

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

Annual Compliance Report, 2015

Docket No. ACR2015

CHAIRMAN'S INFORMATION REQUEST NO. 4

(Issued January 15, 2016)

To clarify the basis of the Postal Service's estimates in its FY 2015 Annual Compliance Report (ACR), filed December 29, 2015,¹ the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than January 22, 2016.

Standard Mail

1. On page 31 of the FY 2015 ACR, the Postal Service states that "some of the information that it is utilizing to calculate flats costs has been available for substantially less than a full year."
 - a. Please identify the information which has been available for less than a full year.
 - b. Please explain why this information has only been available for less than a full year.
 - c. Will this information be available in future fiscal years?
 - d. Does the Postal Service expect to encounter incomplete information for calculating flats costs in future fiscal years?

¹ United States Postal Service FY 2015 Annual Compliance Report, December 29, 2015 (FY 2015 ACR).

- i. If no, please explain the steps the Postal Service is taking to ensure that necessary data will be available.
 - ii. If yes, please explain:
 1. What information is expected to be unavailable?
 2. Why this information will be unavailable?
 3. The steps the Postal Service is taking to improve the availability of necessary information.
2. The table below shows the Standard Mail Flats volume trend from FY 2011 to FY 2015.

Standard Mail Flats Volumes (in Billions)				
FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
6.79	5.94	5.57	5.05	5.25
Source: FY2011-2012 ACD; FY2013-2014 Financial Reports; FY2015 Public Cost and Revenue Analysis Report (Library Reference USPS-FY15-2)				

As can be calculated from the table, Standard Mail volumes increased approximately 4 percent in FY 2015 compared to FY 2014 (from 5.05 billion to 5.25 billion).

- a. How much of the increase was due to the Standard Mail Flats classification change that went into effect on May 31, 2015 requiring flats destinating to a FSS zone to be entered under the Standard Mail Flats product? See Docket No. R2015-4, Order No. 2471, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015.
- b. How much of the increase was due to other factors? Please identify and provide an explanation for each contributing factor.

3. The table below shows the Standard Mail Flats unit costs trend from FY 2011 to FY 2015.

Standard Mail Flats Unit Costs (in \$)				
FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
0.46	0.46	0.45	0.49	0.50
Source: FY2011-2012 ACD; FY2013-2014 Financial Reports; FY2015 Public Cost and Revenue Analysis Report (Library Reference USPS-FY15-2)				

Please explain why unit costs increased approximately 3 percent from FY 2014 to FY 2015 (from \$0.49 to \$0.50). In your response, please discuss the impact that the Standard Mail Flats classification change (see question 2) has had on the increase in unit costs for Standard Mail Flats.

Package Services

4. Library Reference USPS-FY15-4, Excel file "FY15 Media and Library BDs.xls," tab "Library BD_sp Full," cell D8 shows Single Piece Library Mail piece volume of 4,061,864. However, the billing determinants for Single Piece Library Mail piece volume is 1,535,757. *Id.* cell D20. Please reconcile these numbers and revise the Excel file where appropriate.
5. The Postal Service states in Library Reference USPS-FY15-4, Excel files "FY15 BPM_BDs" and "FY15 Media and Library BDs" that the distribution of pieces and weight are estimated on the basis of a special weight report. Please provide the special weight report.
6. The Postal Service states that the Alaska Bypass Service volume is 1,282,023 in Library Reference USPS-FY15-42, Excel file "Fy2015_RPWsummaryreport_public.xls," cell L51. However, the billing determinants for the Alaska Bypass Service volume is 1,276,228 in Library

Reference USPS-FY15-4, Excel file "FY15 Alaska Bypass BDs.xls," cell G7.
Please reconcile these numbers and revise the Excel file where appropriate.

7. The Postal Service states that the Bound Printed Matter (BPM) Parcel revenue is \$284 million. FY 2015 ACR at 47. However, the Revenue, Pieces, and Weight (RPW) shows BPM Parcel revenue of \$283,462 million in Library Reference USPS-FY15-42, Excel file "Fy2015_RPWSummaryreport_public.xls," cell D55. Please reconcile these amounts.
8. In Library Reference USPS-FY15-4, Excel file "FY15 BPM_ BDs.xls," tab "Presort Flats BD Full," the Postal Service states that "[d]ue to the methodological differences in [splitting] the quarter, the before and after volumes [of Presort BPM Flats] will not match the RPW Volumes shown above." Please explain the methodological differences and confirm the methodology used by the Postal Service to split the quarter.

Periodicals

9. In response to the Periodicals Pricing Efficiency Directive on page 1 of Appendix A to the FY 2014 ACD, the Postal Service states on page 46 of its FY 2015 ACR that it "implemented a pricing strategy designed to encourage the entry of more Carrier Route pallets in non-FSS zones."
 - a. Please quantify the cost-savings impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the cost-savings impact, please discuss any obstacles to quantification.
 - b. Please quantify the contribution impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the contribution impact, please discuss any obstacles to quantification.
10. The Postal Service states on page 45 of its FY 2015 ACR that it "set the prices for Periodicals bundles and pallets based on the costs of handling them."

- a. Please quantify the cost-savings impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the cost-savings impact, please discuss any obstacles to quantification.
 - b. Please quantify the contribution impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the contribution impact, please discuss any obstacles to quantification.
11. The Postal Service states on page 26 of its FY 2015 ACR that it “developed more robust pricing for FSS sorted mail with the intention of reducing processing costs and better utilizing equipment.”
 - a. Please quantify the cost-savings impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the cost-savings impact, please discuss any obstacles to quantification.
 - b. Please quantify the contribution impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the contribution impact, please discuss any obstacles to quantification.
12. The Postal Service states on page 46 of its FY 2015 ACR that it implemented a “slightly higher than average increase in piece prices...to improve some passthroughs.”
 - a. Please identify the piece prices to which this statement applies.
 - b. Please explain how the increased prices improved the passthroughs.
 - c. Please quantify the cost-savings impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the cost-savings impact, please discuss any obstacles to quantification.
 - d. Please quantify the contribution impact of this pricing strategy for Periodicals for FY 2015. If the Postal Service cannot quantify the contribution impact, please discuss any obstacles to quantification.

Flats

13. On page 19 of its FY 2015 ACR, the Postal Service identifies a Delivery Point Sequence (DPS) performance metric of 59.99 percent for the Flats Sequencing System (FSS) in FY 2015. The Postal Service also identifies a Mail Pieces At-Risk metric of 5.34 percent in FY 2015.
 - a. Please provide the calculation of the DPS metric. Specifically, as part of your response, please address whether the metric means that 59.99 percent of all flats destinating in FSS zones were sorted to DPS using the FSS.
 - b. Please provide the calculation of the Mail Pieces At-Risk metric. As part of your response, please address whether the 5.34 percent of all flats destinating in FSS zones were unable to be sorted to DPS using the FSS due to errors in mail preparation by mailers.
 - c. Please explain how the Postal Service processes the remaining 34.67 percent of flats that are used to calculate the FSS scorecard in FY 2015.
14. Please explain why 10 percent of flats were manually sorted in FY 2015 as reported on page 21 of the FY 2015 ACR.
 - a. Please quantify the cost of manually sorting 10 percent of flats.
 - b. Please discuss what steps the Postal Service is taking to reduce the number of flats that are manually sorted.
15. Please refer to the discussion of the Automated Parcel and Bundle Sorter (APBS) bin expansion program on page 21 of the FY 2015 ACR.
 - a. Please quantify the “reduction of manual handing for packages” of flats achieved in FY 2015 through the APBS bin expansion program. If the Postal Service cannot quantify the reduction, please discuss any obstacles to quantification.

- b. Please identify whether the FY 2015 APBS bin expansion program resulted in a reduction or increase of manual handling for bundles of flats. If the Postal Service cannot determine if a reduction or increase occurred, please discuss any obstacles to reaching a determination.
 - c. Please quantify any capital expenditures associated with the APBS bin expansion program in FY 2015.
- 16. The Postal Service states on page 23 of the FY 2015 ACR that it tested the High Speed Flats Feeder (HSFF) at three sites in FY 2015 and that it has “observed consistent productivity improvements over the current feeder technology on FSS.”
 - a. Please provide the productivity of the HSFF FSS and compare it to the FSS without the HSFF.
 - b. Please quantify the cost savings achieved at the three test sites. If the Postal Service cannot quantify the cost savings achieved, please discuss any obstacles to quantification.
- 17. The Postal Service states on page 25 of the FY 2015 ACR that requiring FSS Scheme pallet preparation enables more efficient FSS processing for the Postal Service. Please quantify the cost-savings impact of this preparation requirement strategy for FY 2015. If the Postal Service cannot quantify the cost-savings impact, please discuss any obstacles to quantification.
- 18. Please refer to the Response to CHIR No. 4, question 9a. in the FY 2014 ACR proceeding. See Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-4, 8-9 and 13-17 of Chairman’s Information Request No. 4, February 6, 2015, question 9a.
 - a. Please describe the status of the Lean Six Sigma project team’s evaluation of methodologies to determine bundle breakage.

- b. If the Lean Six Sigma evaluation is still ongoing, please provide an estimated timeframe for completion.
- c. If the Lean Six Sigma evaluation has concluded, please identify the outcome and any recommendations as to measuring or reducing bundle breakage. Please state if any recommendations have been implemented and if not, please identify any obstacles to implementing any recommendations.

International Mail

- 19. The Postal Service reported a loss of \$75 million on Inbound Letter Post in its FY 2014 ACR. See Docket No. ACR2014, United States Postal Service FY 2014 Annual Compliance Report, December 29, 2014. On page 8 of the FY 2015 ACR, the Postal Service reports a loss of \$98 million on Inbound Letter Post, despite a 13 percent increase in terminal dues from group 1.1 target countries. Please discuss what steps are being taken to reduce the costs associated with this product and increase cost coverage.
- 20. The following requests pertain to Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 (Multi-Service Agreements).
 - a. Please provide estimated revenue for each Multi-Service Agreement at UPU rates that demonstrate that the agreements improved the net financial position of the Postal Service.
 - b. Please discuss what steps are being taken to improve cost coverage of Multi-Service Agreements.
- 21. The following requests pertain to Inbound Parcel Post (at UPU rates).
 - a. For the Inbound Parcel Post (at UPU rates) product, please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of

variation (CV) for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage.

- b. The Postal Service states that "...the small volume of this service contributes to the difficulty in obtaining sufficient IOCS tallies through sampling." FY 2015 ACR at 67. Please provide any studies or resources that could be used to measure this product's volume and costs by means other than IOCS.
 - c. In FY 2014, Inbound Parcel Post (at UPU rates) covered costs. On page 66 of the FY 2015 ACR, the Postal Service reports that it did not cover its costs in FY 2015. The Postal Service attributes this change to the fact that it cannot unilaterally change the inward land rates it receives for Inbound Parcel Post, which are set by the UPU. *Id.* at 67. Please discuss what steps are being taken to reduce the costs associated with this product.
22. The following requests pertain to Outbound Competitive International Registered Mail.
- a. On page 68 of the FY 2015 ACR, the Postal Service states that it "...intends to examine whether pricing solutions would resolve this matter." If this examination has been completed, please discuss the results. If this examination has not been completed, please address when the Postal Service expects to begin the examination and when it expects to complete the examination.
 - b. Please confirm that Outbound Competitive International Registered Mail must be offered as a service for Letter Post, pursuant to the UPU Convention. If not confirmed, please discuss the financial and practical results of ending this service.

Domestic Negotiated Service Agreements (NSAs)

23. Please provide revenue, volume, weight, and attributable costs data for the following 69 competitive domestic NSA products similar to the data for other competitive domestic NSA products filed with Library Reference USPS-FY15-NP27. If the data are not available, please explain.

Selected Contract Grouping	Contract	MC DOCKET	CP DOCKET	Implementation Date	Termination Date
First-Class Package Service (FCPS)	FCPS Contract 3	MC2012-19	CP2012-25	5/25/2012	5/25/2015
	FCPS Contract 4	MC2012-20	CP2012-26	5/25/2012	5/25/2015
	FCPS Contract 5	MC2012-21	CP2012-27	5/25/2012	5/25/2015
	FCPS Contract 6	MC2012-22	CP2012-28	5/25/2012	5/25/2015
	FCPS Contract 7	MC2012-23	CP2012-29	5/25/2012	5/25/2015
	FCPS Contract 8	MC2012-27	CP2012-36	7/6/2012	7/6/2015
	FCPS Contract 9	MC2012-28	CP2012-37	7/6/2012	7/6/2015
	FCPS Contract 10	MC2012-35	CP2012-43	7/31/2012	7/31/2015
	FCPS Contract 11	MC2012-40	CP2012-48	8/23/2012	8/23/2015
	FCPS Contract 12	MC2012-41	CP2012-49	8/23/2012	8/23/2015
	FCPS Contract 13	MC2012-42	CP2012-50	8/29/2012	8/29/2015
	FCPS Contract 14	MC2012-43	CP2012-51	8/29/2012	8/29/2015
	FCPS Contract 15	MC2012-45	CP2012-53	8/31/2012	8/31/2015
	FCPS Contract 16	MC2012-49	CP2012-61	10/11/2012	10/11/2015
	FCPS Contract 17	MC2012-50	CP2012-62	10/11/2012	10/11/2015
	FCPS Contract 18	MC2012-51	CP2012-63	10/11/2012	10/11/2015
	FCPS Contract 19	MC2012-52	CP2012-64	10/11/2012	10/11/2015
	FCPS Contract 20	MC2012-53	CP2012-65	10/11/2012	10/11/2015
	FCPS Contract 21	MC2013-8	CP2013-8	11/2/2012	11/2/2015
	FCPS Contract 22	MC2013-9	CP2013-9	11/2/2012	11/2/2015
	FCPS Contract 23	MC2013-10	CP2013-10	11/2/2012	11/2/2015
	FCPS Contract 24	MC2013-11	CP2013-11	11/2/2012	11/2/2015
	FCPS Contract 25	MC2013-12	CP2013-12	11/8/2012	11/8/2015
	FCPS Contract 26	MC2013-15	CP2013-14	11/19/2012	11/19/2015
	FCPS Contract 27	MC2013-17	CP2013-16	11/30/2012	11/30/2015
	FCPS Contract 28	MC2013-18	CP2013-17	11/30/2012	11/30/2015
	FCPS Contract 29	MC2013-19	CP2013-18	11/30/2012	11/30/2015
	FCPS Contract 30	MC2013-20	CP2013-19	11/30/2012	11/30/2015
	FCPS Contract 31	MC2013-21	CP2013-29	12/28/2012	12/28/2015
	FCPS Contract 33	MC2013-23	CP2013-31	12/28/2012	12/28/2015
	FCPS Contract 34	MC2013-24	CP2013-32	12/28/2012	12/28/2015
	FCPS Contract 37	MC2014-42	CP2014-75	9/11/2014	9/11/2017

Selected Contract Grouping	Contract	MC DOCKET	CP DOCKET	Implementation Date	Termination Date
Parcel Return Service	Parcel Return Service Contract 4	MC2013-46	CP2013-60	5/9/2013	5/9/2016
	Parcel Return Service Contract 6	MC2015-41	CP2015-53	4/1/2015	4/1/2018
Parcel Select	Parcel Select and Parcel Return Service Contract 5	MC2014-1	CP2014-1	10/30/2013	10/30/2018
	Parcel Select Contract 10	MC2015-85	CP2015-141	9/30/2015	9/29/2018
Priority Mail & First-Class Package Service	Priority Mail & First-Class Package Service Contract 3	MC2015-45	CP2015-56	4/9/2015	4/8/2018
Priority Mail	Priority Mail Contract 36	MC2012-2	CP2012-6	1/25/2012	1/25/2015
	Priority Mail Contract 38	MC2012-7	CP2012-15	2/3/2012	2/3/2015
	Priority Mail Contract 43	MC2012-48	CP2012-58	9/24/2012	9/25/2015
	Priority Mail Contract 47	MC2013-7	CP2013-7	11/5/2012	11/3/2015
	Priority Mail Contract 51	MC2013-31	CP2013-40	1/25/2013	1/24/2016
	Priority Mail Contract 52	MC2013-35	CP2013-46	2/5/2013	2/5/2016
	Priority Mail Contract 53	MC2013-36	CP2013-47	2/8/2013	2/9/2016
	Priority Mail Contract 54	MC2013-37	CP2013-48	2/12/2013	2/13/2016
	Priority Mail Contract 55	MC2013-40	CP2013-52	3/12/2013	3/12/2016
	Priority Mail Contract 56	MC2013-42	CP2013-55	4/10/2013	4/10/2016
	Priority Mail Contract 57	MC2013-43	CP2013-56	4/10/2013	4/10/2016
	Priority Mail Contract 58	MC2013-47	CP2013-61	5/10/2013	5/10/2016
	Priority Mail Contract 68	MC2014-6	CP2014-7	12/3/2013	2/1/2014
	Priority Mail Contract 72	MC2014-10	CP2014-11	12/23/2013	12/20/2016
	Priority Mail Contract 73	MC2014-11	CP2014-15	1/10/2014	1/10/2016
	Priority Mail Contract 79	MC2014-20	CP2014-33	3/12/2014	3/12/2017
	Priority Mail Contract 84	MC2014-33	CP2014-59	8/5/2014	9/30/2017
	Priority Mail Contract 86	MC2014-35	CP2014-61	8/4/2014	8/4/2017
	Priority Mail Contract 88	MC2014-37	CP2014-63	8/4/2014	8/4/2017
	Priority Mail Contract 105	MC2015-20	CP2015-25	1/8/2015	1/7/2018
	Priority Mail Contract 112	MC2015-32	CP2015-42	3/3/2015	3/3/2018
	Priority Mail Contract 137	MC2015-73	CP2015-111	8/6/2015	8/5/2018
	Priority Mail Contract 140	MC2015-79	CP2015-126	8/27/2015	8/26/2018
	Priority Mail Contract 143	MC2015-83	CP2015-139	9/30/2015	9/29/2017
Priority Mail Express & Priority Mail	Priority Mail Express and Priority Mail Contract 15	MC2014-3	CP2014-3	12/1/2013	12/1/2014
	Priority Mail Express and Priority Mail Contract 19	MC2015-69	CP2015-107	8/5/2015	8/4/2018
Priority Mail Express	Priority Mail Express Contract 12	MC2012-36	CP2012-44	8/16/2012	8/16/2015
	Priority Mail Express Contract 14	MC2013-41	CP2013-53	3/8/2013	3/8/2016
	Priority Mail Express Contract 15	MC2013-50	CP2013-63	5/24/2013	5/24/2016

Selected Contract Grouping	Contract	MC DOCKET	CP DOCKET	Implementation Date	Termination Date
	Priority Mail Express Contract 21	MC2015-14	CP2015-17	12/12/2014	12/11/2017
	Priority Mail Express Contract 27	MC2015-81	CP2015-135	9/15/2015	9/14/2018
Priority Mail Express, Priority Mail, & First-Class Package Service	Priority Mail Express, Priority Mail, & First-Class Package Service Contract 1	MC2012-46	CP2012-55	9/21/2012	9/25/2015

By the Acting Chairman.

Robert G. Taub