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

ANNUAL COMPLIANCE REVIEW, 2015 | Docket No. ACR2015

UNITED STATES POSTAL SERVICE
FY 2015 ANNUAL COMPLIANCE REPORT
(December 29, 2015)

The United States Postal Service hereby submits its Fiscal Year 2015 Annual Compliance Report (ACR or Report). The Report is submitted pursuant to 39 U.S.C. § 3652, which requires the Postal Service to file with the Postal Regulatory Commission, within 90 days after the end of each fiscal year (FY), a variety of data on "costs, revenues, rates, and quality of service," in order to "demonstrate that all products during such year complied with all applicable requirements of [title 39]."[1]

[1] Unless specified otherwise, section numbers used herein refer to statutory provisions in title 39, United States Code.

I. OVERVIEW OF REPORT

A. Contents

This Report consists of both the present document and underlying data appended as 71 separate folders. The present document contains only the most salient information from those folders, in order to demonstrate compliance with title 39. The reader should refer to the appended folders for more detailed information. A list of the appended folders appears at the end of this document at Attachment One.[2] Each folder includes a preface document explaining its purpose, background, structure, and relationship with other materials in the Report.

Broadly speaking, there are three types of data in the appended folders: (1) product costing material; (2) intra-product cost analyses; and (3) billing determinants. The focus of the product costing material, in terms of ultimate output, is the Cost and Revenue Analysis (CRA) report, at USPS-FY15-1, and the International Cost and Revenue Analysis (ICRA) report, at USPS-FY15-NP2. The intra-product cost analyses make possible the examination of workshare discounts presented in Section II below. The billing determinants set forth the volume and calculated revenue for each rate cell of every mail product.

As in previous ACRs, certain materials are presented in two versions, one public and the other nonpublic. The public versions of these materials are limited to information on individual market dominant products, and aggregate information on either competitive products as a whole or large groups of competitive products.

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[2] The folders are sequentially numbered and labeled as USPS-FY15-1, USPS-FY15-2, etc. Folders in the nonpublic annex, discussed in Section VI below, are labeled as USPS-FY15-NP1, USPS-FY15-NP2, etc. (with "NP" signifying "nonpublic").

Correspondingly, the nonpublic versions contain either disaggregated information on competitive products or information on both market dominant and competitive products in contexts in which it is not possible to segregate the two. This is discussed further in Section VI below.

Section 3652(g) of title 39 requires the Postal Service to submit, together with this Report, a copy of its most recent Comprehensive Statement. A copy of the Postal Service's FY 2015 Comprehensive Statement appears within the FY 2015 Annual Report provided as USPS-FY15-17. Similarly, a copy of the Postal Service's annual report to the Secretary of the Treasury regarding the Competitive Products Fund, required by section 2012(i) of title 39, appears as part of USPS-FY15-39, along with the other Competitive Products Fund materials required by Commission Rules 3060.20 through 3060.23.

B. Roadmap

A separate roadmap document is included at USPS-FY15-9. The roadmap is a technical document that consolidates brief descriptions of each of the appended folders and of the flow of inputs and outputs among them. It also discusses any changes between the methodologies used to prepare this Report and the methodologies applied by the Commission in the FY 2014 Annual Compliance Determination (ACD). In addition, it includes the listing of special studies and the discussion of obsolescence required by Commission Rule 3050.12.

C. Methodology

The methodologies employed are in general also quite familiar to the Commission and parties that have historically been involved in postal ratemaking.

Because heavy reliance is placed on replicating the methodologies used most recently by the Commission, the scope of new methodologies has been minimized. Postal operations and postal data collection are not entirely static, however, and consequently some minor changes in methodology are identified and discussed. This is done in two places. First, methodology changes are identified in a separate section of the roadmap document, USPS-FY15-9. Second, they are discussed in the preface accompanying each of the appended materials; often, this preface contains a discussion that is more detailed than that contained in the roadmap document. Thus, if a change relates to an area of particular interest to the reader, it may be useful to refer to the particular folder in question, rather than relying exclusively on the roadmap document. The basic costing methodologies applied are those most recently employed by the Commission.

In chronological order, the table below lists (including Notice date and Final Order date) the Postal Service's proposals to change analytic principles that have been filed, or are still pending, since the 2014 ACR was filed.

PROP	TOPIC	FILING DATE	DOCKET	NOT ORD NO	NOT DATE	RULING FIN ORD NO	FIN ORD DATE
Nine	Refine Split of City Carrier Costs into Office and Street Components	10/31/14	RM2015-2	2238	11/4/14		
Ten	Incorporate new field study data into three mail processing cost models and the Standard Mail destination entry cost model	11/3/14	RM2015-3	2240	11/5/14	Approved/ 2315	1/6/15
Eleven	Change in the Attribution of Debit and Credit card fees	11/4/14	RM2015-4	2244	11/7/14	Approved/ 2350	2/9/15
Twelve	Establish a Cost Methodology for the Postal Service Customer Care Centers	11/7/14	RM2015-5	2246	11/12/14	Approved/ 2826	11/19/15

PROP	TOPIC	FILING DATE	DOCKET	NOT ORD NO	NOT DATE	RULING FIN ORD NO	FIN ORD DATE
Thirteen	Updating the City Carrier Street Time Cost Model	12/11/14	RM2015-7	2294	12/18/14	Approved/ 2792	10/29/15
One	Proposed Change in RPW Methodology for Forever Stamp Usage, Stamp Breakage, and PIHOP	6/12/15	RM2015-9	2545	6/18/15	Approved/ 2728	9/24/15
Two	Proposed Change for a Unified ICRA Report	6/17/15	RM2015-10	2548	6/19/15	Approved/ 2695	9/3/15
Three	Proposed Change in Methodology for Shape and Weight on Digitally-Collected ODIS-RPW Mailpieces	7/14/15	RM2015-11	2593	7/16/15	Approved/ 2739	9/30/15
Four	Proposed Change in ICRA Data Sources	7/17/15	RM2015-12	2601	7/20/15	Approved/ 2726	9/22/15
Five[1]	New Methodology to Develop IMTS-Outbound and Inbound Product Costs	6/30/15	ACR2014/ RM2015-13	2599	7/20/15	Approved/ 2825	11/19/15
Six	Proposed Change in RPW Methodology Using Click-N-Ship data to replace ODIS-RPW Statistical Sampling Estimates	7/27/15	RM2015-15	2624	7/29/15	Approved/ 2732	9/28/15
Seven	Section One: Proposed Change in Standard Flats Model to Estimate Mail Processing Cost Avoidances for FSS-Rated Standard Flats	8/5/15	RM2015-16	2654	8/11/15	Approved/ 2839	11/25/15
Seven	Section Two: Proposed Method for Calculating Delivery Costs for Periodicals Flats, Bound Printed Matter Flats, Standard Flats, and Carrier Route Flats Destinating in FSS ZIP Codes	8/5/15	RM2015-16	2654	8/11/15	Approved/ 2839	11/25/15
Eight	Proposed Change in Standard Carrier Route Cost Model to Estimate Mail Processing Cost Avoidances for Carrier Route Pieces on Carrier Route Pallets	8/5/15	RM2015-17	2661	8/12/15	Approved/ 2742	10/1/15
Nine	Proposed Change in Periodical Flat Cost Model to Estimate Mail Processing Cost Avoidances for Carrier Route Pieces on Carrier Route Pallets	8/5/15	RM2015-18	2655	8/11/15	Approved/ 2741	10/1/15

PROP	TOPIC	FILING DATE	DOCKET	NOT ORD NO	NOT DATE	RULING FIN ORD NO	FIN ORD DATE
Ten	Merging Cost Segment Three with Cost Segment Four	8/12/15	RM2015-19	2666	8/17/15	Approved/ 2837	11/24/15
Eleven	Proposed Change in the Estimation Formula for ODIS-RPW Used in RPW Reporting Relating to Digital Letter Mail Sampling	10/7/15	RM2016-1	2752	10/14/15	Approved/ 2901	12/18/15
Twelve	Change in Methodology for City Carrier Letter Route Vehicle Use Costs	11/20/15	RM2016-3	2836	11/24/15	Approved/ 2915	12/22/15

[1] The Commission initiated this rulemaking following the Postal Service’s response on June 30, 2015 to a Commission directive in the FY 2014 ACD.

II. MARKET DOMINANT PRODUCTS

Below, the Postal Service discusses, for each market dominant mail class, FY 2015 costs, revenues, and volumes by product, as well as intra-product workshare discounts and passthroughs. Comprehensive cost, revenue, and volume data are contained in the CRA, at USPS-FY15-1, and in the ICRA, at USPS-FY15-NP2. Full data regarding workshare discounts and passthroughs are contained in USPS-FY15-3.

With respect to passthroughs generally, the Postal Service reiterates its longstanding position that section 3622(e) applies over the long term, as a principle guiding pricing over a series of price adjustments. This approach is consistent with subsections (B) and (D) of section 3622(e)(2) – the efficient operation of the Postal Service and the need to mitigate rate shock necessitate a measured approach to adjusting passthroughs. It would be inefficient and unduly disruptive to the Postal Service and to its customers to immediately adjust prices to correct passthroughs that exceed 100 percent. The Postal Service will address those passthroughs that exceed 100 percent in its next general price adjustment, which will then be reviewed by the Commission.

Ultimately, the best approach is to address these passthroughs later, when there is more cap space available, taking into consideration the complex interrelationship between prices within a class, and considering current business needs. This approach would be no less appropriate now than in prior years. Overall, the workshare discount picture for FY 2015 falls within the limits of what can reasonably be addressed by a measured approach when compared to prior years, viewed both in terms of the proportion of total passthroughs that are over 100 percent, and in terms of the size of those passthroughs.

A. First-Class Mail

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for First-Class Mail products appear below.

Table 1: First-Class Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue ($million)	Attribu-table Costs	Contri-bution	Revenue/Piece	Cost/ Piece	Unit Contri-bution	Cost Cover-age
Single-Piece Letters/Cards	20,576	$10,255	$5,514	$4,740	$0.498	$0.268	$0.230	185.96%
Presorted Letters/Cards	40,174	$15,551	$4,876	$10,674	$0.387	$0.121	$0.266	318.90%
Flats	1,669	$2,358	$1,559	$798	$1.413	$0.934	$0.478	151.19%
Parcels	200	$545	$486	$58	$2.722	$2.430	$0.292	112.00%
First-Class Mail Fees		$148						
Total First-Class Domestic Mail (incl. fees)	62,619	$28,855	$12,437	$16,419	$0.461	$0.199	$0.262	232.0%
Outbound Single-Piece First-Class Mail Int'l	212	$315	$169	$145	$1.484	$0.798	$0.685	185.81%
Inbound Single-Piece First-Class Mail Int'l	318	$251	$349	-$98	$0.788	$1.095	$0.308	71.91%
Inbound International NSA								
Total First-Class Mail	63,150	$29,421	$12,955	$16,466	$0.466	$0.205	$0.261	227.11%

As shown above, with the exception of Inbound Letter Post, all First-Class Mail products covered their attributable costs in FY 2015, with most of them contributing significantly to institutional costs. This comports with the historical role of First-Class Mail as providing the highest contribution to institutional costs of all mail classes. The trend of declining First-Class Mail volume continues, albeit at a slowing rate: 6.6 percent in FY 2010, 6.4 percent in FY 2011, 5.6 percent in FY 2012, 4.2 percent (or 2.9 billion pieces) in FY 2013, 3.3 percent (2.2 billion pieces) in FY 2014, and 2.1 percent (1.4 billion pieces) in FY 2015.

The cost coverage for First-Class Mail Parcels is a healthy 112 percent. Even with the increase in the attributable cost of FCM parcels from 2.328 to 2.430, the revenue per-piece increased from $2.535 to $2.722, producing a relatively significant increase in cost coverage from 108.9 percent to 112.0 percent.

The failure of Inbound Letter Post to cover its attributable costs stems from the product's unique pricing regime. The Postal Service does not independently determine the prices for delivering foreign origin mail. Rather, these prices are set according to a Universal Postal Union (UPU) terminal dues formula established in the Universal Postal Convention. The formula for most of the mail is based on a percentage of the one-ounce retail Single-Piece First-Class Mail price, while the remainder of the mail is priced based on a set rate per kilo, instead of on actual costs.

2. Workshare Discounts and Passthroughs

i. Presorted Letters and Cards

Out of the nine First-Class Mail Presorted Letters and Cards workshare discounts, the passthroughs for five exceed 100 percent of the estimated cost avoidance: Automation Mixed AADC Letters (139.4 percent), Automation AADC Letters (115 percent), Automation Mixed AADC Cards (110.0 percent), Automation AADC Cards (112.5 percent), and Automation 5-Digit Cards (115.4 percent).

Automation Mixed AADC Letters

The passthrough for Mixed AADC Automation Letters is 139.4 percent (discount 4.6 cents versus the cost avoidance of 3.3 cents). This particular passthrough was 97.8

percent in FY 2014 (discount 4.5 cents and the cost avoidance of 4.6 cents). In Docket No. R2015-4, the Postal Service increased the discount from 4.5 cents to 4.6 cents to match the cost avoidance, and the Commission approved this particular price with a passthrough of 100 percent. But the recently determined FY 2015 cost avoidance is 3.3 cents, pushing the passthrough above 100 percent.

Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change. The Postal Service notes, however, that due to the significant decline (4.6 to 3.3 cents, a 28 percent reduction) in cost avoidance, and an anemic price cap, one rate filing may not be enough to align this discount with the new estimate of cost avoidance. Two or more rate cycles may be needed.

Automation AADC Letters

The passthrough for AADC Automation Letters is 115 percent (discount of 2.3 cents compared to the cost avoidance of 2 cents). This particular passthrough was 145 percent in FY 2014 (discount of 2.9 cents versus the cost avoidance of 2 cents). In Docket No. R2015-4, the Postal Service reduced the discount of 2.6 cents (based on CPI prices) to 2 cents to match the cost avoidance of 2 cents, resulting in a passthrough of 100 percent. While the FY 2015 passthrough is out of compliance using the Exigent prices, it is in compliance using the CPI prices. Therefore, no citation to a statutory exception (39 U.S.C. § 3622(e)(2)) or remedial action is needed.

Mixed AADC Automation Cards

The passthrough for Mixed AADC Automation Cards is 110.0 percent compared to 136.4 percent in the ACD for FY 2014. This passthrough was 176.9 percent in FY 2013 and 227.3 percent in the ACD for FY 2012. The cost avoidance associated with this discount has fallen quickly in the recent past – from 2.7 cents in FY 2010, to 1.9 cents in FY 2011, to 1.1 cents in FY 2012. In the ACD for FY 2013, the trend reversed somewhat, with the cost avoidance increasing to 1.3 cents. In FY 2014, the cost avoidance declined back to 1.1 cents and has now declined further to 1.0 cent. The discount was reduced to 2.3 cents from 2.5 cents in Docket No. R2013-1, and reduced further to 1.5 cents in Docket No. R2013-10. Then, in Docket No. R2015-4, the discount was reduced to 1.1 cents to match the 1.1 cent cost avoidance. However, the recently determined FY 2015 cost avoidance reduced the cost avoidance to 1.0 cent.

Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

Automation AADC Cards

The passthrough for Automation AADC Cards is 112.5 percent (0.9 cent discount divided by a cost avoidance of 0.8 cents). This particular passthrough was 144.4 percent (1.3 cent discount divided by a cost avoidance of 0.9 cents) in FY 2014. In FY 2013, this passthrough was 109.1 percent (discount of 1.2 cents divided by a cost avoidance of 1.1 cents). In Docket No. R2015-4, the Postal Service reduced the discount from 1.3 cents to 0.9 cents to match the cost avoidance of 0.9 cents, and the

Commission approved this particular price with a passthrough of 100 percent. The only reason this passthrough has increased is because the recently determined FY 2015 cost avoidance is 0.8 cent.

Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

5-Digit Automation Cards

The passthrough for 5-Digit Automation Cards is 115.4 percent (discount of 1.5 cents divided by the cost avoidance of 1.3 cents). This particular passthrough was 80 percent in FY 2013 (based on a 1.2 cent discount and 1.5 cent cost avoidance). In Docket No. R2013-10, the Commission approved this price with a passthrough of 66.7 percent (1.2 cent discount and 1.8 cent cost avoidance). The passthrough improved slightly in Docket No. R2013-11 to 77.8 percent (1.4 cent discount and 1.8 cent cost avoidance). In FY 2014, this cost avoidance dropped from 1.8 cents to 1.3 cents, moving the passthrough from below 100 percent to above 100 percent. In Docket No. R2015-4, the Postal Service proposed a 1.3 cent discount to match the cost avoidance.

This discount is 1.5 cents due to the inclusion of the Exigent surcharge. While the passthrough is out of compliance using the Exigent prices, it is in compliance using the CPI prices. Therefore, no citation to a statutory exception (39 U.S.C. § 3622(e)(2)) or remedial action is needed.

ii. Flats

In Flats, only the passthrough for 5-Digit Automation Flats exceeds 100 percent.

5-Digit Automation Flats

The 5-Digit Automation Flats passthrough is 120.8 percent (discount of 19.2 cents divided by the cost avoidance of 15.9 cents), slightly less than the Docket No. R2015-4 passthrough of 126.3 percent. This passthrough improved because the cost avoidance increased from 15.2 cents to 15.9 cents. In FY 2014, this passthrough was 120.4 percent (an 18.3 cent discount divided by a 15.2 cent cost avoidance). This passthrough was 133.3 percent in FY 2013 (discount of 18.8 cents versus cost avoidance of 14.1 cents). The cost avoidance was 17.4 cents in FY 2010, grew to 18.8 cents in FY 2011, and then unexpectedly shrank to 14.3 cents in FY 2012. The FY 2013 estimate was 14.1 cents. In Docket No. R2013-1, the Postal Service set the discount at 18.8 cents, matching the FY 2011 cost avoidance. In Docket No. R2013-10, the Postal Service dropped this discount to 18.3 cents.

In Docket No. R2015-4, the Postal Service justified this greater than 100 percent passthrough (126.3 percent) using the rate shock exception.[3] The Commission agreed with the reasoning provided by the Postal Service, and accepted the rate shock argument.[4] Given the volatility of cost avoidance estimates and the significant increase for 5-Digit Automation Flats, the Automation 5-Digit Flats discount is permissible pursuant to 39 U.S.C. § 3622(e)(2)(B).

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[3] See Response of the United States Postal Service to Chairman's Information Request No. 2, Question 1, Docket No. R2015-4 (Feb. 2, 2015).
[4] See Order No. 2365, Docket No. R2015-4 (Feb. 24, 2015), at 8-9.

3. First-Class Mail Promotions

There were four First-Class Mail promotions in effect in FY 2015: Color Print in First-Class Mail Transactions, Color Transpromo, Advanced and Emerging Technology, and Earned Value Reply Mail.

Color Print in First-Class Mail Transactions

The Color Print in First-Class Mail Transactions Promotion (August 1 to December 31, 2014) was intended to grow the value of First-Class Mail by encouraging producers of bills and statements to use color messaging to create a greater connection and response from consumers. The promotion provided an upfront two percent postage discount to mailers who used dynamic/variable color print for marketing and consumer messages on their bills and statements. Between October 1 and December 31, 2014, the Postal Service issued $4.7 million in discounts for 602 million First-Class Mail pieces.

Color Transpromo

The Color Transpromo Promotion (June 1 to November 30, 2015) continued the approach of the Color Print in First-Class Mail Transactions Promotion. Like its predecessor, the Color Transpromo Promotion provided an upfront two percent postage discount to mailers who used dynamic/variable color print for marketing and consumer messages on their bills and statements. As of September 30, 2015, the Postal Service has issued $5.7 million in discounts for 720 million First-Class Mail pieces.

Advanced and Emerging Technology

The Advanced and Emerging Technology Promotion (May 1 to October 31, 2015) encouraged mailers to integrate direct mail with mobile technology or new advances in print. The promotion provided business mailers with an upfront two percent postage discount on Standard Mail letters and flats and First-Class Mail presort and automation letters, flats, and cards. Participating mailpieces were required to incorporate advanced print technology such as innovations in paper and ink, the use of standard Near Field Communication technology, or an enhanced augmented reality experience allowing the recipient to engage in an interactive experience. Mailers could earn an upfront discount of two percent on eligible postage. As of September 30, 2015, the Postal Service has issued $396 million in discounts for 49 million First-Class Mail pieces.

Earned Value Reply Mail

The Earned Value Reply Mail Promotion (May 1 to July 31, 2015) offered mailers of qualifying First-Class Mail Business Reply Mail (BRM) and Courtesy Reply Mail (CRM) enclosures a credit on each piece returned during the promotion period. Qualifying mailers earned $0.02 per returned reply mail piece. Participants whose total CRM and BRM counts equaled or exceeded their counts from the 2014 promotion earned $0.03 per piece. At the end of the promotion, the total credit amount was applied to the mailer's permit account, and could be applied to future mailings of First-Class Mail presort and automation cards, letters, and flats. Over the course of the program, the Postal Service issued $11.3 million in credits for 488.6 million BRM and CRM pieces.

B. Standard Mail

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Standard Mail products appear below.

Table 2: Standard Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue ($million)	Attributable Costs	Contribution	Revenue/ Piece	Cost/ Piece	Unit Contribution	Cost Coverage
HD/Sat Letters	6,478	$991	$454	$538	$0.153	$0.070	$0.083	218.49%
HD/Sat Flats & Parcels	11,232	$2,037	$1,176	$861	$0.181	$0.105	$0.077	173.26%
Carrier Route	8,291	$2,237	$1,707	$530	$0.270	$0.206	$0.064	131.07%
Letters	47,721	$10,023	$4,930	$5,093	$0.210	$0.103	$0.107	203.30%
Flats	5,249	$2,106	$2,628	($522)	$0.401	$0.501	($0.099)	80.15%
Parcels	60	$65	$89	($24)	$1.077	$1.480	($0.402)	72.81%
Every Door Direct Mail Retail	833	$148	$52	$97	$0.178	$0.062	$0.116	287.89%
Standard Mail NSAs	226	$53	$46	$8	$0.236	$0.202	$0.034	116.78%
Standard Mail Fees		$50						
Total Standard Mail (incl. fees)	80,090	$17,711	$11,081	$6,630	$0.221	$0.138	$0.083	159.84%

As shown above, all Standard Mail products other than Standard Mail Parcels and Standard Mail Flats covered their attributable costs in FY 2015. As a class, Standard Mail covered its attributable costs and contributed significantly to institutional costs.

Under section 3626(a)(6), when the Postal Service adjusts Standard Mail prices, the estimated average revenue per piece for Standard Mail sent by nonprofit mailers must equal, as nearly as practicable, 60 percent of the estimated average revenue per piece for Standard Mail sent by commercial customers. For FY 2015, the ratio was 62.88 percent.

i. Standard Mail Parcels

Standard Mail Parcels' cost coverage improved to 72.8 percent from 70.2 percent in FY 2014. As noted last year, despite above average price increases in recent dockets, several issues have caused this product's cost coverage to remain below 100 percent. First, on January 22, 2012, a large portion of the Parcels product – specifically, commercial Standard Mail machinable and irregular parcels generally sent for fulfillment purposes – transferred to the competitive product list. At the same time, a portion of the remaining Standard Mail Parcels product (formerly titled Non Flat-Machinables) became Marketing Parcels, with different mailing requirements. These changes left the remaining Standard Mail Parcels product with a significantly higher proportion of nonprofit mailpieces, driving down cost coverage. Nevertheless, the Postal Service is committed to improving this product's cost coverage by proposing above-average price increases in future price adjustments.

ii. Standard Mail Flats

Standard Mail Flats had a cost coverage of 80.2 percent in FY 2015, down 3 percentage points from FY 2014. The major change in Standard Mail Flats in FY 2015 was the migration of Carrier Route FSS pieces to Standard Mail Flats. As the Postal Service has stated in the past, it agrees with the Commission that having products cover their costs is an appropriate long-term goal.[5]

Several years ago, the Commission directed the Postal Service, as part of its ACR for FY 2012, to "respond to the specific remedy adopted by the 2010 ACD by presenting a schedule of future price adjustments for Standard Mail Flats."[6] With respect to the specific remedy, the ACD for FY 2010 required the Postal Service to present "a schedule of future above-CPI price increases for Standard Mail Flats."[7] In the ACR for FY 2013, the Postal Service complied with the Commission order by presenting a three-year schedule of above-average CPI price increases for Standard

[5] *See, e.g.*, United States Postal Service FY 2013 Annual Compliance Report, PRC Docket No. ACR2013 (December 27, 2013), at 19 (*hereinafter* "ACR for FY2013").

[6] Order No. 1472, Notice and Order Confirming Termination of Stay, PRC Docket No. ACR2010-R (Sept. 21, 2012), at 3.

[7] Annual Compliance Determination Report, Fiscal Year 2010, PRC Docket No. ACR2010 (Mar. 29, 2011), at 107.

Mail Flats.[8] The Commission approved the schedule of above-average price increases in its ACD for FY 2013.[9] In compliance with the Commission's order in the ACD for FY 2010, the Postal Service plans to increase the price of Standard Mail Flats by at least 1.05 times CPI in the next general market-dominant price change.

In addition, in the FY 2010 ACD, the Commission ordered the Postal Service to provide the following information about Standard Mail Flats in each subsequent Annual Compliance Report:

a) all operational changes designed to reduce flats costs in the previous fiscal year and an estimation of the financial effects of such changes;

b) all costing methodology improvements made in the previous fiscal year and the estimated financial effects of such changes; and

c) a statement summarizing the historical and current fiscal year subsidy of the flats product; and the estimated timeline for phasing out this subsidy.[10]

The Postal Service provides the information below in response to the Commission's directives. The section titled "Operational Changes" responds to directive (a), and the section titled "Costing Methodology Changes and Subsidy of the Flats Product" responds to directives (b) and (c).

Operational Changes

Below, the Postal Service describes the new and ongoing steps it took during FY 2015 to make its processing of Standard Mail Flats and Periodicals mail more efficient. Collectively, these efforts are expected to improve efficiencies and productivities, and contribute to reductions in overall Standard Mail Flats and Periodicals costs.

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[8] ACR for FY2013, at 20.
[9] Annual Compliance Determination Report, Fiscal Year 2013, PRC Docket No. ACR2013 (Mar. 27, 2013), at 52-54.
[10] Annual Compliance Determination Report: Fiscal Year 2010, PRC Docket No. ACR2010 (Mar. 29, 2011), at 107.

Where possible, the Postal Service has developed key metrics to monitor and gauge the operational impact of changes, specifically related to flat mail processing. The Postal Service is unable to provide an estimate of the financial impacts of these operational initiatives at this time. The metrics described in the following sections are used on a daily basis to identify operational or maintenance issues that may be impacting the overall efficiency of the operations monitored. As situations change, these metrics may be modified or discontinued and other metrics may be added. In many cases, the operational metrics employed are aggregate in nature, crossing different mail classes and entry make-up.

- **FSS Scorecard**

The Postal Service continues to measure critical aspects of FSS performance at each processing location. The resulting scorecard is utilized to develop a list of specific sites with the greatest opportunity for improvement. The below table reflects the Postal Service's performance on the key metrics utilized by the scorecard.

Performance Metric	FY 14	FY 15
Throughput per hour (pph)	8,746	8,840
Delivery Point Sequence (DPS)	58.57%	59.99%
Mail Pieces At-Risk	6.15%	5.34%

Sources:

Throughput per hour:	WebEOR
DPS %:	EDW
At-Risk:	MIRS

The Postal Service continues to work on operational efficiencies to improve FSS operation. The At-Risk indicator identifies the percentage of mail that does not follow the prescribed path of sortation through a machine-based operation. These pieces, while not representative of service failures, require some additional handling in order to ensure they meet service expectations. The Postal Service uses raw event indicators from the machine, such as the number of jams, and extrapolates the potential number of pieces that have fallen outside normal processing. Proper maintenance and adherence to operational guidelines minimizes the pieces at risk, hence decreasing the indicator.

The Mail Pieces At-Risk report enables the Postal Service to identify operational processes and machine elements that need to be reviewed for possible improvement. Data for the reports is gathered from machine End-of-Run (EOR) statistics. The metrics are broken down into three groups—Maintenance, Operator, and Shared (both Maintenance and Operator)—, based on the ability of that group to affect the metric being tracked. By addressing these indicators the Postal Service improved operational throughput, increased the percentage of flats sorted in delivery point sequence, and reduced the overall amount of At-Risk pieces for the FSS operation.

- **Move Mail Up The Ladder**

In FY 2015, the Postal Service continued its efforts to move mail up the ladder to automation. Flats volumes continued to decline, with overall processing declining by 5.2 percent versus FY 2014. Volume declines in FSS processing, however, remained virtually flat with a 0.3 percent decline versus FY 2014. Manual volumes declined by 2.9 percent versus FY 2014. Differing shifts in relative volume resulted in the percentage of flats processed manually increasing slightly from 9.8 percent in FY 2014 to 10.0 percent in FY 2015 (see table below). This slight increase is attributed to the continuing erosion of flats volumes, which reduces machine-compatible mail more than manual mail.

FY	Total Flats	Manual	% Manual
2014	22,398,861,989	2,194,532,209	9.8%
2015	21,225,921,271	2,130,633,910	10.0%
% Chg	-5.24%	-2.91%	

- **Bundle Operation**

The Automated Parcel and Bundle Sorter (APBS) sorts packages and bundles of flats to bins for either delivery or subsequent processing. At some locations, processing packages to destination requires two runs on the machine—a primary sortation and a secondary sortation. By making additional bins available for the primary sortation, the need for a secondary sortation is reduced or eliminated. For example, assume that a particular sortation requires 200 separations, but that the machine only has 150 bins. As a result, 50 separations require rehandling. The introduction of additional bins eliminates or reduces this extra handling.

In FY 2014, the Postal Service began expanding the capacity of APBS machines by adding 1,264 bins for sortation. In FY 2015, the Postal Service continued expanding capacity on APBS machines by adding 3,520 additional bins nationwide.

The APBS bin expansion program (see chart below) was justified based on the resulting reduction of manual handling for packages. However, these expansions will also improve finalization of bundles at many locations, as elimination of the second sortation makes the machine available for bundle processing.

	FY 14	FY 15	FY 16 (projected)
# APBS Bins Installed	1,264	3,520	688

- **Service Performance Diagnostics Tool**

The Postal Service continues to utilize the Service Performance Diagnostics tool (SPD) to track and improve the flow of Standard Mail and Periodicals Mail being processed through the network. The Work in Process (WIP) cycle time measures the time between a mail piece's arrival at the plant and bundle-to-piece distribution.

WIP cycle time increased slightly for both Standard Mail and Periodicals. The two-hour increase in the Periodicals WIP cycle time is attributed to the shift to earlier critical entry times for Periodicals that happened in January 2015 without any significant change in the actual bundle-to-piece processing timeframe.

The Postal Service continues to monitor WIP cycle time to identify locations and operations where the time between arrival and bundle-to-piece distribution can be improved. The Postal Service is consistently working to optimize its operations and reduce the cycle time between acceptance and processing.

Median 5 Day Mail Processing WIP Standard Mail Flats

Time Period from SPD	**Weighted Median (hours)**
(FY 14) Week ending 10/01/13 - 09/30/14	49
(FY 15) Week ending 10/01/14 - 09/30/15	52

Median 5 Day Mail Processing WIP Periodicals Flats

Time Period from SPD	**Weighted Median (hours)**
(FY 14) Week ending 10/01/13 - 09/30/14	21
(FY 15) Week ending 10/01/14 - 09/30/15	23

- **High Speed Flats Feeder**

The High Speed Flats Feeder (HSFF) is the Postal Service's next generation flats feeder that has been designed specifically for Postal Service mail. The HSFF is the most technologically advanced feeder in the world and enables the FSS to process more delivery points in the same operating window, while decreasing the error rate. This new feeder improves performance (increased volume processed in the same operating time, more delivery points, increased throughput and accept rate, and includes features to allow for a reduction in FSS Operator time), improved hardware/software features (improved mail piece singulation/anti-doubling at pick-off, mail piece type detection, and complete maintenance visibility), and an improvement to operator productivity.

The HSFF increases FSS efficiency by optimizing bin capacities, resulting in increased throughput. HSFF allows the Postal Service to run more volume on consolidated sort programs to improve processing efficiencies and overall throughput. The sort plan consolidation allows mailers to produce higher density pallets and reduce mixed pallets that require bundle sortation. HSFF reduces bundle processing, re-handling, bundle breakage and minimizes manual volume.

In FY 2014, the Postal Service tested the HSFF in two sites, the Dulles P&DC and the Philadelphia P&DC. In FY 2015, the Postal Service added a third site, Royal Palm P&DC, upgrading all FSS systems (3) at this site. The HSFF program has performed satisfactorily in the initial three deployments and has observed consistent productivity improvements over the current feeder technology on FSS. Additional deployments have not been implemented while the Postal Service evaluates a range of opportunities for investment in letters and flats, some of which would interact with the projected savings from a national deployment of the high speed feeders.

- **Lean Mail Processing**

In FY 2015, the Postal Service continued the national deployment of Lean Mail Processing (LMP) in mail processing facilities. The LMP program is a standardized, statistical program for improving mail processing. LMP phases one and two focused on foundational efforts affecting all mail processing operations, including flats. Initiatives included improvement of overall facility organization, improvement of letter tray and flats tub management, expansion of Facility Access and Shipment Tracking appointments to meet customer needs, reduction of late trips departing the processing facilities, reduction of letters processed on flats sorting equipment, and implementation of first-in-first-out staging, among others.

Phase three of LMP, deployed in early FY 2015, focused on Automated Package Processing System (APPS) and ABPS operations. The Postal Service issued revised guidelines for managing mail transportation equipment, designing staging areas, and making the best practical use of the machines, which improved operational performance by freeing up capacity on the machines for all products, including bundles.

Phase four of LMP focuses on lean management systems and proactive problem solving when discrepancies are first detected. Deployment began late in FY 2015. Personnel in each operational area in a plant, including flats and bundles operations, visually tracks their real-time performance to ensure they are on target and take appropriate actions to ensure operational goals are met.

This chart represents the LMP implementation by phases and mail processing facilities. The number of mail processing facilities at which LMP has been deployed varies by phase, as some LMP projects do not apply to all operations.

LMP Phase	Fiscal Year Implementation	Mail Processing Facilities
Phase 1	FY 2013-2014	258
Phase 2	FY 2014	236
Phase 3	FY 2015	169
Phase 4	FY 2015-2016	272

- **FSS Mail Preparation**

As of January 2014, the Postal Service requires that Standard Mail Flats and Periodicals mail destined for ZIP Codes that are processed on FSS equipment be prepared as FSS Scheme bundles. Additionally, if any FSS Scheme bundle identified on the L006 label list reaches a 250 pound threshold, the Postal Service requires that it be prepared as an FSS Scheme pallet. Below is a description of the benefits of FSS Scheme bundle and FSS Scheme pallet preparation.

  - ***FSS Scheme Bundles:*** The reduction of bundles reduces attributable mail processing costs. In addition, the requirements result in more uniform bundles, which reduces preparation expenses for mailers, and enables more efficient FSS processing for the Postal Service. Though these requirements became effective in January 2014, the industry was given a grace period for achieving full compliance. Accordingly, the full benefits of this preparation requirement did not become visible until Quarters three and four of FY 2014. During those quarters, the Postal Service experienced a reduction of over 14 million bundles over the same period in FY 2013.

- ***FSS Scheme Pallets:*** These pallets bypass bundle distribution on the APPS/APBS and go directly to the Stand Alone Mail Prep (SAMP).[11] With less handling, these bundles are much less likely to break apart and the flats receive less wear and tear, arriving in the mailbox in better condition. In order to maximize the quantity of flats sequenced on FSS, the mail must arrive at the SAMP a minimum of one hour prior to the scheduled run for that zone. These scheme pallets will provide more flats to the SAMP earlier in the day as they bypass the bundle distribution operation. Mailers have the option of dropping these pallets at the FSS site, which is often located in a different building than the Sectional Center Facility. Entry directly at the FSS site reduces Postal Service transportation expenses and improves service. If there are 250 pounds or more of flats for an FSS scheme, mailers are required to make an FSS Scheme pallet.
- ***FSS Pricing Incentive:*** To support FSS preparation, in 2014 the Postal Service introduced pricing incentives for scheme bundles on scheme pallets entered at the FSS facilities. Periodicals introduced a zero pallet charge for FSS scheme pallets. For the April 2015 price change, the Postal Service went a step further and developed more robust pricing for FSS sorted mail with the intention of reducing processing costs and better utilizing equipment. For Periodicals, the April 2015 structure included a

[11] The SAMP is a semi-automated system that facilitates the preparation of bundles of flat mail pieces for induction to the FSS. Bundles are inducted to the SAMP, which delivers them to manned stations where they are opened and the flats are oriented into an automated compatible tray. When the tray is filled, the employee submits the tray to a take-away system that builds a dolly for transport to the FSS. The SAMP then supplies the employee with an empty tray to continue preparing the mail.

piece price for FSS Flats, bundle pricing to encourage scheme containers, FSS Scheme Sack and Tub prices, and FSS Facility Pallet, Sack and Tub prices. For Standard Mail, the April 2015 structure included per piece pricing for FSS eligible pieces in scheme bundles on/in any container, at all entry points, and per piece pricing for FSS eligible pieces in scheme bundles on/in FSS scheme and facility containers entered at the destination FSS.

- **Reduce Bundle Breakage**

The Postal Service continues to work with the mailing industry, through the Mailers Technical Advisory Committee, to study the causes and impacts of bundle breakage. In 2015, the Postal Service shared information with Mail Service Providers (MSPs) and their individual processing plants to identify areas of opportunity to reduce breakage. Bundle breakage results in higher processing costs for the Postal Service, as well as potential damage to mail pieces. When bundles lose their presort integrity prior to being completely processed, the Postal Service must handle the individual pieces, which increased handling costs. Accordingly, reducing bundle breakage benefits both the Postal Service and the mailing industry. The causes and impacts of bundle breakage identified by a Lean Six Sigma project are being evaluated by multiple stakeholders within the Postal Service and the mailing industry to find solutions to further reduce bundle breakage on mail processing equipment.

- **Newspaper Kaizens**

In 2015, Postal Service Operations conducted Kaizen events to provide rapid response to service improvement opportunities related to processing of newspapers and periodical mailings. The reviews were focused on mixed Periodicals processing and utilized Lean Six Sigma tools to identify root causes and bottlenecks, as well as determine the lead time of the process. The Postal Service partnered with mail owners and MSPs to examine the entire process from mail preparation to delivery, including proper labeling of sacks and other containers, as well as proper identification of the product once received by the Postal Service. As a result, a standard workflow was developed for Periodicals, including newspapers. The Postal Service provided national training to field plants on the revised standard operational procedures. Additionally, the Postal Service will participate in training to update newspaper publishers and printers on mail preparation requirements.

- **Standard Mail Outgoing Mixed States**

In FY 2015, at the request of the mailing industry, the Postal Service conducted an analysis of outgoing mixed states processing. The analysis revealed that some mixed processing was being directed outside of the corresponding Network Distribution Center (NDC) service area. This mismatch could result in increases to both processing and transportation costs. The Postal Service is in the process of aligning mixed states processing facilities with NDC network service areas. The Postal Service plans to implement these changes in Quarter two of FY 2016.

Costing Methodology Changes and Subsidy of the Flats Product

Three costing methodology changes affected Standard Mail Flats costs in FY 2015, one from Docket No. RM2015-7 (Proposal Thirteen), one from Docket No. RM2015-19 (Proposal Ten), and one from Docket No. RM2016-3 (Proposal Twelve). As the table illustrates below, summing the estimated cost increases presented for

Standard Mail Flats at the time each of the three costing methodologies was presented yields an approximate total increase of $50.3 million dollars.

Docket No.	Proposal	Topic	FY 2014 Estimated Impact ($000)
RM2015-7	Thirteen	Updating City Carrier Street Time Cost Model	$43,048[1]
RM2015-19	Ten	Merging Cost Segment 4 with Cost Segment 3	$100
RM2016-3	Twelve	Change in Methodology for City Carrier Letter Route Vehicle Use Costs	$7,128
	Total		$50,276

[1]Proposal Thirteen was filed on December 11, 2014 so the cost impact was based on FY 2013.

The additional $50.3 million in costs represented 2.1 percent of the FY 2014 total attributable costs previously reported for Standard Mail Flats ($2.45 billion) in the FY 2014 ACD.[12] As also reported in the FY 2014 ACD, the unit cost of Standard Mail Flats was 48.5 cents.[13] Therefore, implementation of all three costing methodology changes is expected to have increased the unit costs reported this year for Standard Mail Flats by approximately 0.99 cent (or 2.1 percent of previous unit cost of 48.5 cents).[14]

With respect to Standard Mail Flats' financial shortfall, the below table summarizes the gap between revenues and costs,[15] as reported in the Commission's

[12] Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014, PRC Docket No. ACR2014 (April 1, 2015), at 74.
[13] Id.
[14] Relative to the FY 2014 CRA, the final adjustment associated with the FSS markings issue, developed last year in USPS-FY14-45, and implemented for FY 2015 as described in USPS-FY15-31, represents an additional costing methodology change. Since the Commission incorporated that change into the FY 2014 ACD, however, using the FY 2014 ACD costs as the baseline for the above evaluation exercise obviates the need to include the estimated impact of the FSS marking adjustment change.
[15] The Postal Service noted the adverse effects of decreased flats volume on FSS productivity in response to a Chairman's Information Request last year. See Response of the United States Postal Service to Chairman's Information Request No. 2, Question 8(e), Docket No. ACR2014 (Feb. 20, 2015). This issue is currently the subject of litigation with the supplier of the FSS machines, Northrop Grumman. The Postal Service's February 2007 contract with Northrop Grumman contemplated that deployment of

ACDs from FY 2008 through FY 2014, and as reported in the FY 2015 CRA for this fiscal year:

Year	Revenue (millions)	Cost (millions)	Shortfall (millions)
2008	$3,673	$3,891	$218
2009	$2,882	$3,497	$616
2010	$2,592	$3,169	$577
2011	$2,500	$3,143	$643
2012	$2,234	$2,762	$528
2013	$2,138	$2,514	$376
2014	$2,041	$2,452	$411
2015	$2,106	$2,628	$522

As the Postal Service has consistently explained, it is very difficult to predict when the shortfall for Standard Mail Flats will be phased out. While the Postal Service plans to increase the price of Standard Mail Flats by at least CPI times 1.05 during the next general market-dominant price change, it is unlikely that the shortfall will be eliminated by the end of 2016, when the Commission will commence a comprehensive review of the present regulatory system.[16] The prospects for eliminating the shortfall thereafter will depend not only on pricing and cost saving initiatives, but also on any changes made to applicable regulations by the Commission. Nevertheless, it is noteworthy that the Standard Mail Flats shortfall in FY 2015 is $121 million less than it was when the shortfall peaked in FY 2011. Moreover, the volume of Standard Mail Flats actually grew

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the FSS would commence in October of 2008 and be completed by October of 2010. While the first twelve machines were installed in the time frame envisioned, they did not meet the specifications of the Statement of Work and were not accepted until September of 2010. Full deployment was not achieved until August of 2011, a delay of approximately one year. The Postal Service lost in excess of 1,200 machine months, resulting in substantial lost savings from both the delay and the coincident decline in volumes.

[16] 39 USC § 3622(d)(3).

in FY 2015, and when unit contribution is negative, volume growth will necessarily increase the aggregate contribution shortfall.

The Postal Service also notes that some of the information that it is utilizing to calculate flats costs has been available for substantially less than a full year. The Postal Service continues to review the accuracy of the cost data for flats, and is pursuing Lean Six Sigma projects to help us evaluate that data and to identify additional process, workflow, and work method improvements to increase efficiency as discussed extensively elsewhere in this report. The Postal Service is also evaluating potential capital investments to consolidate volumes processed on FSS machines and to reduce the number of sort plans, and is considering classification changes that may better reflect demand and/or cost characteristics of flats mail.

2. Workshare Discounts and Passthroughs

i. Letters

Seven workshare passthroughs for Standard Mail Letters exceed 100 percent: Automation AADC Letters, Nonautomation AADC Machinable Letters, Nonautomation 3-Digit Nonmachinable Letters, Nonautomation 5-Digit Nonmachinable Letters, DNDC Dropship Letter, DCSF Dropship Letters, and Automation Mixed AADC Barcoding.

Pre-Barcoding: Automation Mixed AADC Letters

The Automation Mixed AADC Letters passthrough is 325 percent for FY 2015 compared to 800 percent in FY 2014. The cost avoidance decreased from 1.8 cents in FY 2011 to negative 0.3 cents in FY 2012. The cost avoidance increased to 0.2 cents in FY 2013, decreased to 0.1 cents in FY 2014, and has increased to 0.4 cents in FY 2015. This barcoding discount encourages mailers to provide an Intelligent Mail barcode (IMb) on their mailpieces, which improves operational efficiency. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(D). Given the volatility in cost avoidance, the Postal Service will do its best to eliminate the portion of the discount above avoided costs as soon as practicable, consistent with operational business conditions.

Automation AADC Letters

The Automation AADC Letters passthrough is 140.0 percent for FY 2015. This represents an increase from a passthrough of 137.5 percent in FY 2014 and 106.7 percent in FY 2013. The cost avoidance decreased from 2.1 cents in FY 2012 to 1.5 cents in FY 2013, increased to 1.6 cents in FY 2014, and decreased to 1.5 cents in FY 2015. The passthrough was approved in Docket No. R2015-4. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next general market-dominant price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

Nonautomation AADC Machinable Letters

The Nonautomation AADC Machinable Letters passthrough is 106.3 percent in FY 2015. This represents a decrease from a passthrough of 112.5 percent in FY 2014. The Commission approved this passthrough in Docket No. R2015-4 pursuant to 3622(e)(2)(B). The Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Nonautomation 3-Digit Nonmachinable Letters

The Nonautomation 3-Digit Nonmachinable Letters passthrough is 113 percent, down from 119.2 percent in FY 2014. The cost avoidance increased from 2.5 cents in FY 2011 to 2.7 cents in FY 2012, decreased to 2.1 cents in FY 2013, and increased to 2.6 cents in FY 2014 and finally decreased to 2.3 cents in FY 2015. While the passthrough is out of compliance using the Exigent prices, it is in compliance using the CPI prices. Therefore, no citation to a statutory exception or remedial action is needed.

Nonautomation 5-Digit Nonmachinable Letters

The Nonautomation 5-Digit Nonmachinable Letters passthrough is 123.6 percent, down from 143.1 percent in FY 2014. The cost avoidance increased from 7.6 cents in FY 2011 to 7.7 cents in FY 2012, decreased to 6.9 cents in 2013, decreased to 6.5 cents in FY 2014, and increased to 7.2 cents in FY 2015. Aligning the discount and avoided cost would result in a price increase as large as 5.2 percent, which could result in rate shock. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B), but intends to continue reducing the discount until the passthrough reaches 100 percent.

Dropship Discounts

Passthroughs for Dropship Discounts for Letters were 225 percent for both DNDC compared to Origin and DSCF compared to Origin. These were approximately the same as last year, with the DNDC passthrough slightly lower, and the DCSF passthrough slightly higher. Aligning the discount with avoided cost would result in a price increase as large as 27.1 percent, which could result in rate shock. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B), but intends to continue reducing the discount until the passthrough reaches 100 percent.

ii. Flats

Five presorting passthroughs for Standard Mail Flats exceed 100 percent: the presorting Automation FSS Other passthrough, the presorting Automation FSS Scheme passthrough, the presorting Nonautomation ADC Flats passthrough, the presorting Nonautomation 3-Digit Flats passthrough, and the presorting Nonautomation FSS Other passthrough.

Automation FSS Other Flats

The presorting Automation FSS Other Flats passthrough is 162.2 percent. This reflects a discount of 13.3 cents exceeding avoided costs of 8.2 cents. The Postal Service justifies this passthrough pursuant to 3622(e)(2)(A). The high passthrough reflects the new workshare initiative to move FSS Flats from Carrier Route and 5-Digit into its own category.

Automation FSS Scheme Flats

The presorting Automation FSS Scheme Flats passthrough is 366.7 percent. This reflects a discount of 3.3 cents exceeding avoided costs of 0.9 cents. The Postal Service justifies this passthrough pursuant to section 3622(e)(2)(A). The Postal Services notes that the Commission, in Docket No. R2015-4, approved the passthrough when it was similarly well above 100 percent. The high passthrough reflects the new workshare initiative to move FSS Flats from Carrier Route and 5-Digit into its own category. Although it is using the section 3622(e)(2)(A) exception, the Postal Service recognizes that this is a large passthrough and will use future general market-dominant price adjustments to reduce it and move it towards 100 percent.

Nonautomation ADC Flats

The presorting Nonautomation ADC Flats passthrough is 129.7 percent, up from 110.9 percent in the FY 2014 ACR. This reflects a discount of 4.8 cents exceeding an avoided cost of 3.7 cents. While the passthrough is out of compliance using the Exigent prices, it is in compliance using the CPI prices. Therefore, no citation to a statutory exception or remedial action is needed.

Nonautomation 3-Digit Flats

The presorting Nonautomation 3-Digit Flats passthrough is 101.9 percent, significantly reduced from 114.9 percent in FY 2014. The reduction was the result of a 0.1 cent increase in the discount (from 5.4 cents to 5.5 cents) being offset by a larger 0.7 cent increase in the avoided cost (from 4.7 cents to 5.4 cents). Given the significant progress made in reducing the passthrough to 100 percent, the Postal Service is not relying on any of the statutory exceptions. Rather, the Postal Service plans to eliminate the portion of the discount that exceeds cost avoidance as soon as practicable in future market-dominant price adjustments, taking into consideration other business and operational needs.

Nonautomation FSS Other Flats

The presorting Nonautomation FSS Other Flats passthrough is 166.7 percent. This reflects a discount of 8 cents exceeding avoided costs of 4.8 cents. The Postal Service justifies the passthrough pursuant to section 3622(e)(2)(A). The high passthrough reflects the new workshare initiative to move FSS Flats from Carrier Route and 5 Digit into its own category. The Postal Service will attempt to lower this passthrough in future general market-dominant price adjustments, taking into consideration other business needs at the time of the price change.

iii. Parcels

Seven Standard Mail Parcels passthroughs exceed 100 percent: the presorting NDC Machinable Parcels passthrough, the presorting NDC Irregular Parcels passthrough, the presorting NDC Marketing Parcels passthrough, the presorting SCF Marketing Parcels passthrough, the pre-barcoding Mixed NDC Machinable Barcoded Parcels passthrough, the pre-barcoding Mixed NDC Irregular Barcoded Parcels passthrough, and the pre-barcoding NDC Marketing Barcoded Parcels passthrough.

NDC Machinable Parcels

The presorting passthrough for NDC Machinable Parcels is 103.8 percent, up from 73.0 percent in FY 2014. This reflects a discount of 41.1 cents and a cost avoidance of 39.6 cents. The FY 2015 cost avoidance dropped significantly from 51.4 cents. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next general market-dominant price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

NDC Irregular Parcels

The presorting passthrough for NDC Irregular Parcels is 160.4 percent, up from 139.7 percent in FY 2014. The passthrough increased because there was no change in the discount of 32.4 cents, and a decrease in the avoided cost, from 23.2 cents to 20.2 cents. In Docket No. R2015-4, the Postal Service increased prices by 10 percent for

Parcels, and increasing prices further to compensate for the lower cost avoidance could result in rate shock for its customers. Accordingly, the Postal Service justifies the current 160.4 percent passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce the discount gradually in future market-dominant price adjustments until the passthrough reaches 100 percent.

NDC Marketing Parcels

The presorting passthrough for NDC Marketing Parcels is 135.2 percent, up from 124.8 percent in the ACR for FY 2014. In Docket No. R2015-4, the Postal Service increased prices by 10 percent for Parcels, and increasing prices further to compensate for the lower cost avoidance recently determined for FY 2015 could result in rate shock for customers. Accordingly, the Postal Service justifies the current 135.2 percent passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce the discount gradually in future market-dominant price adjustments until the passthrough reaches 100 percent.

SCF Marketing Parcels

The presorting passthrough for SCF Marketing Parcels is 109.7 percent, up from 72.7 percent in FY 2014. This reflects a discount of 32.7 cents and a cost avoidance of 29.8 cents. The cost avoidance fell from 41 cents in FY 2014 to 29.8 cents in FY 2015. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

Mixed NDC Machinable Barcoded Parcels

The pre-barcoding passthroughs for Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and NDC Marketing Barcoded Parcels are all 168.4 percent. As discussed in previous price adjustment filings and ACRs, the Postal Service has been urging mailers through the nonbarcoded surcharge to develop a fully barcoded parcels mailstream. A fully barcoded mailstream would permit the elimination of keying stations on parcel sorters, thereby increasing the efficiency of postal operations. In light of the above, it makes sense, in the near term, to maintain the pre-barcoding discounts above 100 percent of avoided costs. The Postal Service therefore justifies these passthroughs pursuant to section 3622(e)(2)(D).

iv. Carrier Route

Two passthroughs for dropship of Carrier Route letters exceeded 100 percent of cost avoidances in FY 2015: DNDC entry compared to origin entry and DSCF entry compared to origin entry.

Carrier Route Letters DNDC Entry

Carrier Route Letters with DNDC entry had a passthrough of 206.3 percent in FY 2015. This reflects a discount of 3.3 cents and a cost avoidance of 1.6 cents. In FY 2014 Carrier Route Letters had a cost avoidance of 3.2 cents, twice the FY 2015 cost avoidance. The unexpected decrease in cost avoidance is largely responsible for the high passthrough. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

Carrier Route Letters DSCF Entry

Carrier Route Letters with DSCF entry had a passthrough of 220 percent in FY 2015. This reflects a discount of 4.4 cents and a cost avoidance of 2.0 cents. In FY 2014, Carrier Route Letters had a cost avoidance of 3.8 cents, nearly twice the FY 2015 cost avoidance. This unexpected decrease in cost avoidance is largely responsible for the high passthrough. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

v. High Density and Saturation Letters, Flats, and Parcels

Two dropship discounts associated with Standard Mail High Density and Saturation Letters, and Standard Mail High Density and Saturation Flats/Parcels exceed 100 percent of avoided costs. DNDC Letters compared to origin entry and DSCF Letters compared to origin entry both had passthroughs above 100 percent.

DNDC Letters

The passthrough for DNDC Letters compared to Origin Letters is 206.3 percent for FY 2015. This reflects a discount of 3.3 cents and a cost avoidance of 1.6 cents. As with Carrier Route, the cost avoidance in FY 2014 was 3.2 cents, twice as high as the 1.6 cents cost avoidance in FY 2015. The unexpected increase in cost avoidance resulted in the higher FY 2015 passthrough. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

DSCF Letters

The passthrough for DSCF Letters compared to Origin Letters is 225 percent for FY 2015. This reflects a discount of 4.5 cents and a cost avoidance of 2.0 cents. As with Carrier Route, the cost avoidance in FY 2014 was 3.8 cents, nearly twice as high as the 1.6 cents cost avoidance in FY 2015. The unexpected increase in cost avoidance resulted in the higher FY 2015 passthrough. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will either fix the discount in its next price change, or cite a statutory exception at that time, taking into consideration other business needs at the time of the price change.

3. Standard Mail Promotions

There were four Standard Mail promotions in effect in FY 2015: Mail Drives Mobile Commerce, Mail Drives Mobile Engagement, Advanced and Emerging Technology, and EDDM Coupon.

Mail Drives Mobile Commerce

The Mail Drives Mobile Commerce Promotion (November 1 to December 31, 2014) provided business mailers with an upfront two percent postage discount on Standard Mail letters and flats, and Nonprofit Standard Mail letters and flats. Qualifying mailpieces were required to include a mobile barcode or print/mobile technology that could be read or scanned by a mobile device and lead the recipient to a mobile-optimized shopping website. Over the course of the program, the Postal Service issued $12.2 million in discounts for 2.7 billion Standard Mail pieces.

Mail Drives Mobile Engagement

The Mail Drives Mobile Engagement Promotion (July 1 to December 31, 2015) builds on prior mobile promotions, including the Mail Drives Mobile Commerce Promotion, and how direct mail, combined with mobile technology, continues to be a convenient method for consumers to engage and interact with their printed mailpieces. The promotion provides business mailers with an upfront two percent postage discount on Standard Mail letters and flats, and Nonprofit Standard Mail letters and flats. Among other content requirements, qualifying mailpieces must include mobile-print technology the recipient to purchase a product or engage with the printed mailpiece via their mobile device. As of September 30, 2015, the Postal Service has issued $10.9 million in discounts for 2.2 billion Standard Mail pieces.

Advanced and Emerging Technology

The Emerging Technology Promotion (June 1 to October 31, 2015) encouraged mailers to integrate direct mail with mobile technology or new advances in print. The promotion provided business mailers with an upfront two percent postage discount on Standard Mail letters and flats, Nonprofit Standard Mail letters and flats, and First-Class Mail presort and automation letters, flats, and cards. To participate in the promotion, qualifying mailpieces were required to incorporate advanced print technology such as innovations in paper and ink, the use of standard Near Field Communication technology, or an enhanced augmented reality experience allowing the recipient to engage in an interactive experience. Mailers could earn an upfront discount of two percent on eligible postage. As of September 30, 2015, the Postal Service issued $10.5 million in discounts for 2.6 billion Standard Mail pieces.

The Every Door Direct Mail Coupon Program

The Every Door Direct Mail® (EDDM) Coupon Promotion (September 7 to December 31, 2014) was an incentive program for new customers that provided a postage credit for mailings that met a certain threshold. New EDDM customers were issued a coupon by a Postal Service sales representative on a first-come, first-served basis. The coupon offered a $50 postage credit towards an EDDM order of $350 to $750, or a $100 postage credit towards an EDDM order of $751 or more. Customers could use their coupons online when the order was created, or could present the coupons at a Postal Service retail location or Business Mail Entry unit. Between October 1 and December 31, 2014, Postal Service customers redeemed 965 coupons valued at $50 and 1,003 coupons valued at $100, for a total of $148,550.

C. Periodicals

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Periodicals products appear below.

Table 4: Periodicals Volume, Revenue, and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attributable Costs ($Million)	Contribution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contribution ($)	Cost Coverage (%)
Within County Periodicals	571	$66.0	$88.6	$(22.6)	$0.116	$0.155	$(0.040)	74.49
Outside County Periodicals	5,267	$1,515.4	$2012.5	$(497.1)	$0.288	$0.382	$(0.094)	75.30
Fees		$7.9	-	-	-	-	-	-
Total Periodicals Mail (incl.fees)	5,838	$1,589.2	$2,100.1	$(511.9)	$0.272	$0.360	$(0.088)	75.64

As shown above, both Periodicals products failed to cover their attributable costs in FY 2015. Cost coverages for the Periodicals class overall decreased from FY 2014 levels, from 76.16 percent to 75.64 percent. The cost coverage of Within County

Periodicals decreased from 77.73 percent to 74.49 percent. The cost coverage of Outside County Periodicals declined from 75.77 percent to 75.30 percent.

When examining the Periodicals cost coverage, it is important to note that both cost and revenue play a role in this calculation. In this instance, the revenue per piece for Periodicals as a whole increased from 26.9 cents in FY 2014 to 27.2 cents in FY 2015, or 1.1 percent. However, at the same time, cost per piece increased to 36.0 cents from 35.3 cents, or approximately 2 percent. The combination of these factors led to the FY 2015 decline in cost coverage.

2. Workshare Discounts and Passthroughs

The Saturation workshare discount was the only discount under the Within County Periodicals product above 100 percent of avoided costs (214.3 percent).

Thirteen workshare discounts associated with Outside County Periodicals exceeded 100 percent of avoided costs. These include the presorting discounts for Machinable Nonautomation 5-Digit Flats, Saturation, Machinable Automation FSS Flats, Machinable Automation 5-Digit Flats, Nonmachinable Nonautomation 3-Digit/SCF Flats, Nonmachinable Nonautomation 5-Digit Flats, Nonmachinable Automation ADC Flats, Nonmachinable Automation 3-Digit/SCF Flats, Nonmachinable Automation 5-Digit Flats, ADC Automation Letters, 3-Digit Automation Letters, and 5-Digit Automation Letters. The prebarcoding discount for Machinable Automation Mixed ADC also exceeded avoided costs. The Postal Service justifies all of these discounts pursuant to section 3622(e)(2)(C), which permits discounts provided in connection with mail matter of educational, cultural, scientific, or informational value to exceed 100 percent of avoided costs.

3. FY 2014 ACD Directives

In the FY 2014 ACD, the Commission directed the Postal Service to provide certain information in its FY 2015 ACR about steps taken to improve the Periodicals cost coverage. With respect to pricing, the Commission ordered the Postal Service to discuss:

a) The progress made in improving Periodical's pricing efficiency, and the impact of leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing;

b) The progress made in implementing pricing strategies outlined in Chapter 7 of the Periodicals Mail Study; and

c) The cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation.[17]

The section titled "Periodicals Pricing" addresses directives (a) and (b). The section titled "Worksharing Incentives for 5-Digit and Carrier Route" addresses directive (c).

The Commission also ordered the Postal Service to include the following information about to strategies designed to improve operational efficiency for Periodicals:

a) The progress made in developing metrics to assess the cost savings impact of operational strategies; and

b) The cost savings achieved from the implementation of operational strategies outlined in Chapter 7 of the Periodicals Mail Study[18] and in the Postal Service's Flats Operational and Pricing Strategies in Docket No. R2010-4.[19]

These directives are addressed in Section II.B.2.ii, under "Operational Changes."

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[17] Annual Compliance Determination Report: Fiscal Year 2014, PRC Docket No. ACR2014 (Mar. 27, 2015), at 16-17, 41.
[18] Periodicals Mail Study, Joint Report of the United States Postal Service and Postal Regulatory Commission, September 2011 (Periodicals Mail Study).
[19] Annual Compliance Determination Report: Fiscal Year 2014, PRC Docket No. ACR2014 (Mar. 27, 2015), at 40.

Periodicals Pricing

The Postal Service shares the Commission's concern about the Periodicals cost coverage. Many adjustments over the course of future price changes will likely be required to align revenue and costs.

To date, the Postal Service has not taken steps to change the overall Periodicals classification so that its service and prices are based on what is offered for First-Class Mail and Standard Mail, as recommended in Chapter 7 of the Periodicals Mail Study. However, as the Commission acknowledged in the FY 2014 ACD, the Postal Service took a "meaningful step . . . to increase pricing efficiency for Periodicals" in 2015.[20] In Docket No. R2015-4, the Postal Service started the process of addressing the Periodicals cost coverage by sending more efficient pricing signals to mailers, including by designing prices to cover costs within each pricing/cost element (piece, pound, bundle, and container). This marked a significant change in pricing strategy for Periodicals.[21]

One of the key cost drivers for Periodicals is the handling of bundles and containers. With that in mind, the Postal Service set the prices for Periodicals bundles and pallets based on the costs of handling them. Certain exceptions were made to avoid exorbitant increases (e.g., prices for Mixed ADC pallets), or to provide incentives

[20] Annual Compliance Determination Report: Fiscal Year 2014, PRC Docket No. ACR2014 (Mar. 27,2015), at 16.

[21] For many years, the general pricing strategy for Periodicals was to manage price increases by publication to ensure that no individual publication received a price increase that was dramatically less or more than any other. For example, the Postal Service applied this strategy in Docket No. R2013-10, by limiting the extent to which price increases for individual publications differed from the average. United States Postal Service Notice of Market-Dominant Price Adjustment (Sept. 26, 2013), at 54-55. The result was that no publication received a price increase greater than eight percent, while the overall class averaged a six percent increase. The operating theory was that a significantly large increase would be counter-productive if it led to smaller, niche publications going out of business.

to encourage desirable behavior (e.g., prices for pure Carrier Route pallets). Also, a slightly higher than average increase in piece prices was implemented to improve some passthroughs.

Given the relatively low price cap space available, the Postal Service offset these increases by reducing both advertising and editorial pound rates, a change that benefits both the Postal Service and Periodicals customers. As the Postal Service noted in Docket No. R2015-4, piece weight is not a significant cost driver within the weight range of typical mail pieces (3 to 16 ounces), and the productivity of mail processing equipment (AFSM 100, FSS, APBS, or APPS) is not significantly impacted by minor weight increases.[22]

Worksharing Incentives for 5-Digit and Carrier Route

In Docket No. R2015-4, the Postal Service implemented a pricing strategy designed to encourage the entry of more Carrier Route pallets in non-FSS zones. Prior to this change, approximately 87 percent of Periodicals Carrier Route bundles were entered at postal facilities on SCF and 3-Digit pallets.[23] Carrier Route bundles on these pallets are more expensive to process than those entered on 5-Digit and pure Carrier Route pallets. In order to encourage mailers to prepare more direct pallets, Carrier Route bundles entered on Carrier Route pallets now receive the lowest price available for Non-FSS regular Periodicals. We believe that this strategy, combined with pricing the bundles and pallets at their costs, will provide mailers with incentives to move bundles to Carrier Route/5-Digit pallets and reduce material handling costs.

[22] United States Postal Service, Notice of Market-Dominant Price Adjustment (Jan. 15, 2015), at 27.
[23] USPS-FY15-14, Table MCS-4.

D. Package Services

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Package Services products appear below.

Table 5: Package Services Volume, Revenue and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attribu-table Costs ($Million)	Contri-bution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contri-bution ($)	Cost Coverage (%)
Bound Printed Matter Flats	260	212	151	61	0.815	0.580	0.235	140.56
Bound Printed Matter Parcels	228	284	239	45	1.244	1.048	0.196	118.72
Media Mail/ Library Mail	75	274	359	(85)	3.655	4.795	(1.140)	76.23
Alaska Bypass	1	34	19	15	26.335	14.935	11.400	176.33
Fees		3						
Total Package Services Mail (incl. fees)[1]	564	806	768	38	1.428	1.360	0.067	104.95

[1] Totals are calculated from unrounded numbers and then rounded. This is why the rounded totals do not always equal the sum of the unrounded subtotals.

One Package Services product failed to cover its attributable cost. Media Mail/Library Mail had a cost coverage of 76.23 percent. This is a 17.47 percentage point decline in cost coverage from 93.8 percent in FY 2014. While the Postal Service saw an 8.9 cent increase in revenue per piece, the cost per piece increased by 99.3 cents. The cost increase is due to a large change in certain cost factors, such as the density factor.

Overall, the class had a cost coverage of 104.95 percent, declining from a cost coverage of 112.5 percent in FY 2014. This overall decline in cost coverage is largely due to the cost coverage decline for Media Mail/Library Mail. The cost coverage decreased for Bound Printed Matter (BPM) Flats, but that was offset by an increase for

BPM Parcels. Despite the overall increased contribution for both BPM categories combined, the decline seen in Media Mail/Library Mail was too significant to overcome, resulting in the lower overall cost coverage for the class. The Postal Service intends to continue improving the cost coverage of Media Mail/Library Mail over time through above-average price increases.

2. Workshare Discounts and Passthroughs

i. Media Mail / Library Mail

Two passthroughs associated with Media Mail/Library Mail exceeded 100 percent in FY 2015: the Media Mail Basic presort passthrough and the Library Mail Basic presort passthrough. The former is 125.6 percent, and the latter is 120.9 percent. This represents a decrease from 175.0 percent and 167.9 percent, respectively, in FY 2014. The Postal Service justifies these passthroughs pursuant to section 3622(e)(2)(C), as Media Mail and Library Mail transport matter of educational, cultural, scientific, and informational value.   Moreover, the Postal Service notes that in the 2014 ACD the Commission found that passthroughs of 175.0 percent and 167.9 percent were justified pursuant to 39 U.S.C. § 3622(e)(2)(C). Nonetheless, the Postal Service plans to move the discounts toward the cost avoidances over time, while avoiding any drastic changes that could cause rate shock.

ii. BPM Flats and BPM Parcels

Seven passthroughs for BPM Flats and BPM Parcels exceed 100 percent.

BPM Flats and BPM Parcels DNDC Dropship

The passthroughs for the BPM Flats and BPM Parcels DNDC dropship discounts are both 111.5 percent. On January 26, 2014, the discounts were reduced from 17.0

cents to 14.1 cents, in line with the FY 2012 cost avoidance of 14.1 cents, which was used to set these discounts in Docket Nos. R2013-10 and R2013-11. In FY 2014 the cost avoidance dropped to 11.6 cents. On May 31, 2015, the workshare discounts were reduced to 11.6 cents; however, the recent cost avoidance provided for FY 2015 dropped to 10.4 cents.

Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will adjust these discounts, as it has done in recent years, to reflect the most recent cost avoidance during the next general market-dominant price change, taking into consideration other business and operational needs.

BPM Flats and BPM Parcels DSCF Dropship

The passthroughs for the BPM Flats and BPM Parcels DSCF dropship discounts are 110.7 and 115.1 percent, respectively. On January 26, 2014, the discounts were increased to 64 cents from 61.5 cents for flats and 64.2 from 61.6 cents for parcels. These discounts were below the FY 2012 cost avoidances for both flats and parcels (64.8 cents), which were used to set the discounts in Docket Nos. R2013-10 and R2013-11. The FY 2014 cost avoidances dropped to 58.3 cents. The discounts for flats and parcels were reduced in Docket No. R2015-4 to 58.3 cents and 60.6 cents, respectively. Since then, the FY 2015 cost avoidances dropped to 54.9 cents. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will adjust these discounts, as it has done in recent years, to match the most currently available cost avoidance during the next general market-dominant price change, taking into consideration other business and operational needs.

BPM Flats DFSS Dropship

The passthrough for the BPM Flats DFSS dropship discount is 112.2 percent. The FY 2014 cost avoidance was 58.3 cents as reported in Docket No. R2015-4. The discount for flats was set in that docket to 59.3 cents. This passthrough (101.7 percent) was justified using section 3622(e)(2)(A)(ii)(efficient operations). Since then, the FY2015 cost avoidance dropped to 54.9 cents.

Cost avoidances for each fiscal year are estimated after the end of that fiscal year. As it has done in recent years with other passthroughs, the Postal Service will adjust these discounts to match the most currently available cost avoidance during the next general market-dominant price change, taking into consideration other business and operational needs.

BPM Flats and BPM Parcels DDU Dropship

The passthroughs for the BPM Flats and BPM Parcels DDU dropship discounts are 111.7 and 115.9 percent, respectively. On January 26, 2014, the discounts were increased to 79.1 cents for both flats and parcels, from 76.2 cents and 76.5 cents, respectively. These discounts were equal to the FY 2012 cost avoidances for both flats and parcels (79.1 cents), which were used to set the discounts in Docket Nos. R2013-10 and R2013-11. The FY 2014 cost avoidance dropped to 75.1 cents. The discounts for flats and parcels were reduced in Docket No. R2015-4 to 75.1 cents and 78.3 cents, respectively. Since then, the FY 2015 cost avoidance decreased to 69.8 cents. Cost avoidances for each fiscal year are estimated after the end of that fiscal year. The Postal Service will adjust these discounts, as it has done in recent years, to match the most currently known cost avoidance during the next general market-dominant price change, taking into consideration other business and operational needs.

BPM Flats and BPM Parcels Dropship Summary

In Docket No. R2015-4, the Postal Service set all passthroughs for BPM Flats and BPM Parcels as close to 100 percent (or lower) as possible. For those passthroughs where it was not possible to reach 100 percent or lower, an explanation or justification was provided. In Order No. 2472 approving the May 31, 2015 price change for Package Services (May 7, 2015), the Commission accepted these explanations and justifications. Since the price change, new cost avoidances have become available, as presented in this ACR. As there has been no opportunity to correct the passthroughs that have increased to above 100 percent, the Postal Service plans to address these passthroughs in compliance with section 3622(e)(2) during the next price change for Package Services.

E. Special Services

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Special Services appear below.

Table 6: Special Services Volume, Revenue and Cost by Service/Product								
Service/Product	Volume (Million)	Revenue ($Million)	Attributable Costs ($Million)	Contribution ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contribution ($)	Cost Coverage
Certified Mail	196.7	659.2	485.4	173.8	3.35	2.47	0.88	135.81%
COD	0.3	3.1	3.0	0.1	9.75	9.47	0.28	102.96%
Insurance	22.7	89.1	50.3	38.9	3.92	2.21	1.71	177.29%
Registered Mail	2.4	37.9	27.1	10.7	15.49	11.10	4.39	139.59%
Stamped Envelopes	N/A	11.2	7.3	4.0	N/A	N/A	N/A	154.57%
Stamped Cards	N/A	1.2	0.9	0.3	N/A	N/A	N/A	140.24%
Other Ancillary Services	N/A	492.8	222.4	270.4	N/A	N/A	N/A	221.56%
Total Ancillary Services	N/A	1,294.6	796.4	498.2	N/A	N/A	N/A	162.56%
Int’l Ancillary Services	30.7	43.4	13.7	29.7	1.41	0.45	0.97	316.95%
Caller Service	N/A	98.8	27.3	71.5	N/A	N/A	N/A	362.45%
Address Management Services	N/A	17.7	4.5	13.3	N/A	N/A	N/A	396.93%
Credit Card Authentication*	14.6	16.0	1.5	14.6	1.10	0.10	1.00	1097.29%
Customized Postage	0.0	0.6	0.1	0.6	315,000	34,968	280,033	900.84%
Money Orders	92.8	160.5	105.1	55.4	1.73	1.13	0.60	152.72%
Post Office Box Service	N/A	310.9	228.5	82.4	N/A	N/A	N/A	136.09%
Stamp Fulfillment Services	N/A	3.9	6.6	(2.7)	N/A	N/A	N/A	59.05%
Total Special Services Mail	N/A	1,946.5	1,183.5	763.0	N/A	N/A	N/A	164.47%

*See USPS-FY14-NP26 for cost adjustments after revenue-sharing with third-party partners.

One Special Services product failed to cover its attributable costs in FY 2015: Stamp Fulfillment Services. The product had attributable costs of $6.6 million in FY 2015, but listed revenues of only $3.9 million, resulting in a cost coverage of 59 percent. Fees were not increased in 2015 because when fees were increased in 2014 revenue actually declined, suggesting that further fee increases may not improve the cost coverage much. Revenue grew by 18 percent in 2015 even though the prices did not increase. However, costs increased by nearly 50 percent. The Postal Service continues to agree with the Commission's comments in the ACD for FY 2012, at 142:

> The costs and revenues associated with the SFS product do not entirely capture the value that the Services Center adds to the Postal Service, and to other Postal Service products. Although SFS does not cover its attributable costs, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. Thus, it promotes the objectives of reducing costs and increasing efficiency. See 39 U.S.C. 3622(b)(1) and (c)(12).

F. Negotiated Service Agreements

There were two domestic market dominant Negotiated Service Agreements (NSAs) in effect in FY 2015: Valassis Direct Mail, Inc. ("Valassis") and PHI Acquisitions, Inc. ("Potpourri"). Full information regarding the Potpourri NSA appears in USPS-FY15-30. The Valassis NSA was approved by the Commission on August 23, 2012, in Order No. 1448.

As noted in the Valassis NSA Data Collection Report ("DCR)[24] furnished pursuant to Order No. 1448 (Docket Nos. MC201-14 and R2012-8), Valassis ceased NSA-related operations in Atlanta, GA in August 2013, and in Phoenix, AZ and Washington, DC in December 2013. No Valassis NSA-related operations are in effect at present in any markets, and there are no plans to resume mailing this product.[25] As there were no NSA-related operations in 2014 to present, Valassis did not mail any pieces eligible for contract prices in FY 2015, and thus incurred no transaction fees in

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[24] Valassis Solutions Negotiated Service Agreement Data Collection Report, Docket Nos. MC2012-4 & R2012-8 (Nov. 10, 2015) [Hereafter, "Valassis DCR"].
[25] Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2 Of Chairman's Information Request No. 10 (Feb. 27, 2015) at 2.

FY 2014[26] or FY 2015. As there were no NSA-related operations in Agreement Year 1, Valassis did not reach the 1,000,000 mail piece threshold necessary to qualify for contract prices. Consequently, Valassis incurred a $100,000 NSA transaction fee/penalty, which it paid on September 21, 2015.[27]

The Potpourri NSA was implemented in Q4 of FY 2014. Due to acquisition of Magellan's Travel Essentials, PHI accrued additional volume relative to the contractual baseline of 2,140,851 (Year 1) and 2,120,425 (Year 2). From a fiscal year perspective, Potpourri had FY 2015 NSA volume of 226.5 million pieces, total after rebate revenue of $53.4 million, and attributable costs of $45.7 million, resulting in an attributable cost coverage of 116.8 percent. The volume-based agreement earned a rebate of approximately $1.9 million during FY 2015, and approximately $2.1 million during the July 2014 to June 2015 period.

The Commission reviews NSAs from a contract year perspective, and it focuses on the net benefit of an NSA to the Postal Service. As shown in USPS-FY15-30, using the evaluation method preferred by the Postal Service, the net benefit of the Potpourri NSA for the contract year of July 2014 to June 2015 is estimated to be $1.25 million. Alternatively, using the Commission's preferred methodology, as also shown in USPS-FY15-30, the net value of the Potpourri NSA to the Postal Service's net financial position over the contract year was $283 thousand. As explained previously, the Postal Service views its preferred net value estimation methodology as better suited than the Commission's for analysis of commercial corporate mailing activity.

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[26] *Id*.
[27] Valassis DCR at 2.

Thus, it is clear under either evaluation method that the Potpourri NSA improved the net financial position of the Postal Service. Furthermore, the Postal Service has no reason to believe that this NSA caused unreasonable harm in the marketplace. The scale of the agreement was sufficiently small to make market effects unlikely, and similar functionally-equivalent NSAs could have been made available to similarly-situated mailers. Thus, the Potpourri NSA satisfies section 3622(c)(10)(A) and the Commission’s rules.

III. SERVICE PERFORMANCE, CUSTOMER SATISFACTION, AND CONSUMER ACCESS

A. Service Performance

During FY 2010, the Commission issued its final rules on periodic reporting of service performance measurement and customer satisfaction, which are codified at 39 C.F.R. Part 3055.[28] Among other things, Commission Rules 3055.20 through 3055.24 require annual reporting of service performance achievements at the national level for all market dominant products. Reporting, however, is not required where the Commission has granted a semi-permanent exception or a temporary waiver.[29] The Postal Service's report, including information responsive to the criteria listed in Rule 3055.2(b)-(k), is included as USPS-FY15-29.

The Postal Service set for itself aggressive on-time targets of 90 percent or above for all market dominant products. For some products and in some districts, these targets have already been met or exceeded, but there are several instances where the scores have not been met at the national level. During FY 2015, the Postal Service implemented significant changes to the operating window as part of its network rationalization plan. These changes impacted the schedules for nearly all mail processing and transportation activities nationwide. Service performance results declined in several categories in FY 2015 compared to prior years as the Postal Service worked to stabilize operations by aligning the right resources to activities under the new operating plan to meet both service performance targets and cost savings objectives.

[28] PRC Order No. 465, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Docket No. RM2009-11, May 25, 2010.
[29] *Id.* at 21-23.

The Postal Service's targets are intended to guide longer-term improvement and are based on the continued evolution of Intelligent Mail barcode systems and on customers' participation in data collection, which enables performance measurement at the necessary levels. The specific reasons why national scores have not been met are discussed in USPS-FY15-29.

B. Customer Satisfaction with Market Dominant Products

Section 3652(a)(2)(B)(ii) requires the Postal Service to provide measures of the degree of customer satisfaction with the service provided for its market dominant products, also known as mailing services.

1. Overview

The Customer Engagement and Strategic Alignment (CE&SA) group in Consumer and Industry Affairs at Postal Service Headquarters was responsible for survey measurement of the level of customer satisfaction with market dominant products during FY 2015 for Postal Service customers. Surveys were administered across all four quarters of the year for three customer groupings – Residential, Small/Medium Business and Large Business customers.

2. Background

The Customer Insights (CI) program, directed by the Consumer and Industry Affairs department, provides a comprehensive view of the customer experience across the most frequently used customer contact channels. CI's modular components and flexible design allow expansion and inclusion of additional points of contact to meet the quickly changing customer landscape. The Postal Service is dedicated to delivering excellent customer experiences and the CI program supports this effort.

Customer Insights Measurement System — The CI measurement system provides a holistic view of customer satisfaction. The customer experience is measured across four touch points then weighted and aggregated to create the CI composite score.

3. Methodology

For the CI system in FY 2015, Residential and Small/Medium business customers were randomly selected, contacted by mail and offered the opportunity to complete an online or phone survey. Residential and Small/Medium businesses are sampled sufficiently to ensure, at the District level, a minimum precision level of +/- 5 percentage points, at the 90 percent level of confidence per postal quarter. In addition, a Large Business Panel Survey (>250 Employees) was conducted in quarter four.

To measure customer experience with market dominant products, residential, small business, and large business survey respondents were asked to rate their product satisfaction using a six-point scale: *Very Satisfied*, *Mostly Satisfied*, *Somewhat Satisfied*, *Somewhat Dissatisfied*, *Mostly Dissatisfied*, and *Very Dissatisfied*. Respondents were also given the option of marking "*Don't Use Product*" and those that responded in this manner were not included in the calculations for satisfaction with market dominant products. Customers who indicated that they did not use a product or were not familiar with a product were excluded from the calculated satisfaction ratings.

In FY 2015, the Postal Service continued combining only the top two box scores of *Very Satisfied* and *Mostly Satisfied*. The scores reported for market dominant products in FY 2015 result from combining only these *Very Satisfied* and *Mostly Satisfied* ratings.

4. Survey Results – FY 2015 Ratings for Market Dominant Products

The table below reflects the FY 2015 CI survey data (with corresponding FY 2014 data following in parenthesis for comparison) responsive to the requirements in Section 3652(a)(2)(B)(ii). The results represent data from residential, small/medium business and large business customer segments. For each row of data, the table indicates the mail service and the corresponding customer rating (combined top two boxes - Very Satisfied and Mostly Satisfied).

Customer Satisfaction with Market Dominant Products (Mailing Services) -

FY 2015 *(FY 2014)*

Market Dominant Products (Mailing Services)	Residential % Rated Very/Mostly Satisfied	Small/Medium Business % Rated Very/Mostly Satisfied	Large Business % Rated Very/Mostly Satisfied (Q4 only)
First-Class Mail	**89.22** *(91.15)*	**84.77** *(87.25)*	**83.27** (**)
Single-Piece International	**85.80** *(85.58)*	**82.31** *(83.04)*	**82.65** (**)
Standard Mail	**85.11** *(86.76)*	**80.82** *(83.82)*	**79.49** (**)
Periodicals	**85.50** *(85.90)*	**82.42** *(83.26)*	**77.10** (**)
Single-Piece Standard Post	**86.66** *(88.92)*	**82.65** *(84.06)*	**77.81** (**)
Media Mail	**87.17** *(88.66)*	**85.18** *(86.55)*	**78.61** (**)
Bound Printed Matter	--* *(--*)*	**81.70** *(81.72)*	**76.54** (**)
Library Mail	**85.10** *(--*)*	**85.43** *(81.79)*	**78.66** (**)
-- Number of responses received did not meet minimum threshold for 90% level of confidence.** * -- FY14 Not Available. The Postal Service concluded that a separate Large Business survey was not needed in FY2014 due to the inclusion of the Business Services Network (BSN) component of the Customer Insights (CI) survey. *See* USPS FY2014 ACR at 40. Although the FY2015 CI survey includes a BSN component, in response to questions posed by the Commission in response to the FY2014 ACR, the Postal Service elected to perform a Large Business survey in Quarter 4 of 2015, and reports those results here.**			

C. Consumer Access to Postal Services

Information regarding Post Offices, collection boxes, wait time in line, and delivery points is contained in USPS-FY15-33. The Postal Service closed no Post Offices and no stations or branches in FY 2015. At the end of FY 2015, there were 26,196 Post Offices, 2,789 stations and branches, and 527 carrier annexes. Also at the end of FY 2015, there were 469 suspensions of Post Offices in effect and 107 suspensions of stations and branches. To provide increased access, the Postal Service opened 107 more Village Post Offices in FY 2015, raising the total at the end of the year to 874. Nationally, there were 153,999 collection boxes available at the end of FY 2015, compared to 156,345 at the beginning of FY 2015. Average wait time in line increased at the national level from 2 minutes 24 seconds in FY 2014 to 2 minutes 36 seconds in FY 2015.

D. Comparability of Performance Indicators across Different Fiscal Years

In its July 7, 2015 "Analysis of the Postal Service's FY 2014 Program Performance Report and FY 2015 Performance Plan" (hereafter, "Analysis"), the Commission stated its concern that the Postal Service may not be able to compare survey results across recent fiscal years for customer satisfaction (i.e., Provide Excellent Customer Experiences Goal) and employee/workplace engagement (i.e., Ensure a Safe Workplace and Engaged Workforce Goal). Specifically, the Commission concluded that, for the FY 2015 ACR to comply with 39 U.S.C. 2804(c), the Postal Service must provide comparable results for each performance indicator for, at a minimum, Fiscal Years 2012, 2013, 2014, and 2015, by providing all results using the same measurement methodology or by explaining how results can be compared under different methodologies. *See* Analysis at 29-30, 39.[30]

[30] The Commission noted the seeming lack of comparability of both the Postal Service's new and old customer satisfaction measurement systems (Customer Experience Measurement (CEM) and Customer Insights (CI), respectively) and the Postal Service's new and old employee/workplace engagement measurement systems (Voice of the Employee (VOE) and Postal Pulse, respectively). *See* Analysis at 29-30, 39.

The Postal Service has given due consideration to the Commission's recommendations regarding its Performance Report under 28 U.S.C. 2804. However, the Postal Service has adopted the new CI and Postal Pulse systems because, in postal management's judgment, they will furnish improved measurements of customer satisfaction and employee/workplace engagement than the previous systems. As part of the Postal Service's efforts to improve its customer service and more fully engage its workforce, it is looking to more modern, comprehensive measurement systems; this is why it has implemented CI and Postal Pulse.

For the Postal Service to restrict itself to legacy systems like CEM and VOE would be unreasonable. Utilizing both old and new systems simultaneously would be inefficient, of little practical value, and overly burdensome, given the Postal Service's financial situation. Although it may not be possible to compare survey results between these old and new measurement systems, the Postal Service has concluded that use of these new measurement systems offers it the best opportunity to improve performance in multiple areas.

In addition, the Postal Service does not share the Commission's interpretation of 39 U.S.C. 2804's comparability requirement. The Commission asserts:

> *For the FY 2015 Report to comply with 39 U.S.C. § 2804(c), the Postal Service must provide comparable results for each performance indicator for, at minimum, fiscal years 2012, 2013, 2014, and 2015.*

Analysis at 12 (italics in original).

Section 2804(c) of Title 39 requires the Postal Service to "include actual results" of its performance "for the three preceding fiscal years" measured against performance indicators established in its Performance Plan. Notably, the language of 2804(c) does not require each fiscal year's "actual results" to be comparable to those of other fiscal years. While the Postal Service is sensitive to the Commission's interest in "meaningfully evaluat[ing] performance across fiscal years" (*id.*) through a review of comparable results, postal management must also consider the most effective means of measurement with a view towards service improvement in a highly competitive environment. Accordingly, the Postal Service's FY 2015 Performance Report includes survey results for Fiscal Years 2012, 2013, 2014, and 2015 in such areas as customer satisfaction (Provide Excellent Customer Experiences Goal) and employee/workplace engagement (Ensure a Safe Workplace and Engaged Workforce Goal). Again, the differences in measurement systems across these four fiscal years stem from the Postal Service's decision to adopt improved systems, such as CI and Postal Pulse.

IV. COMPETITIVE PRODUCTS

A. Product-by-Product Costs, Revenues, and Volumes

For FY 2015, cost, revenues, and volumes for competitive products of general applicability are shown directly in the FY 2015 CRA and ICRA. In the CRA, competitive products are disaggregated into six groups – Total Priority Mail Express, Total (non-Express) Priority Mail, Total First-Class Package Service, Total Ground, Total International Competitive, and Total Domestic Competitive Services. The constituent products for each of those groups are listed in a table in the attached Application for Non-Public Treatment of the Non-Public Annex (Attachment Two). Those groups are further disaggregated in the Nonpublic CRA (USPS-FY15-NP11). For competitive products not of general applicability, available data on international customized mailing agreements (ICMs) for FY 2015 are presented in the ICRA materials within USPS-FY15-NP2. For domestic competitive products not of general applicability, information is provided in USPS-FY15-NP27.

B. Section 3633 Standards

The competitive product pricing standards of section 3633 have been implemented by the Commission at 39 C.F.R. § 3015.7. This section discusses the available FY 2015 data with reference to those standards.

i. Subsection 3633(a)(1)

Subsection 3633(a)(1) states that competitive products should not be cross-subsidized by market dominant products. The Commission's regulations define the most appropriate test for this standard as the incremental cost test for the aggregation of competitive products.[31] Simply stated, if the aggregate revenues from competitive products equal or exceed the aggregate incremental costs of competitive products, then competitive products overall are not being cross-subsidized by market dominant products.

As in past ACRs, the Postal Service is presenting what can be termed a “hybrid” estimate of incremental costs, in which an estimate of the aggregate incremental costs of domestic competitive products (including group specific costs) is added to an estimate of the attributable costs of international competitive products. The “hybrid” characterization reflects the blending of an actual estimate of domestic incremental costs with an attributable cost proxy for international incremental costs. The need for the hybrid approach is caused by the structure of the ICRA, which precludes direct application of the incremental cost model to international products. As demonstrated in Proposal 22, Docket No. RM2010-4, the hybrid estimate is an improvement over the full proxy of attributable costs for both domestic and international competitive products, plus group specific costs, used before FY 2009.[32] The hybrid approach provides stronger protection against cross-subsidy than the previous full proxy approach.

The incremental cost for domestic competitive products, and the hybrid incremental cost for the group of all competitive products -- fully documented in USPS-FY15-NP10 -- are presented below.

[31] *See* 39 C.F.R. § 3015.7(a).

[32] Proposal 22 was approved by the Commission in Order No. 399, Docket No. RM2010-4 (Jan. 27, 2010).

FY2015 INCREMENTAL COST CALCULATION FOR COMPETITIVE PRODUCTS[1]

	Attributable Cost	Group Specific	Incremental	Hybrid Incremental
Domestic Competitive Mail	$ 10,701,138	$ 34,132	$ 10,985,229	$ 10,985,229
International Competitive	$ 1,212,269	$ -	na	$ 1,212,269
Total Competitive	$ 11,913,407	$ 34,132	na	$ 12,197,498

[1] Costs are ($000).

The total competitive hybrid incremental cost is $12,197,498 thousand, which is the sum of the hybrid incremental costs for domestic competitive mail and the hybrid incremental costs for international competitive. In the past, the Commission used attributable cost plus group specific cost for the cross-subsidy test. That proxy would provide a cost floor of $11,947,539 thousand ($11,913,407 + $34,132). The hybrid provides a preferred cost floor because it includes at least some properly calculated incremental costs, and is a better approximation of the true incremental costs required for the test.[33]

The hybrid incremental costs of $12.197 billion are well below total competitive products revenue of $16.425 billion (shown on page 3 of USPS-FY15-1). Therefore, based on these estimates, it is clear that competitive products in FY 2015 were not cross-subsidized by market dominant products, and thus were in compliance with subsection 3633(a)(1).

[33] As demonstrated in Proposal 22, the resulting hybrid will be greater than the group's overall attributable cost (while not overstating the incremental costs for competitive products). This means that the hybrid is a preferred cost floor for performing a cross subsidy test.

ii. Subsection 3633(a)(2)

Subsection 3633(a)(2) requires that each competitive product cover its attributable costs. As shown in the Nonpublic CRA (USPS-FY15-NP11), USPS-FY15-NP27, and the ICRA (USPS-FY15-NP2), every competitive product covered its attributable costs, with the exception of a few products – two domestic NSAs, International Money Transfer Service, Inbound Air Parcel Post (at Non-UPU Rates), and Inbound Parcel Post (at UPU Rates).

As noted above, two domestic NSAs did not cover their attributable costs in FY2015. But of great significance, as explained below and in further detail in USPS-FY15-NP27, published prices for these contracts either (1) did not or, (2) would not have covered the product costs.

1) Priority Mail Contract 35 (Docket No. **CP2015-109**) is a Shipping Services Contract approved on August 4, 2015. The customer shipped an extremely small number of pieces in FY 2015. While the estimated cost coverage is a bit below 100 percent, the cost coverage had those pieces paid published rates would likewise have been a bit less than 100 percent.

2) Parcel Return Service Contract 8 (Docket No. **CP2015-73**) is a Shipping Services Contract approved on March 17, 2013. An amendment to the contract was filed on May 15, 2015, and approved on May 28, 2015. The cost coverage for this contract was just barely below 100 percent. The PRS full network product was eliminated in May 2015. However, contract pieces were priced at a premium over the expiring (as of May 2015) published prices.

The Postal Service intends to evaluate both these contracts at the end of the current quarter (Q1 FY2016) and either amend or terminate these contract as appropriate.

The Postal Service offers the following observations on international competitive products for which revenues did not exceed costs. First, Inbound Parcel Post at UPU Rates consist of inbound air and surface parcels for which rates are set according to formulae determined by the Universal Postal Union (UPU) Acts. The Postal Service cannot change these rates unilaterally and, absent other incentives to negotiate rate increases for this service, is constrained in negotiations with other postal operators by the fact that other posts can insist on resort to default UPU rates,. The Postal Service is also examining options to remove costs in delivery by negotiating with postal operators to waive the need for securing signatures upon delivery. Furthermore, the small volume of this service contributes to the difficulty in obtaining sufficient IOCS tallies through sampling.

Second, the Postal Service is taking remedial measures to address Inbound Air Parcel Post at non-UPU Rates. This product consists of negotiated rates for inbound Air Parcel Post, tendered by several European postal operators. In the Postal Service’s response to the FY2014 ACD, the Postal Service advised the Commission of its intention to exit the arrangement. See Responses of the United States Postal Service to Commission Requests for Additional Information Regarding IMTS and EPG in the FY2014 Annual Compliance Determination, June 30, 2015. The Postal Service has furnished appropriate notices to this effect to the counterparties of the agreement, and will exit the agreement according to its terms on June 30, 2016.

Third, since the FY2014 ACR concluded, the Postal Service reported to the Commission the challenges involved in determining costs for International Money Transfer Service (IMTS). See Responses of the United States Postal Service to Commission Requests for Additional Information Regarding IMTS and EPG in the FY2014 Annual Compliance Determination, June 30, 2015. Both inbound and outbound components of IMTS were reported to be below cost in FY2014. The volume of IMTS continues to be small; consequently, the Postal Service reiterates its observations in its June 30, 2015 response to the ACR, namely, that “[b]ecause the number of IMTS transactions is small, it is difficult to obtain enough IOCS tallies through sampling to reliably estimate attributable cost for IMTS, resulting in relatively volatile unit costs.” The Postal Service has taken mitigation steps that will be in place in short order. Specifically, rates for IMTS-Outbound will rise on January 17, 2016. International Postal Money Order fees will increase by 5.6 percent. The International Money Order Inquiry Fee will increase by 3.5 percent. The IMTS fee will increase between 3.3 to 3.7 percent. Thus, the Postal Service has taken measures to address the cost coverage of IMTS-Outbound. See Docket No. CP2016-9.

Finally, the Postal Service notes that outbound registered mail, which is classified as competitive when combined with host pieces that are also classified as competitive (such as Priority Mail International flat rate envelopes and small flat rate boxes, as well as First-Class Package International Service (FCPIS)), did not cover costs. The Postal Service understands that the problem with this product results from a correction in the procedures by which costs for this product were previously reported. This error in application of the Encirclement Rules, which resulted in FY2014 costs for registry combined with FCPIS being reported with market dominant registry, has since been corrected for FY2015. In light of the fact that the result of this correction has surfaced with the FY2015 ICRA, the Postal Service intends to examine whether pricing solutions would resolve this matter.

iii. Subsection 3633(a)(3)

Subsection 3633(a)(3) states that competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. In its regulations, the Commission has determined that an appropriate minimum share is 5.5 percent of total institutional costs.[34] Page 3 of USPS-FY15-1 shows total institutional costs of $33.815 billion. Applying the 5.5 percent to that figure yields a target contribution of $1.860 billion. Page 3 of USPS-FY15-1 shows total competitive product attributable costs of $11.913 billion, and total competitive product revenue of $16.425 billion. Subtracting the former from the latter results in total competitive product contribution of $4.511 billion. Taking into account the competitive market test figures reported in USPS-FY15-NP27, the overall net competitive contribution amount changes to $4.508 billion, which is greater than the $1.860 billion target. Thus, the subsection 3633(a)(3) requirement was met in FY 2015.

[34] *See* 39 C.F.R. § 3015.7(c). The Commission In 2012 affirmed 5.5 percent as an appropriate minimum share of total institutional costs to be borne by competitive products. Order No. 1449, Docket No. RM2012-3 (Aug. 23, 2012).

V. MARKET TESTS AND NONPOSTAL SERVICES

A. Market Dominant Market Tests

In FY2015, there were no market test of experimental products offered under the provisions of section 3641 that were categorized as market dominant.

B. Competitive Market Tests

Customized Delivery, IMRS, and Metro Post were the only competitive market tests of experimental products offered under the provisions of section 3641 in FY 2015. Information for these market tests is provided under seal in USPS-FY15-NP27. The Postal Service does not have a method for estimating the quality of service of its competitive experimental products. The Postal Service does not believe that the offering of these competitive experimental products created an inappropriate competitive advantage for the Postal Service or any mailer.

C. Nonpostal Services

On December 11, 2012, the Commission issued an order approving Mail Classification Schedule (MCS) descriptions and prices for nonpostal service products.[35] The approved MCS includes 11 nonpostal service products, two of which are market dominant and nine of which are competitive. FY 2015 revenue, cost, and volume data for the two market dominant products are provided below.

[35] Order No. 1575, Docket No. MC2010-24 (Dec. 11, 2012).

1	**Alliances with the Private Sector to Defray Costs**		
	[includes MoverSource nonpostal service]		
		Revenue	$ 33,465,587
		Expense	981,000
		Net Income (Loss)	$ 32,484,587
		Volume	NA
2	**Philatelic Sales**		
		Revenue	$42,181,846
		Expense	$12,445,849
		Net Income (Loss)	$ 29,735,997
		Volume	7,961,756

Comparable data for the seven competitive nonpostal services in effect and active in FY 2015 are provided in USPS-FY15-NP27.

VI. NONPUBLIC ANNEX

Section 3652(f)(1) contemplates the use of a nonpublic annex for documents or other materials that the Postal Service considers exempt from public disclosure, pursuant to 39 U.S.C. § 410(c) and 5 U.S.C. § 552(b). In particular, section 410(c)(2) exempts from mandatory disclosure "information of a commercial nature…which under good business practice would not be publicly disclosed." Accordingly, such information is contained in this Report's nonpublic annex.

A complete listing of the contents of the nonpublic annex appears at Attachment One. In general, the nonpublic annex contains the same types of materials that were included in the nonpublic annex in Docket No. ACR2014. Thus, its primary contents are:

(1) versions of the CRA and Cost Segments and Components reports that provide disaggregated information for competitive products, and supporting materials underlying the CRA (such as the CRA "B" workpapers, the CRA model, and files relating to the various costing data systems);

(2) the ICRA, supporting materials underlying the ICRA, and data for international customized agreements with customers;

(3) billing determinants for domestic and international competitive products; and

(4) information on individual domestic competitive product NSAs.

An Application for Nonpublic Treatment of Materials regarding the nonpublic annex appears at Attachment Two.

Respectfully submitted,

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Attachment One

LIST OF APPENDED MATERIALS

PUBLIC FOLDERS

USPS-FY15-1	FY 2015 Public Cost and Revenue Analysis (PCRA) Report
USPS-FY15-2	FY 2015 Public Cost Segments and Components Report
USPS-FY15-3	FY 2015 Discounts and Passthroughs of Workshare Items
USPS-FY15-4	FY 2015 Market Dominant Billing Determinants
USPS-FY15-5	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances)
USPS-FY15-6	General Classification of Accounts (Formerly Handbook F-8)
USPS-FY15-7	Cost Segment 3 Cost Pools & Other Related Information (Public Portion)
USPS-FY15-8	Equipment and Facility Related Costs
USPS-FY15-9	FY 2015 ACR Roadmap Document
USPS-FY15-10	FY 2015 Special Cost Studies Workpapers - Letter Cost Models (First and Standard)
USPS-FY15-11	FY 2015 Special Cost Studies Workpapers - Flat Cost Models (First and Standard) & Periodicals Cost Model
USPS-FY15-12	Standard Mail Parcel Mail Processing Cost Model
USPS-FY15-13	FY 2015 Standard Mail and Periodicals Destination Entry Cost Models
USPS-FY15-14	Mail Characteristics Study (Public Portion)
USPS-FY15-15	Bound Printed Matter Mail Processing Cost Model and Media Mail – Library Mail Mail Processing Cost Model
USPS-FY15-16	Bound Printed Matter Transportation Cost Model and Bulk Parcel Return Service Cost Model

USPS-FY15-17	2015 Annual Report and Comprehensive Statement of Postal Operations
USPS-FY15-18	FY 2015 ECR Mail Processing Unit Costs
USPS-FY15-19	FY 2015 Delivery Costs By Shape
USPS-FY15-20	FY 2015 Window Service Cost by Shape
USPS-FY15-21	Business Reply Mail Cost Model
USPS-FY15-22	FY 2015 Bound Printed Matter Mail Processing Costs
USPS-FY15-23	MODS Productivity Data
USPS-FY15-24	FY 2015 Non-Operation Specific Piggyback Factors (Public Portion)
USPS-FY15-25	FY 2015 Mail Processing Piggyback Factors (Operation Specific)
USPS-FY15-26	FY 2015 Mail Processing Costs by Shape (Public Portion)
USPS-FY15-27	FY 2015 Nonprofit Mail Cost Approximations
USPS-FY15-28	FY 2015 Special Cost Studies Workpapers – Special Services (Public Portion)
USPS-FY15-29	Annual Report on Service Performance for Market Dominant Products
USPS-FY15-30	FY 2015 Market Dominant NSA Materials
USPS-FY15-31	FY 2015 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version)
USPS-FY15-32	FY 2015 CRA “B” Workpapers (Public Version)
USPS-FY15-33	Consumer Access to Postal Services
USPS-FY15-34	City Carrier Cost System (CCCS) Documentation (Public Version)
USPS-FY15-35	Rural Carrier Cost System (RCCS) Documentation (Public Version)

USPS-FY15-36	Transportation Cost Systems (TRACS) Documentation (Public Version)
USPS-FY15-37	In-Office Cost System (IOCS) Documentation (Public Version)
USPS-FY15-38	USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments
USPS-FY15-39	FY 2015 Competitive Products Fund Reporting Materials
USPS-FY15-40	2015 Rural Mail Count
USPS-FY15-41	International Market Dominant Billing Determinants
USPS-FY15-42	FY 2015 Revenue, Pieces, and Weight Report (Public Version)

NONPUBLIC FOLDERS:

USPS-FY15-NP1	FY 2015 Domestic Competitive Product Billing Determinants
USPS-FY15-NP2	FY 2015 International Cost and Revenue Analysis (ICRA) Report (Hard Copy & Excel)
USPS-FY15-NP3	FY 2015 International Cost Segments and Components Report (Hard Copy & Excel)
USPS-FY15-NP4	FY 2015 ICRA Domestic Processing Model (Cost Matrices, Reports, Control File, & Changes)
USPS-FY15-NP5	FY 2015 ICRA Overview/Technical Description
USPS-FY15-NP6	FY 2015 International Cost Segment Spreadsheets
USPS-FY15-NP7	Cost Segment 3 International Subclass Costs by Cost Pools (Volume Variable Cost Pools)
USPS-FY15-NP8	FY 2015 International Billing Determinants
USPS-FY15-NP9	FY 2015 Miscellaneous International Data

USPS-FY15-NP10	FY 2015 Competitive Product Incremental and Group Specific Costs
USPS-FY15-NP11	FY 2015 Nonpublic Cost and Revenue Analysis (NPCRA) Report (Hard copy & Excel)
USPS-FY15-NP12	FY 2015 Nonpublic Cost Segments and Components Report (Hard copy & Excel)
USPS-FY15-NP13	FY 2015 CRA Model (Model Files, Cost Matrices, and Reports)
USPS-FY15-NP14	FY 2015 CRA "B" Workpapers (Nonpublic Version)
USPS-FY15-NP15	Parcel Select / Parcel Return Service (PRS) Mail Processing Cost Model
USPS-FY15-NP16	Parcel Select / Parcel Return Service (PRS) Transportation Cost Model
USPS-FY15-NP17	Parcel Select / Parcel Return Service (PRS) Cube-Weight Relationship Estimation
USPS-FY15-NP18	Cost Segment 3 Cost Pools & Other Related Information (Nonpublic Portion)
USPS-FY15-NP19	FY 2015 Non-Operation Specific Piggyback Factors (Nonpublic Portion)
USPS-FY15-NP20	FY 2015 Mail Processing Costs by Shape (Nonpublic Portion)
USPS-FY15-NP21	In-Office Cost System (IOCS) Documentation (Nonpublic Version)
USPS-FY15-NP22	City Carrier Cost System (CCCS) Documentation (Nonpublic Version)
USPS-FY15-NP23	Rural Carrier Cost System (RCCS) Documentation (Nonpublic Version)
USPS-FY15-NP24	Transportation Cost Systems (TRACS) Documentation (Nonpublic Version)
USPS-FY15-NP25	Mail Characteristics Study (Nonpublic Portion)

USPS-FY15-NP26	FY 2015 Special Cost Studies Workpapers – Special Services (Nonpublic Portion)
USPS-FY15-NP27	FY 2015 Domestic Competitive NSA & Nonpostals Materials
USPS-FY15-NP28	FY 2015 Revenue, Pieces, and Weight Report (Nonpublic Version)
USPS-FY15-NP29	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances) (Nonpublic Version)

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NONPUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,[1] the United States Postal Service (Postal Service) hereby applies for the twenty-nine appended folders identified as nonpublic in Attachment One of the FY 2015 Annual Compliance Report (these are referred to collectively as the "Nonpublic Annex"). As is apparent from the Attachment One list, the majority of the folders in the Nonpublic Annex have a corresponding public folder.

In many instances, a set of material has been divided into one portion that relates to Market Dominant products and another portion that relates to Competitive products. In those instances, the public folder includes the portion of material relating to Market Dominant products, and the nonpublic folder includes the portion of materials relating to Competitive products. In many other instances, two versions of materials are prepared, one that is public and contains aggregated information regarding Competitive products or large groups of Competitive products, and another that is nonpublic and contains information regarding Competitive products that is disaggregated to the product level. In still other instances, a nonpublic folder contains information about Competitive products, and there is no corresponding public folder, because there is no corresponding need for similar information relating to Market Dominant products.[2] In general, except for the six groups of Competitive products for which cost data are shown in the Cost and Revenue Analysis (CRA), all disaggregated cost information

[1] Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, Docket No. RM2008-1 (June 19, 2009).

[2] For example, Commission Rule 3015.7(a) calls only for the incremental costs of Competitive products, so there is a nonpublic folder on the incremental costs of Competitive products, but there is no need for a corresponding public folder on the incremental costs of Market Dominant products.

relating to Competitive products, and all background data used to develop disaggregated cost information on Competitive products, are filed under seal in the Nonpublic Annex.

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

The materials designated as nonpublic consist of commercial information concerning postal operations and finances that under good business practice would not be disclosed publicly. Based on its longstanding and deep familiarity with the postal and communications businesses and markets generally, and its knowledge of many firms, including competitors, mailers, and suppliers, the Postal Service does not believe that any commercial enterprise would voluntarily publish information pertaining to the costs, volumes, revenues, and markets for its competitive products, as well as inbound market dominant products for which rates are negotiated with other postal operators. In the Postal Service's view, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3) and (4).[3]

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

The Postal Service believes that the only third parties that have a proprietary interest in the materials submitted in connection with the FY 2015 Annual Compliance

[3] In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1 (Mar. 20, 2009), at 11.

Report are identified in Appendix 1 to this Application. The Postal Service also hereby provides notice that it has already informed each third party, in compliance with 39 C.F.R. § 3007.20(b), of the nature and scope of this filing and its ability to address its confidentiality concerns directly with the Commission.[4] In addition, because the Postal Service maintains that (i) some competitive NSA customers' identities are commercially sensitive and should not be publicly disclosed, and (ii) language and cultural barriers may make it difficult for those seeking access to nonpublic information to provide proper notice to the applicable third parties, Postal Service employees who will be responsible for providing notice to these specific third parties are also identified in Appendix 1.

The Postal Service further provides, as identified in Appendix 2 to this Application, a list of those third parties that have a proprietary interest in the materials by nonpublic folder.

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

The materials in the Nonpublic Annex fall into several categories. The first category is the Nonpublic CRA, and all of the background materials feeding into the Nonpublic CRA. These materials, in general, show cost information at the product level, including disaggregated information for Competitive products. These materials are found in folders USPS-FY15-NP11 - USPS-FY15-NP14, USPS-FY15-NP18 - USPS-FY15-NP25, and USPS-FY15-NP27. Descriptions of the contents of these folders can

[4] The Postal Service, in conjunction with the United States State Department, has requested that the Universal Postal Union International Burea (IB) issue a Circular notice to all countries and designated operators informing each of its rights under 39 C.F.R. § 3007.20(c). This notification should be published shortly by the IB.

be found in the roadmap document, filed at USPS-FY15-9. The roadmap indicates the corresponding public folder which contains information similar to that in each nonpublic folder, except that, in the public folder, the cost information for Competitive products is generally aggregated into one Competitive products row. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

A second category consists of Special Cost Studies materials that provide cost information below the product level for Competitive products. These materials are found in folders USPS-FY15-NP15 - USPS-FY15-NP17, and USPS-FY15-NP26. Again, descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY15-9. The roadmap indicates the corresponding public folder which contains information similar to that in the nonpublic folder, except that, in the public folder, the cost information below the product level relates to Market Dominant, rather than Competitive, products. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

A third category consists of the International CRA (ICRA) and the supporting documentation. These materials are found in folders USPS-FY15-NP2 through USPS-FY15-NP7 and USPS-FY15-NP9. Collectively, they present the inputs and the analyses used to attribute and distribute costs to International products. In general, the ICRA follows the same basic methodologies used in the CRA – dividing accounting data into cost segments and components, distributing the attributable costs within segments to products, and summing the total attributable costs of a product across segments.

Descriptions of the contents of the individual ICRA-related folders can be found in the roadmap document, USPS-FY15-9. There are no corresponding public folders.

A fourth category is the Competitive product billing determinants. These are found in USPS-FY15-NP1 for domestic Competitive products, and USPS-FY15-NP8 for International products. They are comparable in format to the Market Dominant billing determinants presented in USPS-FY15-4, but include the corresponding information for Competitive products. Again, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate them accordingly.

Another folder in the Nonpublic Annex is USPS-FY15-NP10, which presents the application of the incremental cost methodology set forth in the Petition for Proposal Twenty-two (filed on Oct. 23, 2009, and considered as part of Docket No. RM2010-4) to Competitive products. The outputs of that application are shown in the text of the FY 2015 ACR itself, and USPS-FY15-NP10 merely provides the background materials supporting those outputs. The incremental cost model used in USPS-FY15-NP10 is comparable to the model employed in USPS-T-18 in Docket No. R2006-1, and the group specific costs are based on the same type of analysis considered by the Commission as Proposal One in Docket No. RM2008-2, and applied (to Market Dominant products) in USPS-FY08-33. The contents of USPS-FY15-NP10 are described in the roadmap document, USPS-FY15-9.

In general, the premise of this application is that, for Competitive products and certain market dominant international products, disaggregated cost data (and detailed volume and revenue data, such as that provided in billing determinants) constitute commercially-sensitive information and should not be publicly disclosed. The Postal Service is therefore placing all such information in the Nonpublic Annex, and filing it under seal. One exception to this approach appears in the CRA. The CRA (USPS-FY15-1) presents some disaggregated data for Competitive products, but those data are not disaggregated down to the product level, as they are in the Nonpublic CRA (USPS-FY15-NP11). Instead, in the CRA, the Postal Service has aggregated data for Competitive products into six product groups. Those groups are Total Priority Mail Express, Total First-Class Package Service, Total (non-Express) Priority, Total Ground, Total Competitive International, and Total Domestic Competitive Services. (The product rows in the Nonpublic CRA that are rolled up into each of the six Competitive product group rows in the CRA are shown in the table below.) At this level of disaggregation, the Postal Service has been unable to identify any of its major competitors that are publicly disclosing a potentially greater amount of disaggregated competitive cost data. The Postal Service maintains that the further disaggregation shown in the Nonpublic CRA should thus appropriately remain confidential. The Postal Service believes that the approach jointly embodied in its CRA and Nonpublic CRA prudently maximizes the amount of information available to the public, keeping such information as detailed as possible without prompting the competitive concerns outlined in the following section.

FY2015 Public-Nonpublic Crosswalk Table

Category in Public Version CRA	Categories Rolled in from Nonpublic Version CRA
Total Priority Mail Express	Domestic Priority Mail Express Domestic Priority Mail Express NSAs
Total First-Class Package Service	First-Class Package Service First-Class Package Service NSAs

Total Priority Mail	Domestic Priority Mail Domestic Priority Mail NSAs Priority Mail Fees
Total Ground	Parcel Select Mail Parcel Select NSAs Parcel Return Service Mail Parcel Return Service NSAs Standard Post
Total Competitive International	Outbound International Expedited Services Inbound International Expedited Services Outbound Priority Mail International Inbound Parcel Post (at UPU Rates) First-Class Package International Service International Priority Airmail (IPA) International Surface Airlift (ISAL) International Direct Sacks M-Bags Outbound Intl Negotiated Serv. Agreement Mail Inbound Intl Negotiated Serv. Agreement Mail International Mail Fees International Money Transfer Service International Ancillary Services
Total Domestic Competitive Services	Premium Forwarding Service Address Enhancement Services Greeting Cards Shipping and Mailing Supplies Post Office Box Service Other Ancillary Services

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

If the information that the Postal Service determined to be protected from disclosure due to its commercially sensitive nature were to be disclosed publicly, the Postal Service considers it quite likely that it would suffer commercial harm. This information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. In this regard, the Postal Service is not aware of any business with which it competes (or in any other commercial enterprise), either within industries engaged in the carriage and delivery of materials and hard copy messages, or those engaged in communications generally, that would disclose publicly information and data of comparable nature and detail.

The protected materials consist of comprehensive analytical tools and reports employed by the Postal Service for several purposes in its operations and finances. Most prominently, in the context of the ACR, they enable the Postal Service to address the issues mandated in 39 U.S.C. § 3652(a) having to do with the costs, revenues, rates, and quality of service of competitive postal products. Furthermore, many of the materials outlined in section (3) above consist of sub-reports, workpapers, and other documentation used to create the basic reports in the CRA and ICRA. These materials share the protected status and confidential nature of the basic reports, since they provide the building blocks that permit compilation of the data and statistics and would permit competitors to gain the same types of knowledge, understanding, and insights at finer levels of detail. The Postal Service believes that this information would lead to competitive harm, if publicly disclosed.

As explained below, the data and information considered to be nonpublic can be classified in several general groupings: product cost information; general product volume and revenue information; product billing determinants; and information pertaining to service and pricing agreements with particular mailers or suppliers (NSAs). The following describes generally the expected harms from each of these classes of information. The explanations also include a separate discussion of international mail products, and their relatively distinct characteristics that arise from the structure of international business, including the involvement of foreign postal operators and international organizations.

Cost Information

Information relating to the costs of producing products is generally considered to be among the most sensitive commercial information. The CRA and ICRA present data and statistics for products that would provide competitors with valuable information, enabling them to better understand the Postal Service's cost structures, operational capabilities, and pricing and marketing strategies. This confidential information includes per-piece costs in several analytical categories (attributable costs, volume variable costs, and product-specific costs), as well as cost contribution and cost coverage (margin) by product. Such information would be extremely valuable to competitors in assessing the strengths and weaknesses of various postal products. Armed with detailed product cost information, competitors would be able to better identify and understand areas where they could adapt their own operations to be more competitive with postal products and better assess how to price and market their own products in such a way as to target the Postal Service's weaknesses and compensate for its strengths in producing and marketing various products. Furthermore, information contained in the various sub-reports, workpapers, and other documentation that feed the reports would provide an even more refined knowledge of the Postal Service's costs, cost structures, and capabilities. In this regard, the structure of the Postal Service's analytical tools and reports is well known among the postal community from years of exposure in general rate cases under the former regulatory regime. Postal costs are recorded in elaborate systems of general ledger accounts. These are grouped into various functional and other categories (cost segments and components) for further analysis and ultimate allocation and distribution to individual products. The level of detail contained in the sub-reports and workpapers is highly refined and would enable competitors, and existing and potential customers with whom the Postal Service might negotiate particular contract rates, to gain competitive or negotiating advantages that could lead to suppressing potential financial gains from the sale of postal products or the diversion of business away from the Postal Service to competitors. Either of these results would constitute serious commercial harm.

Volume and Revenue Information

Competitors could use the product-specific revenue, pieces, and weight information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with potential customers, who would be able to ascertain critical information about relevant product trends (*e.g.*, average revenue per piece, average weight per piece). Finally, as explained in greater detail below, disclosure would expose certain foreign postal operators and other customers to the same competitive harms, to the extent that a category is associated with a single customer or a small group of customers. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed nonpublicly.

Billing Determinants

Billing determinants present a special category of volume and revenue information that would enable highly refined understanding of individual products aligned specifically to their individual price structures. In this regard, billing determinants present a picture of each product's experience, analyzed according to the different mail characteristics that comprise the elements of the product's price structure. Detailed billing determinants, especially combined with specific product cost information, would enable competitors to better analyze the strengths and weaknesses of individual products, including specific elements of the markets for them, such as advantages in certain weight categories and distance zones. This information would provide insights into how competitors might adapt their operations and product offerings, alter their pricing, and target their marketing to take business away from the Postal Service.

Armed with this type of information, competitors would likely focus their marketing and price cutting efforts on the Postal Service's most profitable products. This would lead to erosion of contribution for these products through lost sales and/or the need to lower prices to remain competitive. Postal product cost and contribution information would provide suppliers of postal transportation and other services with information they could use to seek higher rates for services they provide. This would lead to higher postal costs and loss of contribution. Although the extent of the commercial harm is difficult to quantify, even small changes in market share, prices, or costs could lead to millions of dollars in lost revenue, higher costs, and lower margins.

It is highly likely that if this information were made public, the Postal Service's competitors and suppliers would take advantage of it almost immediately.

Negotiated Service Agreements

The utility of the sensitive information in billing determinants and other materials would be particularly enhanced with regard to NSA product information relating to particular customers. First, revealing any customer identifying information would enable competitors to focus marketing efforts on current postal customers that have been cultivated through the Postal Service's efforts and resources. The Postal Service considers it highly probable that, if this information were made public, the Postal Service's competitors would take immediate advantage of it. Many NSAs include a provision allowing the mailer to terminate the contract without cause by providing at least 30 calendar days' notice. Therefore, there is a substantial likelihood of losing the customers to a competitor that targets them with lower pricing.

Other NSA-related information consists of mailing profiles. This information, if disclosed from any source within the CRA or ICRA, would offer competitors invaluable insight into the types of customers to whom the Postal Service is offering each type of competitive NSA. Even without identifying individual mailers, competitors would be able to direct their sales and marketing efforts at the customer segment that the Postal Service has had the most success at attracting. This would undermine both existing customer relationships and the potential for other new NSA customers.

A similar rationale applies to information showing product revenue, volume according to weight, pricing, and insured value levels, as well as adjustment factor calculations based on product revenues. This information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. Competitors could use the information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed nonpublicly.

Commercially sensitive information related to NSAs is included in the agreements and their annexes, and in related financial work papers. Typically, these materials are filed under seal or redacted when the agreements are established as products. Since the Commission's rules governing confidentiality have taken effect, the Postal Service has filed applications for nonpublic status with each agreement. The reasoning expressed in those applications supports and is consistent with the discussion here.

Information derived from these documents is included in some of the materials filed in the Nonpublic Annex here. This information may include prices, product cost, contribution, or cost coverage. It also may concern customer mailing profiles, product volume, weight and revenue distribution, and product insured-value distribution. Competitors for the services covered by these agreements consist of domestic and international transportation and delivery firms and even foreign postal operators, which could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. Competitors could also use the information to assess offers made by the Postal Service to customers for any possible comparative vulnerabilities and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Customers could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted material.

Potential customers, including foreign postal operators, could deduce from the rates provided in individual pricing agreements, in work papers, or in a Governors' Decision, whether additional margin for net profit exists. From this information, each customer or foreign postal operator could attempt to negotiate ever-decreasing prices or incentives, such that the Postal Service's ability to negotiate competitive yet financially sound rates would be compromised.

Information derived from financial work papers supporting NSAs can include costs, assumptions used in pricing formulas and decisions, formulas and negotiated prices, mailer profile information, projections of variables, and cost coverage and contingency rates that have been included to account for market fluctuations and exchange risks. All of this information is highly confidential in the business world. If this information were made public, the Postal Service's competitors would have the advantage of being able to assess the Postal Service's costs and pricing and determine the absolute floor for Postal Service pricing, in light of statutory, regulatory, or policy constraints. Competitors would be able to take advantage of the information to offer lower pricing to postal customers, while subsidizing any losses with profits from other customers. Such competitors could include foreign posts, which in some instances are not required to use the Postal Service for delivery of parcels destined to the United

States. Additionally, foreign postal operators or other potential customers could use costing information to their advantage in negotiating the terms of their own agreements with the Postal Service. Eventually, this could freeze the Postal Service out of the relevant markets.

International Product Information

The Postal Service believes that the same vulnerabilities and harms discussed above that would result from the disclosure of the cost, volume, and billing determinant information would also generally apply to international product information designated as nonpublic. In particular, the harms resulting from disclosure of competitive information in the CRA would also result from disclosure of similar information, workpapers, and supporting documentation related to the ICRA. International mail products and business, however, exhibit operational and pricing distinctions not always shared by domestic counterparts. In particular, international products may be either inbound or outbound and, in some instances, are affected by bilateral and multilateral agreements among foreign postal operators. In some cases, particular lines within the ICRA reflect agreements with a single foreign postal operator. The public disclosure of this information would likely lead to limitations on the negotiating positions of both the Postal Service and the other foreign postal operator in similar agreements they might wish to negotiate with other foreign postal operators. The same is true where the partner is a private entity rather than a foreign postal operator: for example, disclosure of statistical, billing, and cost information about GXG could limit the ability of FedEx Express, a supplier to the Postal Service, to negotiate effectively, and could allow competitors to analyze the traffic for competitive advantage against FedEx Express. Further, the outbound letter monopoly has been largely suspended by virtue of 39 C.F.R. § 320.8, thereby contributing to the intensity of competition in this market. The more disaggregated nature of the product information in the international context and the relatively smaller numbers associated with them make the international data particularly vulnerable to analysis and use by competitors.

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

The following restates the harms discussed above and presents at least one hypothetical situation illustrating the consequences of disclosure.

Harm: Competitors, mailers, and suppliers could use cost, revenue, and volume summary data and statistics in the CRA and the ICRA, disaggregated by individual product and by NSA category, to gain knowledge and insights about the relative strengths and weaknesses of the Postal Service's competitive product lines. That refined understanding would, in turn, give competitors advantages in seeking to divert business from the Postal Service and to gain new business for which the Postal Service might compete. Mailers and suppliers would be able to negotiate favorable deals with the Postal Service more effectively. As a result, the Postal Service would experience losses of existing and new business, or erosion of contributions and margins.

Hypothetical: The CRA and ICRA provide data by product that indicate total revenues, attributable costs, volume variable costs, product specific costs, and per-piece attributable costs, contribution, and cost coverage (margin). These data are broken out by individual product and separated between products purchased through public schedules and those purchased through contract rates (NSAs). Hypothetically, this information is made public. Competitors use it to gain a refined understanding of the relative strengths and weaknesses of the Postal Service's product lines (domestic and international), the individual strengths and weaknesses of particular products, and the degree to which products are sold through public schedules, compared to contract pricing arrangements. Financial analysts for the competitors relay their assessments to colleagues in the competitors' marketing and investment divisions. This information provides a better foundation to enable competing firms to make decisions regarding investments and product design in their own product lines. Based on such assessments, for example, firms that have individual products for domestic express service (overnight), international express service, or package service comparable to Priority Mail determine that they have potential for competitive gain against the Postal Service in these areas and, accordingly, decide to allocate investments in improved operations, supplier arrangements, and technologies to improve their competitive positions. To the extent that these decisions actually make the firms more competitive, the Postal Service loses existing or new business.

Hypothetical: Cost, contribution, and/or cost coverage information is released to the public and becomes available to a competitor. The competitor, which could be a foreign postal operator operating in the United States, assesses the profitability of certain services based on the data released. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service has substantial contribution, thereby hindering the Postal Service's ability to keep these customers' business.

Hypothetical: Cost, contribution, and/or cost coverage information is released to the public and becomes available to a supplier of materials, transportation, or other services. Suppliers are made aware of expected contribution margins by product and are better able to assess the relative strengths and weaknesses of the Postal Service's product lines. With this information, suppliers, including foreign postal operators in the case of international products, decide to increase the rates they charge the Postal Service to provide transportation and/or other services or become more resistant to negotiating favorable prices for their goods and services.

Hypothetical: Cost information is disclosed to the public. Mailers who seek to negotiate individual contract rates with the Postal Service gain a better understanding of the average or unit costs of particular products, as well as the relative and absolute strengths and weaknesses of particular product lines. This information enables the mailers to negotiate contract rates with the Postal Service more effectively than in the absence of such information. Similar disclosures result in advantages for foreign postal operators or other competitive entities in international mail.

Harm: The various companion reports, sub-reports, workpapers, special cost and other studies, and documentation contained in the Nonpublic Annex would provide detailed and refined knowledge and understanding of the individual costs, cost structures, contributions, and cost coverages (margins) of individual postal products and contract pricing agreements. These materials, which produce and support the summary data and statistics contained in the CRA and ICRA, would provide highly detailed information regarding operational procedures used to produce the products, the costs and relative efficiencies of operations and sub-operations, and the amount and character of overhead, including the relative proportions of volume variable and overhead costs. Companion reports and sub-reports provide detailed functional analyses of Postal Service costs within a framework that is well-understood, or easily learned, from information in the Public Annex, or from familiarity with or research into past postal rate cases. Public disclosure would therefore be tantamount to publishing virtually every detail regarding the relative costs and efficiencies of providing postal competitive products. This information would provide blueprints for competitors, suppliers, and mailers who might seek to negotiate favorable contract rates. The information would better enable them to make favorable operational, investment, pricing, and marketing decisions in relationships with the Postal Service. The results would be loss of existing or future business for the Postal Service, or the erosion of total revenues, contributions, margins, and overall financial stability.

Hypothetical: The Cost Segments and Components reports of the CRA and ICRA are disclosed to the public. These reports group costs recorded in postal accounts according to various functional categories. The costs are distributed by postal product. The hypothetical disclosure provides competitors with a detailed understanding of the cost structures of each competitive postal product, the relative strengths and weaknesses of each product from cost perspectives, and the flexibilities available to the Postal Service within the legal framework applicable to postal prices. The refined understanding resulting from disclosure enables competitors to make decisions that would compensate for Postal Service strengths and capitalize on its weaknesses. These decisions might involve design of competing firms' own products, alternative price structures, operational procedures, and marketing strategies. They could also involve formulation of negotiating approaches and strategies by existing and potential suppliers of goods and services used in producing postal products, and the formulation of more informed negotiating positions by mailers seeking to enter into favorable contract rate arrangements with the Postal Service. Such competitive advantages lead to diversion of business away from the Postal Service or reduction of potential contribution from individual contracts.

Hypothetical: Cost distribution models, cost estimation models, and several sub-reports feeding into the CRA and ICRA are disclosed to the public. These materials provide highly refined information that would improve understanding of product cost structures and the behavior of postal costs. Certain cost reports, such as those outlining in detail the application of specific cost pools by mail processing operation in estimating product costs, provide detailed knowledge of operational procedures employed by the Postal Service in offering products and services. This information enhances competitors' abilities to make informed decisions about investment in capital and technologies used to produce their own competing products. For example, knowledge of inflexibilities in processing Priority Mail, or in transportation used to convey Parcel Return Service, leads competitors to explore more efficient processing of competing products or to negotiate more competitive transportation contracts used for competing products. Over time, annual disclosures of such information enable competitors (or suppliers and mailers) to identify and understand trends in cost behavior that better inform their decision-making. Such developments lead to an erosion of the Postal Service's competitive position and a loss of business or contribution.

Hypothetical: Information in certain reports and documentation of special cost and other studies (*e.g.*, Parcel Return Service cost models) is disclosed publicly. Such information provides a better understanding of the Postal Service's customer base for particular products. For instance, data from mail characteristics studies enables competitors to formulate a profile of the Postal Service's customer base for certain products. This information better enables competitors to devise marketing and sales strategies that target the most vulnerable markets for particular postal products. More effective marketing by competitors leads to reduced sales by the Postal Service and an erosion of contributions and margins.

Hypothetical: Cost models and sub-reports feeding the CRA and ICRA reports are disclosed to the public. Detailed knowledge of the Postal Service's cost estimation, cost distribution, and special study models and procedures provides competitors, as well as mailers who seek favorable contract rates, with tools that enhance their abilities to analyze postal costs and operations. Large, sophisticated firms who have competed with the Postal Service for long periods of time have been exposed to them before and likely have developed their own sophisticated analytical tools and therefore might not benefit as much from these models; however, the hypothetical availability of this information decreases barriers to entry in certain competitive markets and creates new competitors that erode the Postal Service's customer base.

Harm: Competitors could use disaggregated product volume, weight, and revenue distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Disaggregated revenue, volume, and weights contained in the Nonpublic Annex are disclosed to the public. Another delivery service's employee monitors the filing of this information and passes it along to the firm's sales and marketing functions. The competitor assesses the profitability of certain services on a per-piece or per-pound basis or the Postal Service's relative concentration in certain service offerings. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service appears to have made headway, hindering the Postal Service's ability to reach out effectively to these customers.

This example applies even more strongly for information split between NSA mail and other mail in the same category, because the competitor can assess the profitability and market strengths of the Postal Service's offerings to a small subset of NSA customers, thereby gaining somewhat more particularized insight into the characteristics of customers that the Postal Service specifically targets with its own contractual sales efforts.

Harm: Customers, including foreign postal operators, and suppliers could use disaggregated product volume, weight, and revenue distribution information to undermine the Postal Service's leverage in negotiations.

Hypothetical: Disaggregated revenue, volume, and weight information in the Nonpublic Annex would be released to the public. A foreign postal operator's employee monitors the filing of this information and passes the information along to its international postal relations functions. The foreign postal operator assesses the Postal Service's average per-item or per-pound revenue for categories about which it is negotiating with the Postal Service, with particular focus on categories known to be included in bilaterals with other foreign postal operators (*e.g.*, letter post, air and surface parcels, and EMS). Accurately or not, the foreign postal operator uses the average revenue information as a justification for pricing demands in negotiations, refusing to accept a higher price without steeper concessions than the Postal Service might otherwise have been able to foreclose. The Postal Service's ability to negotiate the best value from the bargain suffers as a result. This hypothetical applies with equal force for customers other than foreign postal operators, for NSA mail and non-NSA mail that can be made subject to an NSA (*e.g.*, International Priority Airmail, which can be included in Global Plus 1 NSAs), and for partnerships with suppliers such as FedEx Express with respect to GXG.

Harm: Public disclosure of information in the report would be used by competitors of the NSA customers to their detriment.

Hypothetical: A competitor of a Postal Service NSA customer obtains unredacted versions of the billing determinants for domestic and international products, including NSAs and ICMs. It analyzes the work papers to assess the customer's underlying costs and uses that information to identify lower cost alternatives to compete against the Postal Service customer. Likewise, suppliers of goods and services to the NSA customer can use the detailed information to their advantage in negotiations with the NSA customer.

Harm: Public disclosure of information contained in the Nonpublic Annex associated with international delivery services provided in partnership with specific third parties would be used by those parties' competitors to their detriment.

Hypothetical: A competitor of Canada Post Corporation, such as a competing international delivery service, obtains information contained in the Nonpublic Annex. The competitor analyzes the information to assess the average per-piece and per-pound revenue for Inbound International Letter-Post NSA Mail, Expedited Parcels and EMS which correspond to Canada Post's average per-piece and per-pound cost for U.S. delivery of its pertinent products. The competitor uses that information to assess the market potential and, as a baseline, to negotiate with U.S. customs brokers and freight companies to develop lower-cost alternatives and undermine Canada Post's market offerings. The same scenario could apply with respect to comparable information, such as settlement charges due or payable, for other foreign postal operators or for FedEx Express concerning GXG.

Harm: Competitors could use customer mailing profiles, product volume, weight, and revenue distributions, and product insured-value distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Customer mailing profile information in the Nonpublic Annex is released to the public. Another delivery service's employee monitors the filing of this information and passes the information along to its sales and marketing functions. The competitor assesses the typical size, mailing volume, and content characteristics of Postal Service NSA customers. The competitor then targets its advertising and sales efforts at actual or potential customers with similar profiles, hindering the Postal Service's ability to reach out effectively to these customers.

This hypothetical would apply even for more generic product-level data, from which one could calculate the distribution of the Postal Service's overall customer base in terms of item weight, revenue, or value (in the case of international insurance). For these reasons, release of any of the nonpublic information would pose actual commercial harm to the Postal Service, regardless of the information's present favorability.

Harm: Revealing customer identifying information associated with competitive domestic and international NSAs would enable competitors to target the customers for sales and marketing purposes.

Hypothetical: The identities of customers with which prices are established in NSAs are revealed to the public. Another expedited delivery service passes along the information to its sales function. The competitor's sales representatives quickly contact the Postal Service's customers and offer them lower rates or other incentives to terminate their contracts with the Postal Service in favor of using the competitor's services. Lost sales undermine the Postal Service's revenues.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, disclosure of information that would reveal prices associated with particular pricing agreements would provide competing domestic and foreign postal operators, or other potential customers, extraordinary negotiating power to extract lower rates from the Postal Service.

Hypothetical: Customer A's negotiated rates are disclosed publicly. Customer B sees the rates and determines that there may be some additional profit margin between the rates provided to Customer A and the statutory cost coverage that the Postal Service must produce in order for the agreement to be added to the competitive products list.

Customer B, which was offered rates identical to those published in Customer A's agreement, then uses the publicly available rate information to insist that it must receive lower rates than those the Postal Service has offered it, or it will not use the Postal Service for its expedited package service delivery needs.

Alternatively, Customer B attempts to extract lower rates only for those destinations for which it believes the Postal Service is the low-cost provider among all service providers. The Postal Service may agree to this demand in order to keep the customer's business overall, which it believes will still satisfy total cost coverage for the agreement. Then, the Customer would use other providers for destinations other than those for which it extracted lower rates. This would affect the Postal Service's overall projected cost coverage for the agreement, so that it no longer would meet its cost coverage requirement. Although the Postal Service could terminate the contract when it first recognized that the mailer's practice and projected profile were at variance, the costs associated with establishing the contract, including filing it with the Postal Regulatory Commission, would be sunk costs that would have a negative impact on the product overall.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, public disclosure of information contained in underlying financial analyses would be used by competitors and customers to the detriment of the Postal Service.

Hypothetical: A competing package delivery service obtains a copy of information contained in unredacted versions of financial work papers associated with particular agreements. It analyzes information contained in the work papers to determine what the Postal Service would have to charge its customers in order to comply with business or legal considerations, including meeting its minimum statutory obligations regarding cost coverage and contribution to institutional costs. It then sets its own rates for products similar to those that the Postal Service offers its customers below that threshold and markets its purported ability to beat the Postal Service on price for domestic or international delivery services. By sustaining this below-market strategy for a relatively short period of time, the competitor, or a group of the Postal Service’s competitors acting in a similar fashion, freeze the Postal Service out of one or more relevant delivery markets. Even if the competing providers do not manage wholly to freeze out the Postal Service, they significantly cut into the revenue streams upon which the Postal Service relies to finance provision of universal service.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, public disclosure of product volume, weight, revenue distribution, and product insured-value distribution would enable competitors to assess vulnerabilities and focus sales and marketing efforts to the Postal Service’s detriment.

Hypothetical: For Inbound Air Parcel Post, a competing package delivery service determines what the Postal Service would need to charge its customers (which may include foreign postal operators) to meet its minimum statutory obligations for cost coverage and contribution to institutional costs. The competing package delivery service then sets its own rates for products similar to those the Postal Service offers other postal operators under that threshold and markets its ability to beat the Postal Service’s price for inbound air parcels. By sustaining this below-market strategy for a relatively short period of time, the competitor, or a group of the Postal Service's competitors acting in a likewise fashion, freezes the Postal Service out of the inbound air parcel delivery market.

Hypothetical: For EMS and Canada Post Bilateral for Inbound Competitive Services, another postal operator sees the price and concludes that there may be some additional profit margin between the rates provided to Canada Post and the statutory cost coverage that the Postal Service must produce in order for the agreement to be added to the competitive products list. That postal operator then negotiates lower prices with the Postal Service on its own behalf or uses its knowledge to offer postal customers lower prices than they currently receive. Either or both ways, the Postal Service loses market share and contribution.

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

The Postal Service maintains that the portions of the materials filed nonpublicly and relating to competitive products should be withheld from persons involved in competitive decision-making in the relevant markets for competitive delivery products (including private sector integrators and foreign postal operators), as well as their consultants and attorneys. Additionally, the Postal Service believes that actual or potential customers of the Postal Service for these or similar products should not be provided access to the nonpublic materials.

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

The Commission's regulations provide that nonpublic materials shall lose nonpublic status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

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

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for nonpublic treatment of the Nonpublic Annex of the FY 2015 ACR.

Appendix 1 to Application for Nonpublic Treatment
List of Impacted Third Parties and Contact Information

Impacted Third Party Number	Contact Information
1	New Zealand Post Limited Mr. Lindsay Welsh, International Relations and Policy Director, International and Global Logistics, +64 4 496 4574 lindsay.welsh@nzpost.co.nz
2	Hongkong Post Mr. C.W. Lee, Senior Manager, External Affairs Division +852 2921 2120 cwlee @hkpo.gov.hk
3	VN Post Express Joint Stock Company Dang Hai Hgoc ngocdh@ems.com.vn
4	Royal Mail Guy Fischer, Regional Director International +44 7703104937 guy.fischer@parcelforce.co.uk
5	China Post Group Ms. Wu Yan, Deputy Manager, International Business Development China Post EMS and Logistics Corporation (China Post Group) +86 13 621 256 616 wuyan@ems.com.cn
6	Singapore Post Limited Lee Hon Chew, Director, International Affairs Singapore Post Limited +65 6845 6228 leehonchew@singpost.com
7	Korea Post YU Yeong-chul, International Business and Affairs yychul@koreapost.go.kr
8	Australian Postal Corporation Michael Cope, Head of Global Development, International Postal michael.cope@auspost.com
9	PostNL Win van de Sande, Senior Terminal Dues Manager +31 (0)6 83 64 57 90 wim.van.de.Sande@postnl.nl
10	Domestic Competitive NSA Customers Elizabeth A. Reed, Attorney, Pricing and Product Support 202-268-3179 elizabeth.a.reed@usps.gov

11	International Competitive NSA Customers Kyle Coppin, Attorney, Global Business 202-268-2368 kyle.r.coppin@usps.gov
12	FedEx Express James H. Ferguson, Corporate Vice President 901-434-8600 jhferguson1@fedex.com
13	Canada Post Corporation Terry Dunn, General Manager, International Relations 613-734-8894 terry.dunn@canadapost.ca AND Ewa Kowalski, Director, International Mail Settlement 613-734-6201 ewa.kowalski@canadapost.ca
14	Correos de México Guadalupe Contreras, International Postal Affairs 202-268-4598 guadalupe.n.contreras@usps.gov
15	E Parcels Group Tom Black, Strategic Planning Specialist 202-268-4174 thomas.g.black@usps.gov
16	UPU Designated Operators Contact information for all UPU Designated Operators is available at: http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN
17	EMS Operators List of EMS Operators is available at: http://www.ems.post/members-ems-cooperative Contact information for EMS Operators is available at: http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN
18	Deutsche Post AG Birgit Bünnigmann, Head of Direct Entry +49 228 182 21513, birgit.buennigmann@deutschepost.de AND Ivo Wisser, Product Manager Direct Entry +49 228 182 24105, i.wisser@deutschepost.de
19	BBVA Bancomer USA, Inc. Aurora Garza Hagan, CEO 281-765-1525 aurora.garza@bbvabancomerusa.com

Appendix 2 to Application for Nonpublic Treatment
List of Impacted Parties by Non-Public Folder

Folder	Impacted Third Parties Identified by Party Number in Appendix 1
FY15-NP1	N/A
FY15-NP2	1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14 ,15, 16, 17, 18
FY15-NP3	12,13
FY15-NP4	12,13
FY15-NP5	19
FY15-NP6	12, 13
FY15-NP7	12, 13
FY15-NP8	11, 12, 13
FY15-NP9	12, 13
FY15-NP10	N/A
FY15-NP11	N/A
FY15-NP12	N/A
FY15-NP13	10, 11, 12, 13
FY15-NP14	10, 11, 12, 13
FY15-NP15	N/A
FY15-NP16	N/A
FY15-NP17	N/A
FY15-NP18	N/A
FY15-NP19	N/A
FY15-NP20	N/A
FY15-NP21	N/A
FY15-NP22	12, 13
FY15-NP23	12, 13
FY15-NP24	N/A
FY15-NP25	N/A
FY15-NP26	N/A
FY15-NP27	10
FY15-NP28	12, 13
FY15-NP29	N/A

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

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