preface of USPS-FY14-NP34.