

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

Annual Compliance Report, 2015

Docket No. ACR2015

CHAIRMAN'S INFORMATION REQUEST NO. 7

(Issued February 1, 2016)

To clarify the basis of the Postal Service's estimates in its FY 2015 Annual Compliance Report (ACR), filed December 29, 2015,<sup>1</sup> the Postal Service is requested to provide written responses to the following requests and questions. Answers should be provided to the requests and individual questions as soon as they are developed, but no later than February 8, 2016.

**FIRST-CLASS MAIL**

1. Please refer to Library Reference "USPS-FY15-26 – Mail Processing Costs by Shape" and identify what the Postal Service views as the primary factors driving the 5.7 percent increase in processing costs for First-Class Mail presort letters when compared to FY 2014 and explain how these factors have resulted in this increase.

**STANDARD MAIL**

2. Please identify what the Postal Service views as the primary factors driving the following attributable cost increases over FY 2014 reported in Library Reference "USPS-FY15-1 – FY2015 Public Cost and Revenue Analysis (PCRA) Report" and explain how these factors resulted in the reported attributable cost increases for:

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

- a. The 12.9 percent increase, from 6.2 to 7.0 cents, in Standard Mail High Density/Saturation Letters.
  - b. The 34.62 percent increase, from 7.8 to 10.5 cents, in Standard Mail High Density/Saturation Flats and Parcels.
  - c. The 9.57 percent increase, from 18.8 to 20.6 cents, in Standard Mail Carrier Route.
3. With respect to the 12.9 percent increase, from 6.2 to 7.0 cents, in Standard Mail High Density/Saturation Letters, please indicate the percentage of Standard Mail High Density/Saturation Letters that is entered at the destination delivery unit, then moved upstream for Delivery Point Sequencing (DPS) processing at a sectional center facility (SCF).
4. As indicated in Library Reference “USPS-FY15-26 – Mail Processing Costs by Shape” and in the ACRs for FY 2013 and FY 2014, the processing costs for Standard Mail Letters decreased by 2.28 percent from FY 2013 to FY 2014, but increased by 2.75 percent from FY 2014 to FY 2015. Please identify and explain what the Postal Service views as the primary factors driving this volatility.
5. In comparing the costs reported in Library Reference “USPS-FY15-19 – FY2015 Delivery Costs by Shape” to those reported in the FY 2014 ACR, Standard Mail Saturation Letters delivery costs increased by 30.94 percent despite being one of the least costly, least handled mail categories entered into the postal system.
  - a. Please explain the increase in delivery costs for this product.
  - b. Does the Postal Service have a plan to stem the increase in delivery cost for this product? If so, please identify the steps the Postal Service plans to take and explain how these steps will prevent further increases in delivery costs for this product.
6. Please refer to Library Reference “USPS-FY15-2 – FY 2015 Public Cost Segments and Components,” Public Cost Segments and Components

worksheet, at tab CS14. Please explain why there are Domestic Air costs associated with High Density/Saturation Letters, High Density/Saturation Flats and Parcels, and Carrier Route.

## **FLATS**

7. With respect to the justification of implementing the Flats Sequencing System (FSS), the Postal Service has stated that under FSS processing, mail processing costs were likely to increase while delivery costs would decrease. In the FY 2013 ACR, for instance, the Postal Service stated: “FSS has increased the mail processing costs of Flats as the sequencing activity has moved from delivery to mail processing. However, these increased costs are offset by lower delivery costs.” See Docket No. ACR2013, United States Postal Service FY 2013 Annual Compliance Report, December 27, 2013, at 23. Yet delivery costs for Standard Mail Flats rose over 8 percent from FY 2013 to FY 2014 while at the same time, mail processing costs for Standard Mail Flats rose almost 9 percent. In the current FY 2015 ACR, in the two products most processed on FSS (Standard Mail Flats and Outside County Periodicals), mail processing costs decreased by 0.36 percent and 4.5 percent, respectively, while delivery costs went up by 7.90 percent and 7.91 percent respectively. Please explain why, contrary to previous predictions, delivery costs continue to increase under FSS, even while processing costs appear to have decreased in the past year.
  - a. How much, if any, of the reduced flats processing cost is due to the increase in FSS Scheme pallets resulting from the 250 pound pallet rule?
  - b. How much have pallet handling costs increased due to the increased quantity of pallets?
8. In the Postal Service’s Office of the Inspector General Report (OIG), Flats Sequencing System: Program Status and Projected Cash Flow (Report Number DA-AR-10-007), the Postal Service projected that its lower bound or worst case scenario for the FSS would be a return on investment of 14.25 percent without

transitional employees and 26.9 percent with transitional employees. Please update these projections with FY 2015 data and discuss if the projections cited in the 2010 OIG report have been achieved.

9. Has the increase in the number of pallets from the 250 pound FSS Scheme pallet rule affected the Postal Service's ability to manage service performance effectively? Include in your response service performance figures which would enable a comparison of service performance between FSS and non-FSS zones.
10. On page 19 of the FY 2015 ACR, the Postal Service provides the following table reflecting its performance on "key metrics" appearing on the FSS Scorecard:

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

This chart demonstrates improvement in these metrics, yet cost coverage for products processed on FSS, particularly Standard Mail Flats and Periodicals, declined in FY 2015. In light of these seemingly contradictory trends, please answer the following questions:

- a. Does the Postal Service track the costs required to prepare mail for its first pass on FSS machines? If so, please indicate the costs associated with this preparation by product.
- b. Please identify the full Flats processing, in-office and delivery costs for the approximately 40 percent of Flats run through FSS that are not in DPS after passing through the FSS machine.
- c. Please provide cost estimates for At-Risk volume and FSS volume that does not get DPS versus those ran on FSS.

11. In Response to CHIR No. 4, question 16, the Postal Service explains that “it is too early to determine actual cost savings” of the High Speed Flats Feeder (HSFF).
  - a. Please explain when the Postal Service expects it will be able to estimate cost savings associated with the HSFF and how the Postal Service plans to estimate cost savings associated with the HSFF.
  - b. Does the Postal Service expect the HSFF to improve its performance on the “key metrics” identified in the FSS Scorecard, in particular reducing At-Risk mail and increasing the percentage of DPS mail? If so, please provide an estimate of the improvement in these metrics resulting from HSFF deployment.
12. Please refer to Library Reference “USPS-FY15-19 – FY 2015 Delivery Costs by Shape,” FSS Volume Inputs tab of the FSSDeliveryModel15 worksheet, where the Postal Service reports that 18 percent of Periodicals Flats, 20 percent of BPM Flats, 26 percent of Standard Mail Flats, and 17 percent of Carrier Route Flats are destinating in FSS Zones. With respect to these percentages:
  - a. What percentage of total Flats volume would the Postal Service like to see destinating in FSS zones?
  - b. What percentage of total volume creates the most efficient processing for FSS?
  - c. If FSS were operating at maximum efficiency, what percentage of each Flat category described above would be destinating in FSS zones?
13. For the following questions, please refer to Library Reference “USPS-FY15-19 – FY2015 Delivery Costs by Shape,” Summary tab of the FSSDeliveryModel15 worksheet:
  - a. Please describe the work associated with In-Office Direct Labor, Non-Casing.

- b. Please explain why the City Carrier Total Unit Cost is significantly higher than Rural Carrier Total Unit Cost in both destinating FSS zones and destinating non-FSS zones.
  - c. Explain why the City Carrier Street Unit Cost is significantly higher in destinating FSS zones than in destinating non-FSS zones.
14. Please refer to Library Reference "USPS-FY15-19 – FY 2015 Delivery Costs by Shape," FSS Inputs tab of the FSSDeliveryModel15 worksheet, where the Postal Service reports that 24 percent of Flats destinating in FSS Zones are not finalized on FSS equipment and that 7.5 percent of Flats mail is collated with cased mail.
- a. Please explain why 24 percent of Flats destinating in FSS zones are not finalized on FSS equipment.
  - b. Please describe any steps the Postal Service is pursuing to decrease the percentage of Flats destinating in FSS zones that are not finalized on FSS equipment. If the Postal Service is not taking any steps to reduce this percentage, please explain why.
  - c. Please describe how pieces that are neither part of the 24 percent of Flats destinating in FSS zones not finalized on FSS equipment nor the 7.5 percent of Flats mail collated with cased mail are processed in destinating FSS zones.

**BOUND PRINTED MATTER**

15. In comparing the costs reported in Library Reference "USPS- FY15-19 – FY2015 Delivery Costs by Shape" to those reported in the FY 2014 ACR, Bound Printed Matter (BPM) Flats Delivery Cost increased by 34.77 percent.
- a. Please identify what the Postal Service views as the primary factors driving the increase in delivery cost for this product and explain how these factors resulted in the reported delivery cost increase.

- b. Does the Postal Service have a plan to stem the increase in delivery cost for this product? If so, please identify the steps the Postal Service plans to take and explain how these steps will prevent further increases in delivery costs for this product.

## **NETWORK RATIONALIZATION**

16. Has the Postal Service realized all the savings from its Network Rationalization Initiative?
  - a. Has the Postal Service been able to capture all the savings it projected it would realize from this initiative? If not, please explain why the full amount of projected savings has not been realized.
  - b. If the Postal Service was able to capture all of the savings it projected it would realize from the Network Rationalization Initiative, please identify the month in which it reached this milestone.

## **LIBRARY REFERENCE USPS-FY15-2 – FY2015 PUBLIC COST SEGMENTS AND COMPONENTS REPORT**

17. Please identify what the Postal Service views as the primary factors driving the following cost changes from FY 2014 values identified in Library Reference “USPS-FY15-2 – FY 2015 Public Cost Segments and Components,” Public Cost Segments and Components worksheet, CSS Summary tab:
  - a. The 12.83 percent increases in High Density and Saturation Letters C/S 3.
  - b. The 26.43 percent decrease in Every Door Direct Mail C/S 3.
  - c. The 22.11 percent increase in High Density/Saturation Letters C/S 6.
  - d. The 8.84 percent increase in High Density/Saturation Flats and Parcels C/S 6.
  - e. The 3.05 percent increase in Standard Mail Flats C/S 6.
  - f. The 91.12 percent increase in BPM Flats C/S 6.

- g. The 29.38 percent increase in BPM Parcels C/S 6.
  - h. The 25.57 percent increase in High Density/Saturation Letters C/S 7.
  - i. The 20.63 percent increase in High Density/Saturation Letters C/S 10.
  - j. The 97.12 percent increase in High Density/Saturation Flats and Parcels C/S 7.
  - k. The 13.47 percent increase in Carrier Route C/S 7.
  - l. The 43.32 percent increase in Standard Mail Flats C/S 7.
  - m. The 83 percent increase in High Density/Saturation Flats and Parcels C/S 14.
  - n. The 27.78 percent and 28.93 percent increases in Inter-SCF and Inter-NDC, respectively, highway transportation costs attributed to Periodicals.
18. With respect to Library Reference "USPS-FY15-2 – FY 2015 Public Cost Segments and Components," Public Cost Segments and Components worksheet, CSS Summary tab, please explain why Within County Periodicals and Outside County Periodicals saw an increase in C/S 7 of 22.80 percent and 21.66 percent, respectively, but saw a decrease in C/S 10 of 2.89 percent and 3.78 percent, respectively, when compared to FY 2014.
19. Please explain the following changes in avoided cost reported in Library Reference "USPS-FY15-3 – FY 2015 Discounts and Passthroughs of Workshare Items" when compared to the analogous Library Reference from FY 2014 :
- a. First-Class Automation Mixed AADC Letters: from \$0.046 to \$0.033 (28 percent decrease);
  - b. Standard Mail Dropship DNDC Letters: \$0.321 to \$0.016 (95 percent decrease);

- c. Standard Mail Dropship DSCF Letters: \$0.376 to \$0.20 (95 percent decrease);
- d. Standard Mail Carrier Route Dropship DNDC Letters: \$0.321 to \$0.016 (95 percent decrease);
- e. Standard Mail Carrier Route Dropship DSCF Letters: \$0.375 to \$0.020 (95 percent decrease);
- f. Standard Mail High Density Dropship DNDC Letters: \$0.321 to \$0.016 (95 percent decrease);
- g. Standard Mail High Density Dropship DSCF Letters: \$0.376 to \$0.020 (95 percent decrease); and
- h. Periodicals Saturation Presorting: \$0.034 to \$0.007 (79 percent decrease).

## **CUSTOMER SATISFACTION WITH MARKET DOMINANT PRODUCTS**

20. In the FY 2015 ACR, the Postal Service states, “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.” See FY 2015 ACR at 58.
- a. The Customer Satisfaction with Market Dominant Products (Mailing Services) table on page 59 shows that for BPM in FY 2015 and FY 2014, and for Library Mail in FY 2014, the number of survey responses received from residential customers “did not meet [the] minimum threshold for 90% level of confidence.” *Id.* at 59. Please explain why the Postal Service was unable to generate a satisfactory estimate of residential customer satisfaction.
  - b. Please provide the residential survey results for Library Mail in FY 2014. Please explain if an annual, national-level estimate can be developed from

the surveys received. Please specify the aggregate and precision level for which FY 2014 residential customers' satisfaction with Library Mail survey estimates can be made.

- c. Please explain why question 4 of the FY 2014 and FY 2015 Delivery (Residential) surveys do not include an option for customers to select BPM as a type of mail product used. See Library Reference USPS-FY15-38, PDF file "Delivery - USPS FY15 Residential Delivery SURVEY.pdf," December 29, 2015; Library Reference USPS-FY14-38, PDF file "Delivery - USPS FY14 Residential Delivery SURVEY.pdf," December 29, 2014.
- d. Please provide the residential survey results for BPM in FY 2014 and FY 2015 results. Please explain if an annual, national-level estimate can be developed from the surveys received. Please specify the aggregate and precision level for which residential customers' satisfaction with BPM survey estimates can be made for both FY 2014 and FY 2015.

## **MODS DATA**

21. In Docket No. ACR2013, Library Reference USPS-FY13-23, summary information for unscrubbed MODS data was provided in the "yr\_scrub" tab of "YRscrub2013.xls" and in the "bmc\_scrub" tab of "NDCscrub2013.xls." Summary information for unscrubbed MODS data was not provided in either Library Reference USPS-FY14-23 in Docket No. ACR2014, or in Library Reference USPS-FY15-23 in Docket No. ACR2015. In addition to the omission of summary MODS unscrubbed data results, the output and file types provided by the Postal Service changed in both FY 2014 and FY 2015. The following requests relate to these changes. Please provide:

- a. The same calculated summary output data columns as included on the “yr\_scrub” tab of “YRscrub2013.xls” referenced above for the FY 2014 data in “YRscrub2014.xls” provided in Library Reference USPS-FY14-23.
  - b. The same calculated summary output data columns as included on the “yr\_scrub” tab of “YRscrub2013.xls” referenced above for the FY 2015 data in “YRscrub2015.xls” provided in Library Reference USPS-FY15-23.
  - c. The same calculated summary output data columns as included on the “bmc\_scrub” tab of “NDCscrub2013” referenced above for the FY 2014 data in “NDCscrub2014.xls” provided in Library Reference USPS-FY14-23.
  - d. The same calculated summary output data columns as included on the “bmc\_scrub” tab of “NDCscrub2013” referenced above for the FY 2015 data in “NDCscrub2015.xls” provided in Library Reference USPS-FY15-23.
  - e. The “finlist15” Excel file referenced on page 6 of “USPS-FY15-23.Preface.pdf” file in Library Reference USPS-FY15-23.
  - f. The “mods2015prod\_prescreen.dta” provided in Library Reference USPS-FY15-23/Programs folder as an Excel file.
  - g. The “ndc2015prod\_prescreen.dta” provided in Library Reference USPS-FY15-23/Programs folder as an Excel file.
22. Please provide the FY 2015 daily MODS volumes and workhours by plant, operation and tour. For each record, please include the following information: Finance number—(plant finance number, 6 digits), Date—(YYYY-MM-DD format), MODS tour—(1, 2, or 3), Operation—(3-digit MODS operation), FHP—(MODS First-Handling Pieces), TPH—(MODS Total Pieces Handled), TPF—(MODS Total Pieces Fed), Nonaddtph—MODS Non-Add TPH, Hours—MODS workhours, and Facility type, e.g., MODS, NDC, REC, ISC, etc.

## **INTERNATIONAL MAIL**

23. Please refer to Library Reference USPS-FY15-NP2, folder "ICRA Core Files," Excel file "Inputs.xls," tab "Product-Specific Costs" (Inputs).
  - a. Please explain the rationale for the distribution of the amount in cell J10.
  - b. Please explain what the costs in row 24 refer to.
24. Please state where the following expenses are reported:
  - a. Expenses allocated to Khala Post Group (KPG) membership
  - b. Expenses allocated to International Post Corporation (IPC) membership
25. The following questions pertain to the quality of service link to terminal dues for inbound Letter Post.
  - a. For CY 2014, please provide the final quarterly and annual quality of service measurement results for the link to terminal dues provided to the Postal Service by the IPC or its contractor.
  - b. For CY 2015, please provide the preliminary quarterly quality of service measurement results for the link to terminal dues provided to the Postal Service by the IPC or its contractor.
26. Please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage for International Competitive Outbound Registered Mail for FY 2015, FY 2014, and FY 2013.
27. Please refer to the response to Chairman's Information Request No. 2, question 5.
  - a. Please explain why observations in column A did not contain any value.

- b. Please refer to Library Reference USPS-FY14-NP2 Revised, Excel file “NSA Summary (Booked).xls.” tab “Merged ICM Data.” Please confirm that the values of 1 through 12 in column A are accurate.
  - i. If confirmed, please explain why this column was not accurately developed for FY 2015, besides tab size.
  - ii. If not confirmed, please explain the meaning of those values.

### **COMPETITIVE NSAs**

28. In its response to Chairman’s Information Request No. 4, question 23, the Postal Service notes several instances where the Postal Service reported revenues, volumes, weights, and attributable costs data for several Competitive products under an incorrect contract number. See Responses of the United States Postal Service to Chairman’s Information Request No. 4, January 22, 2016, question 23. Please revise Library Reference USPS-FY15-NP27, “NSACostRevenueSummary\_FY15” to reflect the correct docket numbers. Additionally, please revise Library Reference USPS-FY15-NP27, “NSACostRevenueSummary\_FY15” to include the associated contract numbers for each domestic Competitive negotiated service agreement included in the summary. Please file a revised “NSACostRevenueSummary\_FY15” as an erratum to Library Reference USPS-FY15-NP27.

29. In its ACR, the Postal Service reported that two domestic Competitive negotiated service agreements failed to cover their attributable costs: Priority Mail Contract 35 (Docket No. CP2015-109) and Parcel Return Service Contract 8 (Docket No. CP2015-73). FY 2015 ACR at 66. The Postal Service also stated that, at the end of quarter 1 of FY 2016, it intended to evaluate these contracts and either amend or terminate them as appropriate. *Id.* Please provide the status of the Postal Service's evaluation and findings, if any.

By the Acting Chairman.

Robert G. Taub