

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 5-7 AND 10-12 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 other questions were filed on February 6, 2015.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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5. On page 6 of the Supplemental Response identified in Question No. 3, the Postal Service provides a table with the APPS and APBS throughputs for FY 2013 and FY 2014. That table reports FY 2013 throughput of the APPS machine as 6,000 pieces per hour. In the Response of the United States Postal Service to Questions 1-11 Chairman's Information Request No. 2, in Docket No. ACR2013 at 4, the Postal Service states that the FY 2013 throughput of the APPS machine was 5,223 pieces per hour. Please reconcile this difference. Additionally, please provide the data used to develop the table on page 6 of the Supplemental Response and identify the source(s) of these data.

RESPONSE:

The data filed in the FY 2013 ACR last year reflected only a subset of the operations run on the APPS machine. The data provided this year in the Supplemental Response reflected the throughput numbers for all APPS processing in FY 2013 and FY 2014.

The data used to develop these numbers are shown below, and the source of the data is the WebEOR system.

FY	Pieces Fed	Operational Hours	Throughput
2013	2,329,376,342	388,199	6,000
2014	2,296,121,925	389,405	5,896

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6. On page 6 of the Supplemental Response identified in Question No. 3, the Postal Service discusses the Service Performance Diagnostic Tool.
- a. Please list the data inputs for the Service Performance Diagnostics tool and explain how these inputs were used to develop this tool.
 - b. The “Median 5 day WIP Standard Mail Flats” metric decreased from 50.5 to 49 hours from FY 2013 to FY 2014. Does this decrease indicate that Standard Mail Flats spent less time in Postal Service mail processing facilities before being processed and transported to DDU's in FY 2014? If not, please explain the meaning of the decline.
 - c. Please provide the Service Performance Diagnostic Tool weekly results for Periodicals and Standard Mail Flats for FY 2014.

RESPONSE:

- a. Service Performance Diagnostics use data inputs from the following sources:
- Seamless Acceptance Service Performance (SASP) provides electronic documentation from mailers providing a record of mail entry.
 - Surface Visibility (SV) provides scan events for containers in Processing Plants
 - Service Standards Directory provides Service Standards for performance measurement calculations.
 - Mail Processing Automation Scans provide scan events for Full Service trays and containers.
 - PostalOne! provides mailer identification and mailer manifest detail information.
 - Facility and Shipment Tracking (FAST) provides mailer drop-ship appointment schedule times.
 - Facility Database (FDB) provides USPS facility information.
 - Address Management Systems (AMS) provides base reference data for operations and delivery
 - Intelligent Mail Device (IMDAS) provides scan events
 - Mobil Delivery Device (MDD) provides scan events
 - MODS operation data provides operation ID reference data
- These inputs were used to develop the tool by identifying Full Service mail, determining Postal Service induction method, identifying mail process flows and

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relative cycle times, and enabling aggregation of data in alignment with the Postal Service organization to diagnose systemic service issues.

- b. It means the cycle time from Postal Service possession to first automation scan declined.
- c. Please see the attached file ChIR4.Q6c.FY14_Weekly_Median.xls.

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7. The following questions and requests concern the Postal Service's Lean Mail Processing Initiative (LMP) discussed on page 9 of the Supplemental Response identified in Question No. 3.

- a. How many facilities implemented phase 1 of LMP in FY 2014?
- b. How many facilities implemented phase 2 of LMP in FY 2014?
- c. Using LMP, the Postal Service undertook "[o]perational and data reviews to reduce late transportation departing the processing facility." Supplemental Response at 9. Please quantify the reduction in late transportation in FY 2014 and FY 2013.
- d. Using LMP, the Postal Service sought a reduction of "letters processed on flat sorting equipment." Supplemental Response at 9. Please quantify the reduction in letters processed on flat sorting equipment in FY 2014.
- e. Please provide any analysis the Postal Service has performed regarding the cost impact of deploying LMP in mail processing facilities. If no such analysis has been performed, please explain why not.

RESPONSE:

- a. 261 facilities
- b. 206 facilities
- c.

TIMES Subject Area	2013			2014		
	# Trip Activities	# Late Trip Activities	% Total Late Trips	# Trip Activities	# Late Trip Activities	% Total Late Trips
CAPITAL METRO	2,570,286	828,843	32%	2,579,634	867,803	34%
EASTERN	4,236,481	1,123,784	27%	3,889,926	990,302	25%
GREAT LAKES	3,091,045	821,646	27%	3,152,665	863,202	27%
NORTHEAST	3,773,316	968,449	26%	3,743,737	955,786	26%
PACIFIC	2,690,895	630,883	23%	2,737,550	633,829	23%
SOUTHERN	4,705,874	1,248,485	27%	4,750,064	1,264,480	27%
WESTERN	4,389,633	875,682	20%	4,338,097	826,567	19%
Total	25,457,530	6,497,772	26%	25,191,673	6,401,969	25%

d. In FY14, 3.91 percent (749,551,083) of full-service Standard Mail letters were processed on flats automation compared to 4.83 percent (649,756,185) in FY13. Because the full-service Standard Mail volume increased in FY14, the pieces processed on flats automation increased, but the percentage decreased. If the

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letters diverted to flats would have remained at 4.83 percent in FY14, an additional 176,912,869 letters would have been processed on flats automation. Note that although the project was communicated at a high level earlier in the year, the LMP application package was not released to the field until June 2014. Only full-service Standard Mail letters in service measurement are included in the tracking of this project; additional savings may exist for full-service Standard Mail not in measurement, non-full service Standard Mail, First Class Mail, and Periodical letters.

	FS STD Ltrs Processed as Flts	Total FS STD Ltrs	% Diverted to Flts
FY 2013-actual	649,756,185	13,447,887,913	4.83%
FY 2014-actual	749,551,083	19,174,859,241	3.91%
FY 2014- calculated at FY13 performance	926,463,952	19,174,859,241	4.83%
Savings	176,912,869		

Period	% as Flats
Q1-14	4.77%
Q2-14	4.02%
Q3-14	3.63%
Q4-14	3.14%

e. No study of any costs has been done. Lean Mail Processing is not an additional project or initiative but a smarter, leaner approach to existing operations and accordingly no additional tracking or recording of costs was established. Some individual projects have rolled out through the Lean Mail Processing format, but for the vast majority of programs, the Postal Service has no system in place today to accurately measure the isolated cost impact of a single program due to the number of factors impacting costs in a given operation.

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10. In Docket No. R2010-4, the Postal Service provided Library Reference USPS-R2010-4/9 Operations Plans for Flats (Flats Strategy). http://www.prc.gov/Docs/68/68779/R10.4.Fldr.9.Flats_Strategies.pdf. The Flats Strategy details four operational changes regarding the transportation of flats:
- a. The operational change "Improving Handling Unit/Container Density" was scheduled for implementation from 2010 to 2011. Two aspects of this operational change were detailed: Facility Optimization and Equipment Consolidation.
 - i. When was the Facility Optimization "consolidation of outgoing operations" implemented?
 - ii. When was the Equipment Consolidation implemented?
 - iii. The Postal Service stated that this was a "large" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted transportation costs. Please provide the workpapers used to develop this estimate.
 - b. The operational change "Eliminate Periodical and Standard Mail Flown" was scheduled for implementation from 2010 to 2011.
 - i. When was the "Do Not Fly" operational change implemented?
 - ii. The Postal Service stated that this was a "small" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted transportation costs. Please provide the workpapers used to develop this estimate.
 - c. The operational change "Transportation Utilization" was scheduled for implementation from 2010 to 2011. Three aspects of this operational change were detailed: Redesign NDC Mail Transportation Equipment, Consolidation/Deconsolidation Concept, and Quarterly Reviews
 - i. When was the Redesign of NDC Mail Transportation Equipment implemented?
 - ii. When was the Consolidation/Deconsolidation Concept implemented?
 - iii. When were the Quarterly Reviews implemented?
 - iv. The Postal Service stated that this was a "large" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted transportation costs. Please provide the workpapers used to develop this estimate.
 - d. The operational change "Network Optimization" was scheduled for implementation from 2010 to 2012.

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- i. When was the NDC/Surface Transportation Center Integration implemented?
 - ii. The Postal Service stated that this was a “medium” cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted transportation costs. Please provide the workpapers used to develop this estimate.
- e. The following table contains transportation costs, Cost Segment 14, for Standard Mail Flats and Periodicals Outside County for FY 2010 and FY 2014.

Transportation Costs		
	FY 2010	FY 2014
Standard Flats Attributable Cost	187,973,739	167,465,795
Standard Flats Volume	7,067,654,358	5,054,394,637
Standard Flats Unit Attributable Cost	0.027	0.033
Standard Flats Unit Cost Percent Change		24.6%
Periodicals Outside County Attributable Cost	236,150,331	208,923,108
Periodicals Outside County Volume	6,574,014,264	5,458,584,188
Periodicals Outside County Unit Attributable Cost	0.036	0.038
Periodicals Outside County Unit Cost Percent Change		6.5%
Average CPI-U	217.4	236.0
CPI-U Percent Change		8.6%

- i. Please confirm the total attributable transportation costs and unit attributable transportation costs in the table are accurate. If not confirmed, please explain.
- ii. Please explain why the unit attributable transportation costs for Standard Mail Flats have increased nearly 3 times the rate of inflation since FY 2010.
- iii. Please discuss all the factors that account for the difference in the increase in unit attributable transportation cost between Periodicals and Standard Flats.

RESPONSE:

- a
 - i. This initiative was implemented in FY 2010 & 2011.
 - ii. This initiative was implemented in FY 2010 & 2011.

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- iii. For the vast majority of programs, the Postal Service has no system in place today to accurately measure the isolated cost impact of a single program, due to the number of factors impacting costs in a given operation.
- b.
 - i. Implemented in 2011.
 - ii. For the vast majority of programs the Postal Service has no system in place today to accurately measure the isolated cost impact of a single program, due to the number of factors impacting costs in a given operation.
 - c.
 - i. The stackable NDC packs were created and tested in 2010. The alternate containers improved floor to ceiling utilization opportunities; however the loading and unloading process was not deemed successful. No further testing is scheduled at this time.
 - ii. The Consolidation/Deconsolidation Concept was first Implemented as a Pilot Program between three (3) sites for Standard Mail and Parcel Post on 9/20/2010
 - The program was expanded to eleven (11) sites on 4/16/2011
 - Another expansion to nineteen (19) sites for the Standard Mail and Parcel Post Program was implemented in August 2012
 - The Consolidation/Deconsolidation Concept was then implemented for First Class Mail as a Pilot between two (2) sites on July 16, 2013
 - The Consolidation/Deconsolidation program was expanded during FY 2013 and FY 2014 to seventeen (17) sites

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- On January 5, 2015 the program for First Class Mail was drastically reduced due to the new Service Standards and Operating Window Change (OWC), causing an on-going reevaluation of the process.
- iii. Rather than quarterly reviews, bi-weekly telecoms were implemented after the expansion of 4/16/2011 and have continued until present with some periods of cancellations such as PEAK Season.
- iv. Projected savings are provided below, but savings were not validated:

Year	# of CDFs Initiated	Projected Savings	Phase
2010	2	7,138,879	Pilot
2011	7	25,846,319	Phase 1
2012	10	32,276,643	Phase 2/3/4

- d. i. The NDC/Surface Transportation Center (STC) Integration was initiated in 2011, the intent being the identification and elimination of redundant transportation. To date there are STCs integrated into 7 NDC facilities; Springfield, Chicago, No. New Jersey, No. California, Los Angeles, Cap Metro, and Atlanta. Investigation of this occurrence does not provide a specific number of reductions or savings associated with the change.

Transportation changes occur for many reasons, STC/NDC co-location, reduction in volume, change in service standards, economic issues, all contributing to the decision to eliminate or modify routes. As a result of the various impetuses for change, it becomes difficult to delineate or categorize a specific reduction or savings as the result of a specific cause.

- ii. The elimination of redundant transportation is an on-going process and the benefit to the Postal Network is the potential elimination of

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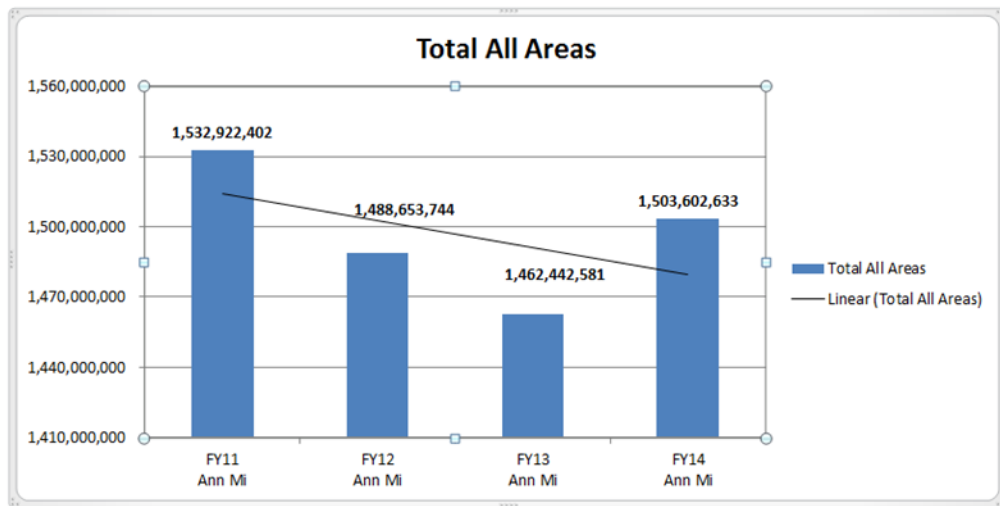
redundant transportation and increased utilization of the remaining route/trips.

Process for Co-location Analysis:

Combine collocated trips in the NDC-STC either inbound / outbound, given the following conditions:

- (1) Trips within 2 hours of each other
- (2) Same origin, destination, and in route stops
- (3) Combined average utilization less than 100 percent
- (4) MTESC and PVS trips excluded
- (5) Able to combine both inbound and outbound legs of a trip

FY11, FY12, FY13, and FY14 Comparison



Total	FY11 Ann Mi	FY12 Ann Mi	FY13 Ann Mi	FY14 Ann Mi
Total All Areas	1,532,922,402	1,488,653,744	1,462,442,581	1,503,602,633
Mileage Reduction		(44,268,658)	(26,211,163)	41,160,052
Percentage Rdeuction		-2.97%	-1.79%	2.74%

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The elimination of redundant transportation and route consolidations in FY 12 and FY 13 lead to a mileage reduction of 44,288,658 (-2.97 percent) and 26,211,163 (-1.79 percent), respectively. In FY 14 there was an increase in mileage of 41,160,062, primarily due to several competing variables; "Air to Surface" initiative diversion, and the new FedEx contract.

- e.
 - i. Confirmed with respect to the FY 2014 ACR as filed, but note that the analysis detailed in USPS-FY14-45 (filed on February 3, 2015) implicitly suggests that Cost Segment 14 costs for Standard Flats perhaps might be overstated.
 - ii. Unit transportation costs for Standard Mail Flats increased by approximately 0.7 cent between FY 2010 and FY 2014. Three primary reasons explain the increase in unit transportation costs. One, the ratio of Intra-SCF highway costs to total purchased transportation costs for Standard Mail Flats has increased to thirty-nine percent from thirty-two percent in FY 2010. In isolation, the increase in Intra-SCF unit costs accounts for over two-thirds of the unit transportation cost increase in Standard Mail Flats since FY 2010. Two, the distribution factors as estimated by the Transportation Cost System (TRACS), across all major purchased highway contract types, decreased at a slower rate than volume between FY 2010 and FY 2014 for Standard Mail Flats. Standard

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Mail Flats experienced this occurrence because its mail entry profile has not changed along with corresponding changes in attributable costs by contract type. A closer inspection into Inter-NDC attributable costs since FY 2010 illustrates this point. Inter-NDC attributable costs in total have declined by twenty percent since FY 2010. These costs have been reduced by the Postal Service in response to more volume receiving destination discounts. The proportion of Standard Mail Flats entered at destination facilities, however, has remained at approximately seventy percent since FY 2010. Thus, the proportion of cube assigned to Standard Mail Flats has not decreased at the same rate as originating volume. In fact, the proportion of cube assigned to Standard Mail Flats on Inter-NDC trips has only declined ten percent since FY 2010, despite the twenty-eight percent decline in originating volume. Thus, Inter-NDC attributable costs have decreased by twenty percent, but the unit costs for Standard Mail Flats have remained virtually the same since FY 2010. In contrast, the proportion of Periodicals entered at destination facilities has increased two percent to seventy-eight percent since FY 2010. As a result, the proportion of cube assigned to Periodicals on Inter-NDC trips has declined by forty-eight percent, resulting in a 0.2 cent decrease in Inter-NDC unit costs since FY 2010. Table 1 illustrates the change in distribution factors by contract type for Standard Mail Flats between FY 2010 and FY 2014.

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Table 1 - Percentage Change in Distribution Factors by Contract Type between FY 2010 to FY 2014.	
Contract Type	Distribution Factor % Change
Intra-SCF	-17%
Inter-SCF	-28%
Intra-NDC	-16%
Inter-NDC	-10%
Highway	-19%
RPW Volume	-28%

Third, new highway elasticities were used for purchased surface transportation in FY 2014 (see Docket No. RM2014-6, Proposal Six, filed June 20, 2014). One impact of the new elasticities was that the attribution level increased for Intra-SCF trips and decreased for Inter-SCF, Intra-NDC and Inter-NDC trips. Table 2 illustrates the percentage change in accrued and attributable costs by contract type. The large discrepancy between the percentage change in attributable and accrued costs for Intra-SCF trips table helps to explain the increase in Intra-SCF unit transportation costs discussed earlier. The overall impact of the new elasticities was approximately three percent on unit transportation costs for Standard Mail Flats between FY 2013 and FY 2014.

Table 2 - Percentage Change in Attributable and Accrued Costs by Contract Type between FY 2010 to FY 2014.		
	Attributable	Accrued
Contract Type	FY10/FY14	FY10/FY14
Intra-SCF	30%	18%
Inter-SCF	10%	11%
Intra-NDC	2%	6%
Inter-NDC	-20%	-17%
Highway	11%	9%

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iii. Since the primary cost driver for purchased long distance surface transportation is cubic-foot miles, a product's unit attributable transportation cost is determined by two factors, 1) cubic footprint and 2) distance traveled. Of the two factors, the cubic footprint of a product serves as the dominant attribute. The cubic footprint of a Periodical, on a unit basis, is approximately fifty percent more than for a Standard Mail Flat. Offsetting the greater cubic footprint was that Periodicals travel farther on long distance transportation (Inter-SCF and Inter-NDC) than Standard Mail Flats. The change in relative distances traveled between the two products has increased since FY 2010, which helps explain the narrowing of the unit transportation costs between the two in FY 2014.

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11. The Flats Strategy identified in Question No. 10 details 18 operational changes regarding the Mail Processing of Flats.
- a. The operational change "Facility Optimization" was scheduled for "ongoing" implementation.
 - i. When was the Area Mail Processing initiative implemented?
 - ii. When was the Elimination of Annexes initiative implemented?
 - iii. When were the "Other facility optimization initiatives," such as those regarding Airport Mail Centers implemented?
 - iv. The Postal Service stated that this was a "large" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
 - b. The operational change "Equipment Optimization" was scheduled for "2011 and beyond" implementation.
 - i. When was the Automated Package Processing System (APPS) utilization initiative implemented?
 - ii. When was the Automated Flats Sorting Machine/Upgraded Flats Sorting Machine utilization initiative implemented?
 - iii. The Postal Service stated it "intends to evaluate the feasibility of enhancing excess AFSM 100 equipment to sequence additional flat mail not covered by the initial 100 Flats Sequencing System machines." What determination has the Postal Service made about the feasibility of using the AFSM to sequence flat mail?
 - iv. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
 - c. The operational change "Future FSS Enhancements" was scheduled for "2012 and beyond" implementation.
 - i. What enhancements to the FSS have been implemented?
 - ii. What determination has the Postal Service made about the "potential of every-other-day sequencing?"
 - iii. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation affected mail processing costs. Please provide the workpapers used to develop this estimate.

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- d. The operational change "Automated Flats Preparation" was scheduled to begin in "2013."
 - i. Has Automated Flats Preparation been implemented?
 - ii. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
- e. The operational change "Automated Package and Bundle Sorter" was scheduled to begin in "Oct 2011."
 - i. When was the Automated Package and Bundle Sorter initiative implemented?
 - ii. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
- f. The operational change "Material Handling" was scheduled for "2011-2016" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that this was a "large" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
- g. The operational change "Flat Recognition Improvements" was scheduled for "2011 and beyond" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that this was a "small" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
- h. The operational change "Electronic Condition-Based Maintenance" was scheduled for "2011 and beyond" implementation.
 - i. When was this software implemented?
 - ii. The Postal Service stated that this was a "small" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.

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- i. The operational change "Utilize a single Incoming Secondary run for all flats" was scheduled for "2011 and beyond" implementation.
 - i. When was this initiative implemented?
 - ii. Please provide the percentage of mail processing facilities that combined Standard Mail Flats, Periodicals, and First Class Flats for Incoming Secondary runs as part of standard operating procedure for the AFSM in FY 2014.
 - iii. The Postal Service stated that this was a "small" cost savings opportunity. Please provide the estimate of how the implementation of this operation affected mail processing costs. Please provide the workpapers used to develop this estimate.
- j. The operational change "Monthly Periodicals – merge with Standard Mail service standards" was scheduled for "2011 and beyond" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that this was a "small to medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
- k. The operational change "Distribution compression" was scheduled for "2011 and beyond" implementation.
 - i. When was this initiative implemented?
 - ii. The Flats Strategy describes the facility specific modeling as an important aspect of "Distribution Compression." How frequently does the Postal Service perform facility specific operational modeling?
 - iii. The Postal Service stated that this was a "large" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
- l. The operational change "Reduce mixed-states consolidation processing locations (L009) and optimize mixed states flow" was scheduled for "2010-2011" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.

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- m. The operational change "Realign operating and transportation plan to improve utilization" was scheduled for "ongoing" implementation.
 - i. When was this initiative implemented?
 - ii. How many L009 sites were in operation in FY 2014 compared with FY 2009?
 - iii. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate.
- n. The operational change "Periodicals Lean Six Sigma (LSS) end-to-end value stream mapping project" was scheduled for "ongoing" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that the cost savings opportunity for this initiative was not yet defined. Please describe the operational impact of this project.
- o. The operational change "Refine work methods to improve Business Mail Entry Unit (BMEU) / Plant load handoff to mail processing" was scheduled for "2010-2011" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that this was a "large" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate
- p. The operational change "Sort Plan Optimization (SPO) for flats" was scheduled for "2010-2011" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that this was a "small" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted mail processing costs. Please provide the workpapers used to develop this estimate
- q. The operational change "Continuous Improvement" was scheduled for "ongoing" implementation.
 - i. How has changeover time on APPS machines changed from FY 2010 to FY 2014?
 - ii. How has APPS throughput changed from FY 2010 to FY 2014?
 - iii. How has flat tray density changed from FY 2010 to FY 2014?

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- iv. How have AFSM double-feeds changed from FY 2010 to FY 2014?
 - v. Please provide a cost savings estimate for the "Continuous Improvement" initiative.
 - vi. Please describe any other components of the "Continuous Improvement" initiative identified since FY 2010.
- r. The following table contains Mail Processing costs, Cost Segment 3, for Standard Mail Flats and Periodicals Outside County for FY 2010 and FY 2014.

Mail Processing Costs		
	FY 2010	FY 2014
Standard Flats Attributable Cost	1,067,251,262	867,075,545
Standard Flats Volume	7,067,654,358	5,054,394,637
Standard Flats Unit Attributable Cost	0.151	0.172
Standard Flats Unit Cost Percent Change		13.6%
Periodicals Outside County Attributable Cost	790,094,048	668,849,932
Periodicals Outside County Volume	6,574,014,264	5,458,584,188
Periodicals Outside County Unit Attributable Cost	0.120	0.123
Periodicals Outside County Unit Cost Percent Change		2.0%
Average CPI-U	217.4	236.0
CPI-U Percent Change		8.6%

- i. Please confirm the total attributable mail processing costs and unit attributable mail processing costs in the table are accurate. If not confirmed, please explain.
- ii. Please explain why unit attributable mail processing costs for Standard Mail Flats have increased at 1.5 times the rate of inflation since FY 2010.
- iii. Please discuss all the factors that account for the difference in the increase in unit attributable mail processing cost between Periodicals and Standard Flats.

RESPONSE:

- a.
 - i. The Area Mail Processing initiative has been an ongoing process for the Postal Service.
 - ii. This initiative has been an ongoing process for the Postal Service.
 - iii. This initiative has also been an ongoing process for the Postal Service.

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- iv. Because of the number of initiatives implemented and the cross impacts of other events, it is not possible to attribute changes in mail processing costs to any one endeavor.
-
- b.
 - i. Modeling the initiative kicked off in 2011. APPS and APBS utilization has increased through the relocation of under used machines and concentrated effort to increase the volume processed on existing machines.
 - ii. Consolidations have allowed the Postal Service to reduce the usage of UFSM 1000 machines by moving mail to higher productivity AFSM Machines. 22 UFSM 1000 remain in service as of January 2015.
 - iii. Enhancement was explored, but not found to be operationally feasible.
 - iv. This initiative was not found to be operationally feasible.
 - c.
 - i. The Postal Service has deployed enhancements in the form of modification kits (Mod Kits) in several areas on the FSS. These mod kits represent improvements in the areas of Performance, Accept Rate, Maintenance, Safety or a combination of these. Work began on Mod Kits development and test in 2011 with this first kits deployed in early 2012. To date, there have been 38 FSS Mod Kits deployed in the following improvement areas: Accept Rate Only – 2, Maintenance Only - 12, Safety Only – 2, Performance and Maintenance – 15, Performance and Accept Rate – 2, and two kits delayed. Further information on the Mod Kits in included in the attached Excel file, ChIR4.Q10c.FSS Mod Kit.xls.
 - ii. Every other day sequencing was not operationally feasible.
 - iii. For the vast majority of programs the Postal Service has no system in place today to accurately measure the isolated cost impact of a single initiative due to the number of factors impacting costs in a given operation.

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- d. i. The Postal Service continues to develop Automated Flats Preparation that will provide a productivity boost in the flats preparation operation. There are two enhancements currently in development. They are:
- Flats Assist Technology for Prepping (FASST) is a current R&D effort that is aimed at improving the efficiency of the flats prep process. FASST cuts, removes, and disposes packaging materials (straps and/or poly-wrap) used by mailers to prepare flat mailings, therefore, removing this manual function from the mail prep operators. A proof-of-concept Phase is complete and Engineering is currently in a prototype phase with a Field Test expected Spring 2015. This technology has not been fully implemented as the Business Case is still being developed.
 - Multi-scheme bundle sortation is a current R&D effort that will allow for multi-scheme FSS pallets to be processed on the Stand-alone Mail Prep (SAMP) of an FSS. Because this is currently in the early stages of R&D, this enhancement has not been fully implemented across all FSS. This R&D effort involves multiple phases to test and prove implemented technologies, such as, bar code reading and OCR, sort algorithm's, bundle induction improvements, and operation method updates. Engineering is currently conducting barcode read and OCR testing and will soon be testing sort algorithms. This technology is expected to compliment the above mentioned FASST technology and provide further automation in flat mail prep.
- ii. Initiatives have not yet been implemented.
- e. i. The APBS initiative was completed in April 2013.

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ii. The APBS initiative was projected in the DAR to save \$1.49 B over ten years, or annual reduction of 2,759,117 work hours. This savings was against both package and bundle sortation.

For the vast majority of programs the Postal Service has no system in place today to accurately measure the isolated cost impact of a single program, due to the number of factors impacting costs in a given operation.

f. i. The initiative was not implemented.

ii. The initiative was not implemented.

g. i. The first release was in July 2014, and the second was scheduled for January 2015, but has been rescheduled until late in 2015.

ii. For the vast majority of programs the Postal Service has no system in place today to accurately measure the isolated cost impact of a single program, due to the number of factors impacting costs in a given operation.

h. i. The Electronic Condition based maintenance was implemented August 2012, through the release of Maintenance Management Workorders MMO-095-12 and .MMO-100-12.

ii. By implementing Electronic Condition based maintenance, preventative maintenance workhours were reduced. Maintenance activities focused on machine components based on actual use rather than calendar day, providing improved reliability. Further information can be found in the attached Excel spreadsheet, ChIR4.Q10.h. eCBM.Analysis.xls.

i. i. Started in FY2012 and is ongoing based on the volumes by mail type.

ii. 39.8 percent.

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- iii. No estimate of the impact of this implementation on mail processing costs is available, although very little impact on Mail processing costs would be expected. Volumes by mail type and day of the week vary by zone and the processing location, and this variation places constraints on the ability to consolidate this volume every day. Also, to minimize the impact on heavy volume days, delivery units require the ability to curtail Standard Mail. Consequently, it often must be processed separately.
- j.
 - i. In January 2012, the DMM was revised to offer mailers the option to combine Standard Mail flats and Periodical flats within the same bundle, when placed on pallets, and to combine bundles of Standard Mail flats and bundles of Periodical flats on the same pallet.
 - ii. While the move to mixed-class comail in 2012 would reduce the quantity of sacks entered, there are other efforts that would also result in fewer sacks, such as the introduction of the MADC pallet. Also, overall mail volumes have declined. As such, it is not possible to determine the impact of any one initiative.
- k.
 - i. This initiative was implemented starting in 2011 and remains an ongoing endeavor.
 - ii. Each processing site is required to weekly update their operational modeling (run plans) to account for changes to the volume and distribution needs.
 - iii. Because of the number of initiatives implemented and the cross impacts of other events, it is not possible to attribute changes in mail processing costs to any one endeavor.
- l.
 - i. Implementation started in FY2011 and is ongoing.
 - ii. No estimate of the impact of this implementation on mail processing costs is available.
- m.
 - i. Implementation is ongoing.

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- ii. In FY2014, the Postal Service operated 22 L009 sites, compared with 40 in FY2009.
 - iii. No estimate of the impact of this implementation on mail processing costs is available.
- n.
- i. In 2010 the Postal Service completed the Value Stream Map (VSM) and shared the results with industry. In 2011 the Postal Service established national Critical Entry Times for Periodicals, eliminated the use of "Hot 2C" practices by both the Postal Service and mailers, and eliminated management of in-home dates for both Periodicals and Standard Mail.
 - ii. No estimate of the impact of this implementation on mail processing costs or operations is available.
- o.
- i. The Lean Mail Acceptance process was overtaken by the Commercial Mail Acceptance Transformation DAR. The goal of this initiative is to leverage the use of the Intelligent Mail Barcode (IMb) and Full-Service to transform Commercial Mail Entry (also referred to as Business Mail Entry or BME) functions by streamlining and automating mail preparation, verification and entry. Objectives include to reducing postal workhours, improving the customer experience, increasing revenue assurance and SOX compliance, and promoting 100 percent visibility.

The eInduction program was deployed in September 2013 and leverages electronic documentation, Intelligent Mail barcodes and handheld scanner technologies to verify payment for the mail at a container level, and to ensure that containers are inducted into the correct destination facility. As of January 2015, 32 percent of all containers are inducted to postal processing through the eInduction program.

The Seamless Acceptance program was deployed in March of 2014. It streamlines current manual acceptance process by leveraging electronic documentation, an Intelligent Mail Barcode (IMb), and a combination of active

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and passive scans from hand held scanners and mail processing equipment to determine if correct postage has been paid on the mailpiece. As of February 2015, 17 percent of eligible commercial mail volume is accepted through the Seamless Acceptance program.

ii. Workhour savings to date:

Item	Value
Cumulative Savings	Since 2013
Work Hours	803,777
Full Time positions reduced	460
\$ Amount	\$40,381,756

p. i. Due to cost considerations, this initiative has not been implemented.

ii. Not implemented.

q. i. The requested data cannot be accessed from any of our systems on a national level.

ii. The throughput for FY2010 was 5823 and for FY2014 was 5896.

iii. Flat tray density was not measured in FY 2010 and the data are no longer available. We started measuring flat tubs in FY 2011. In FY 2011, the density was 11.5 lbs/tub. In FY 2014 the density was 12.4 lbs/tub.

iv. The AFSM 100 double feeds rate has remained largely unchanged from FY 2010 to FY 2014. A formal test was conducted to determine the real double feed rate that would support a potential Business Case for an AFSM 100 double reduction upgrade. From December 2013 to March 2014, Engineering conducted tests at three USPS Facilities (Pittsburgh P&DC, Minneapolis P&DC, Denver P&DC) on AFSM 100's, with Engineering Test & Evaluation department personnel performing the test. The results indicated the threshold doubles rate to be approximately 2.8 percent. The cost to implement a solution for a small

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improvement in double reduction could not be justified. Based on these data, the Postal Service determined that there was no business case for a AFSM Double Rate Reduction program at this time.

v. Please see the chart below.

UNITED STATES POSTAL SERVICE®		GB and BB Certifications	
Year	GBs Certified	BBs Certified	Estimated Benefit*
2010	209	36	\$74.9M
2011	148	11	\$31.3M
2012	191	16	\$43.1M
2013	260	25	\$63.5M
2014	283	24	\$64.3M

* Savings estimated based on GB certification requirement of \$100K and BB certification requirement of \$1.5M minimum

vi. The Postal Service has certified over 1,200 green belts and black belts from 2010 through 2014. Each of these individuals participated in LSS projects on a variety of projects designed for continuous improvement toward cost reduction, service improvement, sales increases, etc.

r. i. Not confirmed, in that cost segment 3 attributable costs include more than just mail processing. In the below table, cost segment 3.1 attributable costs are substituted for total cost segment 3. The results on unit costs and the percentage change in unit costs are not that different from those in the chart attached to the question, since most of cost segment 3 costs are cost segment 3.1 costs for these two products.

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Mail Processing Costs		
	FY2010	FY2014
Standard Flats Attributable Cost	1,017,307	829,071
Standard Flats Volume	7,067,654	5,054,395
Standard Flats Unit Attributable Cost	0.144	0.164
Standard Flats Unit Cost Percent Change		13.96%
Periodicals Outside County Attributable Cost	753,436	639,687
Periodicals Outside County Volume	6,574,014	5,458,584
Periodicals Outside County Unit Attributable Cost	0.115	0.117
Periodicals Outside County Unit Cost Percent Change		2.25%

ii. First, as reported in the response to Chairman's Information Request No. 3, Question 3, there is an estimated potential overstatement of FY 2014 Standard Mail Flats mail processing costs (based on USPS-FY14-45) of 2.5 percent. As shown below, if this potential overstatement were removed, the result would be that Standard Flats mail processing labor unit costs rose between FY 2010 and FY 2014 by 11.1 percent, rather than 13.96 percent. In addition, as discussed in that same response, the implementation of FSS Scheme requirements led to some of the rise in mail processing costs in FY 2014. As discussed in response to Chairman's Information Request No. 2, Question 9, part b, adding FSS operations added to mail processing labor costs, which as noted there is intended to lead to lower carrier costs. The unit labor costs for Standard Flats FSS processing (at both plant and NDC) in FY 2014 is 1.3 cents, which accounts for much of the 1.6 cent rise in unit labor costs since FY 2010.

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Comparison of FY 2010 and FY 2014 Mail Processing Labor Unit Costs without and with IOCS Adjustment (Cents/Piece)			
FY13	14.39		14.39
FY14	16.40	0.9750	15.99
Difference	2.01		1.60
Percentage Change	14.0%		11.1%

iii. There are two reasons for the much lower cost increase for Periodicals Outside County. First, the share of non-carrier route presort declined for Periodicals Outside County from 40.9 percent in FY 2010 to 34. percent in FY 2014. Second, in the last quarter of FY2012, there were service standard changes for Periodicals (as part of Network Rationalization). In FY2013, when these changes would have been implemented, Standard Flats unit processing labor costs declined by 1 percent (compared with FY 2012), while the mail processing labor unit costs for Periodicals Outside County declined by 6.1 percent.

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12. The Flats Strategy identified in Question No. 10 details 7 operational changes regarding the Post Office and Delivery Operations for Flats.
- a. The operational change "Business Plan Staffing and Scheduling Reviews" was scheduled for "2010-11" implementation.
 - i. When were the automated tools for staffing and schedule reviews implemented?
 - ii. The Postal Service stated that this was a "large" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted delivery costs. Please provide the workpapers used to develop this estimate.
 - b. The operational change "Shifting distribution from Post Office Operations (Function 4) to Mail Processing Operations (Function 1)" was scheduled for "2010 and beyond" implementation.
 - i. When was the shift in distribution for Function 4 to Function 1 implemented?
 - ii. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted delivery costs. Please provide the workpapers used to develop this estimate.
 - c. The operational change "Customer Service Unit Optimization" was scheduled for "2011-2012" implementation.
 - i. When was this initiative implemented?
 - ii. The Postal Service stated that this was a "medium" cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted delivery costs. Please provide the workpapers used to develop this estimate.
 - d. The operational change "FSS work methods" was scheduled for "2010 and beyond" implementation.
 - i. When was this initiative implemented?

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- ii. The Postal Service stated that this was a “large” cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted delivery costs. Please provide the workpapers used to develop this estimate.
- e. The operational change “Route Adjustments Joint Alternate Route Assessment Process (JARAP) / Carrier Optimal Routing (COR)” did not have a schedule for implementation.
 - i. When was the JARAP/COR implemented?
 - ii. The Postal Service stated that this was a “medium” cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted delivery costs. Please provide the workpapers used to develop this estimate.
- f. The operational change “Route Optimization 100 Percent Street routes” was scheduled for “2011 and beyond” implementation.
 - i. Has the Postal Service implemented 100 percent street routes?
 - ii. If so, how many 100 percent street routes were in use in FY 2014?
 - iii. The Postal Service stated that this was a “large” cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted delivery costs. Please provide the workpapers used to develop this estimate.
- g. The operational change “Facility Optimization” was scheduled for “2010 and beyond” implementation.
 - i. When was this initiative implemented?
 - ii. How has the “number of facilities under USPS ownership or obligation” changed since FY 2010?
 - iii. The Postal Service stated that this was a “small” cost savings opportunity. Please provide the estimate of how the implementation of this operation impacted delivery costs. Please provide the workpapers used to develop this estimate.
- h. The following table contains Delivery costs, Cost Segments 6, 7, and 10, for Standard Mail Flats and Periodicals Outside County for FY 2010 and FY 2014.

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Delivery Total Costs		
	FY 2010	FY 2014
Standard Flats Attributable Cost	863,688,580	639,648,236
Standard Flats Volume	7,067,654,358	5,054,394,637
Standard Flats Unit Attributable Cost	0.122	0.127
Standard Flats Unit Cost Percent Change		3.6%
Periodicals Outside County Attributable Cost	636,260,202	525,603,936
Periodicals Outside County Volume	6,574,014,264	5,458,584,188
Periodicals Outside County Unit Attributable Cost	0.097	0.096
Periodicals Outside County Unit Cost Percent Change		-0.5%
Average CPI-U	217.4	236.0
CPI-U Percent Change		8.6%

- i. Please confirm the total attributable delivery costs and unit attributable delivery costs in the table are accurate. If not confirmed, please explain.
- ii. Please explain why unit delivery costs for Periodicals Outside County have decreased since FY 2010.
- iii. Please discuss all the factors that account for the difference in the rate of change in unit attributable delivery cost between Periodicals and Standard Flats.

RESPONSE:

- a.
 - i. December 2012
 - ii. For the vast majority of programs the Postal Service has no system in place today to accurately measure the isolated cost impact of a single program or initiative, due to the number of factors impacting costs in a given operation.
- b.
 - i. Implemented in 2010.
 - ii. Because of the number of initiatives implemented and the cross impacts of other events, it is not possible to attribute changes in delivery costs to any one endeavor.
- c.
 - i. Implemented in fiscal year 2011.

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- ii. For the vast majority of programs the Postal Service has no system in place today to accurately measure the isolated cost impact of a single program or initiative, due to the number of factors impacting costs in a given operation.
- d.
 - i. The referenced agreements were implemented in conjunction with FSS deployment in each site, starting with the Dulles pre-production site in 2008.
 - ii. To date the Postal Service has reduced 4384 routes as a result of FSS route inspections.
- e.
 - i. JARAP was implemented in 2011.
 - ii. 6358 routes were reduced under the final Memorandum of Understanding
- f.
 - i. A pilot test was completed FY2012.
 - ii. There are no 100 percent street routes.
 - iii. Tests were completed, but not implemented long term.
- g.
 - i. The initiative was implemented in FY 2010.
 - ii. The number of facilities under Postal Service ownership and obligation was reduced by 1,274 properties (physical buildings) since FY 2010. This number is equivalent to an overall footprint reduction of 10.1M Square Feet.
 - iii. No estimate of the impact on delivery costs is available.
- h.
 - i. Confirmed with respect to the FY 2014 ACR as filed, but note that the analysis detailed in USPS-FY14-45 (filed on February 3, 2015) suggests that

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some downward adjustment in Cost Segment 6 costs for Standard Flats is likely warranted.

ii. Unit delivery costs for Periodicals Outside County have decreased by one-tenth of a cent between FY 2010 and FY 2014. City in-office costs have decreased by 0.7 cent largely due to two factors. One, the proportion of Periodicals presorted to carrier route increased to 65 percent in FY 2014 from 59 percent in FY 2010. Since carrier route pieces were in order of line of travel, the casing productivity was higher for those pieces as compared to randomly distributed pieces. Two, the presence of FSS has reduced the proportion of Periodicals that need to be manually cased. The Carrier Cost System (CCS) estimated that approximately eighteen percent of Periodicals in FY 2014 delivered on city routes were processed via FSS. The decrease in city in-office costs, however, was offset by an increase of four-tenths of a cent in city street costs, and an increase of three-tenths of a cent in rural costs. City unit street costs increased due to a blend of a 17 percent volume decline combined with the fixity of the city delivery network. The increase in rural costs corresponded to the six percent increase in wages for rural carriers between FY 2010 and FY 2014.

iii. Two primary factors impacted the unit delivery costs for Periodicals and Standard Mail Flats. One was the proportion of originating Periodical volume that was presorted to carrier route. Pieces sorted to carrier route were in walk sequence, which resulted in a higher casing productivity for those pieces than for

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pieces that were randomly mixed prior to being cased. In FY 2010, approximately 59 percent of originating Periodicals were presorted to carrier routes on city routes. In FY 2014, that corresponding proportion was 65 percent. The increase in proportion of Periodicals presorted to carrier route greatly contributed to the 0.7 cent decrease of in-office costs from 5.4 cents to 4.7 cents. In Standard Mail, the carrier route presort level is not part of the array of rate categories included in the Standard Mail Flats product, so they were more likely to be randomly mixed prior to casing. Therefore, the city in-office costs for Standard Mail Flats decreased by only 0.3 cent from 7.8 cents to 7.5 cents over the same time interval. Two, the proportion of originating volume that is processed via FSS is an important driver of costs on both city and rural routes. On city routes, pieces that are FSS'd generally were not handled in the office, and thus incurred lower in-office costs. On rural routes, carriers were compensated less for FSS flats as compared to cased flats. Table 1 illustrates the trends in FSS proportions for Periodicals and Standard Mail Flats between FY 2010 and FY 2014.

Table 1 - Comparison of Proportions of FSS on City and Rural Routes for Periodicals and Standard Mail Flats FY 2010 to FY 2014				
% Delivered FSS - e.g City FSS/City Vol	Periodicals City	Periodicals Rural	Standard Flats City	Standard Flats Rural
FY 2014	17.8%	6.3%	19.7%	8.5%
FY 2013	17.5%	6.4%	20.8%	8.6%
FY 2012	17.6%	6.7%	20.9%	9.2%
FY 2011	8.0%	3.0%	11.0%	5.2%
FY 2010 ¹	0.0%	1.1%	0.0%	1.6%

¹CCS did not record FSS volumes in FY 2010.

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The data displayed in the preceding table comes from CCS. The information in the table illustrates two things critical to delivery costs, 1) the FSS percentage has remained steady for both products on city and rural routes since FY 2012 (which corresponds to the first full fiscal year of FSS implementation), and 2) the FSS proportion has been consistently higher for Standard Mail Flats than for Periodicals. The cost implications of these two facts is that Standard Mail Flats has benefited slightly more than Periodicals from FSS processing, and that unless the FSS proportion rises dramatically, city in-office costs are going to continue to be the primary cost driver for delivery costs for these two products. In FY 2014, city in-office costs were 49 percent of unit delivery costs for Periodicals and 59 percent for Standard Mail Flats. See also the response to Chairman's Information Request No. 3, Question 3.