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WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2015	Docket No. ACR2015

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-15, 17-29 OF CHAIRMAN'S INFORMATION REQUEST NO. 7

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 7, issued on February 1, 2016. Each question is stated verbatim and followed by the response. A response to Question 16 is still being prepared.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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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.

RESPONSE:

As discussed below, there are a myriad of factors that contribute to this change, starting with the disaggregation of unit costs in the following table. The bottom row compares the total unit costs from USPS-FY14-26 and USPS-FY15-26. The rows above divide this increase into mail processing labor costs, and indirect or piggyback costs (which are supervision, equipment and facility-related costs, and service-wide benefits.) Since the distribution of indirect costs is driven by the labor costs, it is not surprising to see that the percentage change for labor and indirect costs to be so similar.

First-Class Mail, Presort Letters			
(in cents/piece)			
	FY2014	FY2015	Percentage Change
Mail Processing Labor	3.16	3.34	5.8%
Mail Processing Indirect Cost	2.39	2.53	5.9%
Total Mail Processing Costs	5.55	5.87	5.8%

The DBCS cost pool is where the bulk of the change occurred. The unit costs for the DBCS cost pool rose 0.19 cents, accounting for much of the 0.32 cents change in total unit costs. This increase in the DBCS cost pool unit cost was nearly 8 percent, which could be driven by two possibly related factors.

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First, as shown in folders USPS-FY14-23 and USPS-FY15-23, there was an 11 percent decline in both the DBCS incoming SCF/Primary and MMP productivities. Second, First-Class Mail presort letters weight per piece rose by 2.6 percent.

Another contributor to keep in mind is sample variance, since these cost estimates are based on statistical sampling. See USPS-FY15-37, "In-Office Cost System (IOCS)", workbook "IOCS CVs FY15 Public.xlsx". Minor factors were also the merger of cost segment 3 and 4, and the small rise in the cost per workhour for clerks and mail handlers, both of which could have added a small portion of the increase.

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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:

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.

RESPONSE:

a. The increase in unit attributable costs for Standard Mail High Density/Saturation Letters in FY 2015 are largely explained by two method changes in the treatment of direct and indirect of city carrier street time costs. The increase in street time costs accounted for approximately 0.5 of the 0.8 cents change in unit costs in FY 2015.

One method change was the new city carrier street time letter route cost model.[1] Specifically, the new model has a higher variability for sequenced mail (mail taken directly to the street as a separate bundle). The new sequenced variability is 3.38 percent compared with 1.30 percent. The new variability increased the sequenced cost pool by $189 million, of which $21 million in additional costs of regular delivery time were assigned to Standard Mail High Density Saturation Letters.

[1] See Docket No, RM2015-7, Proposal Thirteen, Order No. 2792 (October 29, 2015)

The second method change, Proposal Twelve, modified the existing treatment of city carrier vehicle costs to be consistent with the new city carrier letter route street time model.[2] This method change in the treatment of vehicle costs, coupled with the additional street time labor costs, was largely responsible for the increase in the city carrier piggyback factor in FY 2015 to 1.378 from 1.337 in the previous year.[3]

b. The attributable cost for Standard Mail High Density/Saturation Flats and Parcels in FY 2014 was 7.9 cents rather than 7.8 cents.[4] The increases in unit attributable costs for Standard Mail High Density/Saturation Flats and Parcels in FY 2015 are largely explained by two method changes in the treatment of direct and indirect of city carrier street time costs. Direct and indirect street time costs accounted for approximately 2.4 of the 2.6 cents change in unit costs in FY 2015. One method change was the new city carrier street time letter route model.[5] The estimated variabilities from this model resulted in additional street costs being assigned to sequenced mail (mail taken directly to the street as a separate bundle). The FY 2015 variability for sequenced mail is 3.38 percent as compared to 1.30 percent in FY 2014.[6] The new variability increased the sequenced cost pool by $189 million, of which $168 million in additional costs of

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[2] See Docket No, RM2016-3, Proposal Twelve, Order No. 2915 (December 22, 2015)
[3] USPS-FY15-24, workbook FY15Public.PB, Tab PBRatios
[4] Financial Analysis of the United States Postal Service, Financial Results and 10-K Statement, Fiscal Year 2014 at 74 (April 1, 2015).
[5] See Docket No, RM2015-7, Proposal Thirteen, Order No. 2792 (October 29, 2015)
[6] USPS-FY15-32, workbook CS06&7, tab Input LR New, Cells D19-D21.

regular delivery time were assigned to Standard Mail High Density Saturation Flats and Parcels.

The second method change, Proposal Twelve, modified the existing treatment of city carrier vehicle costs to be consistent with the new city carrier letter route street time model.[7] This method change in the treatment of vehicle costs, in conjunction with the additional street time labor costs, was largely responsible for the increase in the city carrier piggyback factor in FY 2015 to 1.379 from 1.333 the previous year.[8]

c. The attributable cost for Standard Mail Carrier Route in FY 2014 was 19.2 cents.[9] Thus, the change in unit attributable costs in FY 2015 for Standard Mail Carrier Route was 0.4 cents, not 1.8 cents. The correct unit costs result in only a 2.2 percent increase in unit attributable costs in FY 2015 for Standard Mail Carrier Route.

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[7] See Docket No, RM2016-3, Proposal Twelve, Order No. 2915 (December 22, 2015)
[8] USPS-FY15-24, workbook FY15Public.PB, Tab PBRatios
[9] Financial Analysis of the United States Postal Service, Financial Results and 10-K Statement, Fiscal Year 2014 at 74 (April 1, 2015).

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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).

RESPONSE:

The 12.9 percent increase in Standard Mail High Density/Saturation Letters unit costs is discussed in response to Question 2a of this Information Request. In addition, see the response to Question 17, parts a, c, h, and i as well.

Standard Mail High Density/Saturation Letters are not permitted to be entered at the DDU, with the exception of pieces prepared with simplified addresses or when the mailer holds a permit at the DDU office and fewer than 2,500 pieces are deposited in one day. See DMM 246.4.0. This limited volume of letters that are permitted to be entered at the DDU is often not DPS automation candidate mail. The Postal Service has no other available data or information on the volume of or the cost associated with pieces that are "entered at the destination delivery unit, then moved upstream for Delivery Point Sequencing (DPS) processing at a sectional center facility (SCF)."

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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.

RESPONSE:

This change in unit cost is summarized in the table below. The bottom row compares the total unit costs from USPS-FY13-26, USPS-FY14-26 and USPS-FY15-26. The rows above divide these changes into mail processing labor costs, and indirect or piggyback costs (which are supervision, equipment and facility-related costs and service-wide benefits.) As shown, most of the change has been driven by mail processing labor costs. While the changes in indirect costs would often parallel the changes in labor costs, in this case the changes in labor costs are likely to have been focused in cost pools with lower than average indirect costs, leaving the total indirect costs unchanged.

Standard Mail, Letters						
(in cents/piece)						
	FY2013	FY2014	FY2015	FY14/FY13 Percentage Change	FY15/FY14 Percentage Change	FY15/FY13 Percentage Change
Mail Processing Labor	2.78	2.67	2.77	-3.9%	3.6%	-0.4%
Mail Processing Indirect Cost	2.06	2.05	2.08	-0.4%	1.6%	1.3%
Total Mail Processing Costs	4.83	4.72	4.85	-2.4%	2.8%	0.3%

An important factor likely driving the changes of this magnitude is sample variance, since these cost estimates are based on statistical sampling. See USPS-FY15-37, "In-Office Cost System (IOCS)", workbook "IOCS CVs FY15

Public.xlsx. Comparing FY 2013 and FY 2015, the unit costs are nearly unchanged. The cost changes appear to be widely and randomly distributed across cost pools, with the only change of note being the 0.6 cents per piece increase in the DBCS unit cost between FY 2014 and FY 2015. This accounts for nearly half of the 0.13 cents per piece change in total mail processing costs. This may relate to the decline in some DBCS productivities noted in response to Question 1 of this Information Request. However, it should also be noted that weight per piece for Standard Mail Letters declined by 1.2 percent and 1.4 percent for FY 2014 and FY 2015 respectively, compared to the previous year.

Minor factors were also the merger of cost segment 3 and 4 for FY 2015, and the small rise in the cost per workhour for clerks and mail handlers in each year.

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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.

RESPONSE:

In explaining a change in unit delivery costs, it is often helpful to disaggregate the changes into its three main components 1) city carrier in-office costs, 2) city carrier street costs, and 3) rural costs. For Standard Mail Saturation Letters, city in-office costs, city street costs, and rural costs increased by 0.2, 0.9, and 0.3 cents respectively. The increase in city carrier street costs is largely explained by the two method changes implemented in FY 2015 that involved the treatment of city carrier street time costs which are covered in more detail in the response to Question 2a. of this ChIR. The impact of the higher variability for sequenced mail is greater on Standard Mail Saturation Letters than for the composite Standard Mail High Density/Saturation Letters, because Saturation Letters are much more likely to be sequenced than High Density Letters. City in-office costs rose because cased volume increased by two percent while originating volume declined by one percent. Similarly, rural costs increased because Standard Mail

Saturation Letters' relative share of the Other Letters compensation category increased from seven to eight percent in FY 2015.

b. The Postal Service has no particular expectation of further increases in delivery costs for this product, and hence no specific plans to stem such potential increases. The Postal Service is continually exploring more efficient methods of delivery for all of its products. As was explained in the response to part a., the recent increase in delivery costs was largely the result of a method change to the treatment of direct and indirect city carrier street costs. The remaining lesser portion of the increase was explained by minor volume growth in certain areas on both city and rural routes.

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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.

RESPONSE:

Domestic Air costs include the costs incurred on the Alaska, Hawaii, and Air Taxi networks. Due to their distinctive topographies, these regions utilize air networks to transport mail products that almost exclusively travel via surface transportation elsewhere. Thus, the distribution factors for these networks are based on a weighted composite average of air and surface information from the Transportation Cost System (TRACS).[10] The result is that a de minimis amount of domestic air costs are assigned to these products.

[10] Docket No. RM2013-6, Order No. 1983, Proposal Two (February 4, 2014).

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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?

RESPONSE:

In FY 2015, delivery costs for Standard Mail Flats and Outside County Periodicals increased largely because of two method changes to the treatment of direct and indirect city carrier street costs. One method change was the new city carrier street time letter route model.[11] The relevant variabilities for flats costs in FY 2015 are 6.99 percent for cased mail (letters and flats) and 2.95 percent for FSS flats. Previously, all flats received the same variability equal to 7.10 percent. This resulted in an additional $145 million assigned to flats products in FY 2015 as compared with FY 2014. As the following table illustrates, city in-

[11] See Docket No, RM2015-7, Proposal Thirteen, Order No. 2792 (October 29, 2015)

office unit costs and rural costs are considerably lower for Standard Mail Flats and Periodicals destinating in FSS zones. For Periodicals in FSS zones, the costs are approximately 4.0 and 2.5 cents less for city in-office and rural costs respectively. The corresponding costs for Standard Mail Flats are approximately 7.4 and 2.2 cents less in FSS zones.

City In-Office and Rural Unit Costs for Periodicals and Standard Mail Flats Destinating in FSS and non-FSS Zones

	City In-Office (Cents)	Rural (Cents)
Periodicals (FSS zones)	2.74	1.26
Periodicals (non-FSS zones)	6.74	3.79
Standard Mail Flats (FSS zones)	4.41	1.24
Standard Mail Flats (non-FSS zones)	11.80	3.49

Source: USPS-FY15-19, workbook FSSDeliveryModel15, tab Summary

Currently, the data indicate that city carrier street time is materially impacted by the presence of an FSS bundle.[12] Factoring that into the equations still results in total delivery costs being lower for flats destinating in FSS zones as

[12] USPS-RM2015-7/1, City Carrier Street Time Report at 76-85.

compared with those destinating in non-FSS zones for all Periodicals Flats, Carrier Route Flats, Standard Mail Flats, and Bound Printed Matter Flats.[13]

a. Please see the response to ChIR No. 4, Question 17 (January 22, 2016).

b. The Postal Service cannot quantify the cost savings impact of FSS Scheme pallet preparation because such quantification would require, at a minimum and as described below, knowledge of the preparation of the mail in the absence of the FSS Scheme pallet preparation requirement.

In FY 2015 the Postal Service handled 318,360 Periodicals FSS Scheme pallets and an estimated 482,729 Standard FSS Scheme pallets. While many of these pallets were created by the FSS Scheme pallet requirement, many were from mailings in FSS zones where the volume destinating in a FSS zone exceeds the 500 pound mandatory threshold or the 250 pound optional threshold for the creation of 5-Dight or 5-Digit CRRTS pallets. For this reason, to accurately assess the increased pallet handling costs, knowledge of the preparation characteristics in the absence of the FSS Scheme pallet preparation requirement is needed. This information would only be known by individual customers. As measured in USPS-FY15-11, the Postal Service incurs an additional pallet handling cost of $13.08 for each additional DFSS FSS Scheme pallet created.

[13] USPS-FY15-19, workbook FSSDeliveryModel15, tab Table2_FSS.

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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 citied in the 2010 OIG report have been achieved.

RESPONSE:

The Postal Service is not able to provide the information as requested.

The Flats Sequencing System, Phase I (FSS) Decision Analysis Report (DAR) financial model served as a pre-decisional analysis tool in 2005 and 2006 to help quantify the original FSS investment decision for the FSS program management team and the investment committee. Extensive changes to the Postal Service's network operations, along with deployment delays since the original 2005 creation, have rendered the model obsolete.

Approved investment programs greater than $25 million are tracked by Finance and Planning's Program Performance group. Capital investment programs over $5 million are tracked from the date of approval through two quarters after the quarter in which the program is deemed completed within the capital investment monitoring process. Program managers are required to provide quarterly updates and report performance metrics and milestones related to their programs. The program performance tracking of the FSS program completed in the first quarter of FY 2015 – this update did not include an updated return on investment (ROI),

but included information on the number of FSS units, sites, delivery units, zones, city and rural routes served along with volumes processed.

The last available ROI estimates for FSS were in quarter I, fiscal year (FY) 2011. The reported range (lower and upper bounds) of return on investment without transitional employee (TE) savings was between 6.3 percent and 23.3 percent.

This range represents a decrease from the projections in the 2010 OIG report, and was largely driven by declining flat mail volume.

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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.

RESPONSE:

The change in number of pallets has not impacted the Postal Service's ability to manage service performance. Service data is not available below the 3-digit level and, therefore, service comparison between FSS and non-FSS is not possible.

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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:

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%

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.

RESPONSE:

As stated in the response to ChIR No. 4, Question 13a (January 22, 2016), "the Postal Service calculated the FSS DPS percentage by dividing the FSS sequenced volume to DPS by the following denominator, (FSS Sequenced + FSM carrier route volume + Delivery Unit manually recorded volume). The metric essentially represents that 59.99 percent of all flats destinating in FSS zones was sorted to DPS using the FSS." In this calculation "Delivery Unit manually recorded volume" includes mail pieces not intended to be processed on the FSS, specifically EDDM, High Density and Saturation Flats.

For this reason, it is incorrect to read from this table that 40 percent of flats destinating in FSS zones are run through FSS and are not DPS. The Postal Service estimates that 91.71 percent of machinable First-Class Flats, non-High Density, non-Saturation Periodicals, Bound Printed Matter and Standard Flats (i.e. flats intended to be processed on the FSS) incur at least a first pass on the FSS.[14] The remainder is processed on the AFSM100 or manually. Of the flats processed on the FSS, 89.32 percent are successfully sequenced.[15] Together, these percentages imply that 81.9 (91.7 x 89.3) percent of machinable First-Class Flats, non-High Density, non-Saturation Periodicals, Bound Printed Matter, and Standard Mail Flats, destinating in FSS zones, are successfully sequenced. This estimate is similar to that one used in the delivery cost models of 24 percent of destinating FSS zone volume is not finalized on the FSS. These two estimates differ slightly because different methods were used to produce them, and the fact that the delivery estimate includes non-machinable pieces while the above calculation does not.

For the reasons stated above, part b. cannot be answered as stated because the premise that "40 percent of Flats run through FSS that are not in DPS after passing through the FSS machine" is incorrect. Nonetheless, the Postal Service can provide reasonable estimates of the delivery costs for non-

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[14] USPS-FY14-11 workbook USPS-FY15-11 PER_OC, tab Coverage Factors, cell C102.
[15] *Id.*, tab Accept Rates, cell K24

DPS pieces (part b) and the direct incremental mail processing costs for At-Risk pieces (part c), as our understanding is that the question intended to address those pieces.

a. The Postal Service does not track the costs required to prepare mail for its first pass on the FSS machine. While FSS Stand Alone Mail Prep (SAMP) hours are recorded (Operation Number 530), employees assigned to the FSS move between the FSS and SAMP operations. Thus the calculation of costs unique to mail prep is not possible.

b. The costing systems do not enable the Postal Service to specifically isolate the costs of FSS mail that destinates in FSS zones but is not successfully sorted in DPS. However, it is reasonable to believe that these pieces incur city in-office costs, city street costs, and rural costs similar to pieces destinating in non-FSS zones. The following table illustrates the delivery costs by product for flats that destinate in non-FSS zones.

FY 2015 Unit Delivery Costs (Cents) for Flats Destinating in Non-FSS Zones

Class, Shape, or Rate Category	City Carrier In-Office Unit Cost	City Carrier Street Unit Cost	City Carrier Total Unit Cost	Rural Carrier Total Unit Cost	City Plus Rural Unit Cost
Periodicals Flats	6.74	2.73	9.47	3.79	13.26
Bound Printed Matter Flats	9.84	3.69	13.53	3.82	17.35
Standard Flats	11.80	3.30	15.10	3.49	18.59

Source: USPS-FY15-19, workbook FSSDeliveryModel15, tab Summary

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c. As stated in the response to ChIR No. 4, Question 13b (January 22, 2016), "the At-Risk metric calculation includes measurements that accounts for mail that is misfaced, mail piece destination not defined in the equipment sort plan, machine emergency stops, mail pieces with no address read, jams (feeder, tray, infeed, and ITC), machine stops, mail piece timeout due to the resolution not being returned in time, mail pieces returned by a keyer, mechanical rejects, culling rejects, mail not presented to the correct feeder in the correct order (sequencing rejects), out of sequence trays, double feeds, and recycling rejects. The 5.34 percent of flats in the Mail-Pieces At-Risk metric represents those pieces that did not follow the prescribed path of sortation on the FSS and instead required additional handling to ensure that the mail pieces meet service expectations. The calculation is not based on errors in mail preparation by mailers."

The additional mail processing costs incurred by these pieces will depend on the sortation technology employed to complete the incoming secondary sort. If these pieces are processed on the AFSM 100, they will incur an additional 2.609 cents, plus any additional allied costs. If the incoming secondary is conducted manually, they will incur an additional 21.899 cents. These cost estimates are based on the calculations in USPS-FY15-11 workbook USPS-FY15-11 PER_OC.

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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.

RESPONSE:

a. The Postal Service expects that it will be at least another year before it is able to reliably estimate cost savings. Estimating the value of cost savings is dependent on many variables which are specific to the HSFF operational environment. This requires observation and evaluation of the impact of not only the HSFF technology, but also the impact it has on the sites' ability to sequence existing Flats with less equipment, or sequence more Flats with existing equipment.

b. The HSFF has the potential to improve performance by increasing machine accept rate, improving machine throughput, and increasing capacity of the FSS to sequence more mail. Although the Postal Service expect these improvements to positively influence FSS performance, as stated in response to part a, it is not able to estimate the level of improvement on the specific metrics at this time.

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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?

RESPONSE:

a., c. Due to the nature of the machine, the FSS are more efficient the higher the candidate volumes per 5-digit zone. Sites were selected for FSS deployment based upon total volume available and the amount of volume per 5-digit zone, as well as space availability. Zones selected at these sites were based upon available Machineable Flats volume and the ability of the Postal Service to capture savings. Efficient processing is not a function of the percentage of national volume but rather the volume destinating in a set of zones at particular sites. As mail volumes change, the Postal Service continues to evaluate the best use for the FSS machines. Apart from this, the Postal Service has not studied more generally additional candidate sites. Therefore, at this time, the Postal Service cannot project that the percentages reported in USPS-FY15-19 will be appreciably different in the future.

b. The Postal Service has not determined the percentage of total volume that equates to the most efficient processing for FSS.

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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.

RESPONSE:

a. Activities categorized as In-Office Direct Labor, Non-Casing include obtaining mail, handling Undeliverable as Addressed (UAA), and performing other markups.

b. The unit costs referred to in USPS-FY15-19 are per RPW piece. Thus, both use RPW volume as the denominator for the computation of their respective unit costs. City unit costs are higher because its delivery network is much larger than the rural network. Just in terms of labor costs, the city network is approximately 2.5 times larger than the rural network. Thus, delivery costs for all products are higher for city carriers than for rural carriers.

c. City carrier street costs are based on an econometric analysis contained in Docket No. RM2015-7, Proposal Seven.[16] The analysis concluded that the presence of a FSS bundle resulted in additional street time. For a detailed

[16] USPS-RM2015-7/1, City Carrier Street Time Report.

discussion on the impact of a FSS bundle on street time, refer to the City Carrier Street Time Report.[17] Thus, street time costs are higher for flats destinating in FSS zones as compared with those not destinating in FSS zones.

[17] *Id* at 76-85

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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.

RESPONSE:

a. In its petition to establish a FSS delivery model, the Postal Service cited three reasons for its *estimate* that 24 percent of eligible Flats destinating in FSS zones are not finalized on FSS equipment. The three reasons were 1) non-machinability, 2) Flats that miss their critical entry time (CET) and thus are likely processed on AFSM100 or manually, and 3) Flats that are rejected by the FSS machine.[18]

[18] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principle (Proposal Seven), PRC Docket No. RM2015-16 (Aug. 5, 2015), at 10-11 (Section Two). In its petition, the Postal Service estimated that 25 percent of Flats destinating in FSS zones are not finalized on FSS equipment. *Id.* at 11. The Public Representative identified an arithmetic error and suggested that the figure was 24 percent. *See* Public Representative Comments in Response to Order No. 2654 Concerning Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Seven), PRC Docket No. R2015-16 (Sept. 25, 2015). The

b. The Postal Service is continually working with mailers and reviewing its procedures and requirements to minimize the flat volume that misses its CET and the amount that is rejected by the FSS equipment. For example, the Postal Service frequently evaluates its loading procedures on the FSS in an attempt to minimize machine stoppages during processing.

c. It is not clear what this question is seeking. The set of flats destinating in an FSS zone which are not "not finalized" on an FSS must be successfully sorted on an FSS. As for flats destinating in an FSS zone not collated with cased mail, the processing mechanism cannot be determined. Those flats may be processed on an FSS, AFSM100, UFSM, or manually.

Commission adopted the correction so the percentage used in the FSS model is 24 percent.

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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.

RESPONSE:

a. The unit delivery costs for Bound Printed Matter (BPM) Flats increased by 4.25 cents in FY 2015 to 16.47 cents. The primary factor for the increase is a 3.95 cents rise in city in-office unit costs to 8.61 cents. As the table below illustrates, comparing BPM Flats city unit in-office costs to Periodicals Flats and Standard Mail Flats over their recent histories illustrates that, with the exception of FY 2014, BPM Flats costs are more expensive than Periodicals Flats and less costly than Standard Mail Flats.

City In-Office Unit Costs (Cents) for Bound Printed Matter Flats, Standard Mail Flats, and Periodicals Flats

Mail Type	FY15	FY14	FY13	FY12
BPM Flats	8.61	4.66	6.29	6.29
Standard Mail Flats	9.89	9.84	9.03	9.58
Periodicals Flats	6.03	5.91	5.80	6.06

[1]Source: ACR Folder 19 – Delivery Costs by Shape

The primary driver of city in-office costs is casing, so operationally the relative city in-office costs for these three products shown in the table is sensible. BPM Flats are on average over four times heavier than Periodicals, so it is realistic to conclude that they take longer and are more costly to case. Conversely, while BPM Flats are also heavier than Standard Mail Flats, a large proportion (46 percent) are entered at the carrier route rate, which makes them faster and less costly to case because the carrier handles those pieces in line of travel sequence. In contrast, Standard Mail Flats are not offered a discount to be sorted in line of travel sequence. The FY 2014 city in-office unit cost for BPM Flats appears to have been an anomalous result that occurs occasionally when ongoing statistical systems such as the In-Office Cost System (IOCS) are used to estimate results.

In sum, the increase in unit delivery costs for BPM Flats is explained by the rise in city in-office costs which were magnified by an uncharacteristic low estimate in FY 2014. However, in reviewing past results, BPM Flats city in-office unit costs appear to be justified in being more expensive than Periodicals Flats and less costly than Standard Mail Flats. These results are explained by BPM's weight relative to Periodicals and its proportion sorted to carrier route.

b. The Postal Service has no specific plans to address potential future increases in delivery costs for BPM Flats, but likewise has no particular reason to

expect any. However, the Postal Service is always looking for more efficient ways to reduce delivery costs for all products, including BPM Flats.

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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.

RESPONSE:

An important point worth noting is that the question asks for the primary factors driving several absolute cost changes, rather than unit cost changes in FY 2015 as compared to FY 2014.

a. Much of the change is driven by the 8.5 percent rise in volumes. This is demonstrated by putting these costs on a unit cost basis as shown below. The calculation of unit costs includes the reduction in costs (7.3 percent for FY2014

and 5.7 percent for FY 2015) to account for the flats rated letter shaped volumes, achieved through the application of an adjustment in the CRA and inUSPS-FY15-26. The unit cost changes for mail processing (CS 3.1) and window service (CS 3.2) are not statistically significant, and so are likely driven by sampling variation. See USPS-FY15-37, "In-Office Cost System (IOCS)", workbook "IOCS CVs FY15 Public.xlsx. In addition much of the change in Administrative costs (CS 3.3) is a function of changes in other cost segments like city carrier costs, since the distribution of much of the CS 3.3 costs depends on most of the labor costs in cost segments 2 to 12.

Standard Mail, High Density and Saturation Letters								
	Total Costs (000s)				Unit Costs (cents per piece)			
	CS 3.1	CS 3.2	CS 3.3	CS 3	CS 3.1	CS 3.2	CS 3.3	CS 3
FY 2014	70,067	1,247	8,316	79,630	1.09	0.02	0.13	1.24
FY 2015	77,622	1,560	10,666	89,848	1.13	0.02	0.16	1.31
Percentage Change	10.8%	25.1%	28.3%	12.8%	3.8%	17.2%	20.2%	5.7%

b. There was a 6.5 percent decline in volumes, which accounts for a small amount of the change as shown below. Sampling variation is the main source of these changes for these small amounts of costs. These sizable percentage changes are not statistically significant See USPS-FY15-37, "In-Office Cost System (IOCS)", workbook "IOCS CVs FY15 Public.xlsx. Also, as noted in part "a" of this response, much of the change in Administrative costs (CS 3.3) is a function of changes in other cost segments like city carrier costs, since the

distribution of much of the CS 3.3 costs depends on most of the labor costs in cost segments 2 to 12.

Standard Mail, Every Door Direct Mail Retail								
	Total Costs (000s)				Unit Costs (cents per piece)			
	CS 3.1	CS 3.2	CS 3.3	CS 3	CS 3.1	CS 3.2	CS 3.3	CS 3
FY 2014	1,161	474	1,125	2,760	0.13	0.05	0.13	0.31
FY 2015	185	407	1,438	2,030	0.02	0.05	0.17	0.24
Percentage Change	-84.0%	-14.1%	27.8%	-26.4%	-82.9%	-8.2%	36.7%	-21.3%

c. The 22.11 percent increase in cost segment 6 cost for Standard Mail High Density/Saturation Letters equates to approximately a 0.06 cents increase in direct unit costs. The cost increase is likely explained by the six percent increase in volume on city routes.

d. The 8.84 percent increase in cost segment 6 cost for Standard Mail High Density/Saturation Flats and Parcels equates to approximately a .07 cents increase in direct unit costs. The cost increase is likely explained by the one percent increase in volume on city routes.

e. The 3.05 percent increase in cost segment 6 cost for Standard Mail Flats equates to approximately a .02 cents increase in direct unit costs. The cost increase is likely explained by statistical variation and a seven percent increase in volume delivered by city carriers.

f. The 91.12 percent increase in cost segment 6 cost for Bound Printed Matter (BPM) Flats equates to a 2.9 cents increase in direct unit costs. As was explained in the response to Question 15 of this ChIR, the city in-office unit cost in FY 2014 appears to be unusually low. Another contributing factor to the cost increase was a seven percent increase in cased volume in FY 2015.

g. The 29.38 percent increase in cost segment 6 cost for Bound Printed Matter Parcels equates to a 0.8 cents cost increase in direct unit costs. The cost increase is likely explained by the four percent increase in volume on city routes.

h. The 25.57 percent increase in cost segment 7 cost for Standard Mail High Density/Saturation Letters equates to a 0.3 cents increase in direct unit costs. The cost increase is explained by the new city carrier street time letter route cost model. Please refer to the response to Question 2a. of this ChIR for a detailed discussion on how this method change impacted Standard Mail High Density/Saturation Letters costs.

i. The 20.63 percent increase in cost segment 10 cost for Standard Mail High Density/Saturation Letters costs equates to a 0.1 cents increase in direct unit costs. The cost increase is likely explained by its relative growth in the Other Letters and Boxholder compensation categories. In the Other Letters compensation category, the relative share of Standard Mail High Density/Saturation Letters rose from 12 to 15 percent. For the Boxholder compensation category, the relative share rose from 13 to 15 percent. Thus, in

both categories, Standard Mail High Density/Saturation Letters received a larger portion of the costs, which resulted in an increase in costs in FY 2015.

j. The 97.12 percent increase in cost segment 7 cost for Standard Mail High Density/Saturation Flats and Parcels costs equates to a 1.7 cents increase in direct unit costs. The cost increase is explained by the new city carrier street letter route cost model. Please refer to the response to Question 2b. of this ChIR for a detailed discussion on how this method change impacted Standard Mail High Density/Saturation Flats and Parcels costs.

k. The 13.47 percent increase in cost segment 7 cost for Standard Mail Carrier Route equates to a 0.6 cents increase in direct unit costs. The cost increase is explained by the new city carrier street letter route cost model. Please refer to the response to Question 18 of this ChIR for a detailed discussion of the impact of the new city carrier letter route street cost model had on non-sequenced flat shaped products. The cost impact in segment 7 for Standard Mail Carrier Route was mitigated, however, by the seven percent volume decline on city routes.

l. The 43.32 percent increase in cost segment 7 cost for Standard Mail Flats equates to a 1.1 cents increase in direct unit costs. The cost increase is explained by the new city carrier street letter route cost model. Please refer to the response to Question 18 of this ChIR for a detailed discussion of the impact of the new city carrier letter route street cost model had on non-sequenced flat

shaped products. In contrast with the impact on the Carrier Route product, the segment 7 cost impact for Standard Mail Flats was largely due to the seven percent volume growth on city routes.

m. The 83 percent increase in cost segment 14 cost for Standard Mail High Density Saturation Flats and Parcels cost equates to a .09 cents increase in unit costs. The cost increase is likely explained by statistical variation.

n. The 27.78 percent and 28.93 percent increases for Periodicals in Inter-SCF and Inter-NDC highway costs equate to 0.2 and 0.1 cents increases in purchased transportation highway costs respectively. These cost increases are likely explained by statistical variation.

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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.

RESPONSE:

In FY 2015, city street costs for Periodicals increased largely because of two method changes to the treatment of city carrier street costs. One method change was the new city carrier street time letter route model.[19] The relevant variabilities for flats costs in FY 2015 are 6.99 percent for cased mail (letters and flats) and 2.95 percent for FSS flats. Previously, all flats received the same variability equal to 7.10 percent. This resulted in an additional $145 million assigned to flats products in FY 2015 as compared with FY 2014.

The second method change, Proposal Twelve, modified the existing treatment of city carrier vehicle costs to be consistent with the new city carrier letter route street time model.[20] This method change in the treatment of vehicle costs in conjunction with the additional street time labor costs were largely responsible for the increase in the city carrier piggyback factor in FY 2015 to 1.339 from 1.317 in FY 2014.[21]

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[19] See Docket No, RM2015-7, Proposal Thirteen, Order No. 2792 (October 29, 2015)
[20] See Docket No, RM2016-3, Proposal Twelve, Order No. 2915 (December 22, 2015)
[21] USPS-FY15-24, workbook FY15Public.PB, Tab PBRatios

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Rural costs decreased slightly as Periodicals share of the Other Flats and FSS cost pools were a touch lower in FY 2015. Periodicals share of Other Flats dropped from 21.4 percent to 20.6 percent, while its share of FSS costs dropped from 21.4 percent to 21.1 percent.

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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).

RESPONSE:

a. The reduction in the avoided costs for MAADC mail relative to Bulk Metered Letters of 1.223 cents is primarily driven by a reduction in collection costs for Bulk Metered Letters of 0.641 cents from 2.994 cents in FY 2014 to 2.303 cents in FY 2015 and an increase in modeled mail processing costs for MAADC letters of 0.823 cents from 8.923 cents in FY 2014 to 9.746 cents in FY 2015. The increase in modeled mail processing costs is primarily due to a decrease in Managed Mail Processing (MMP) productivity from 5,857 pph in

FY14 to 5,230 pph in FY 2015 and a decrease in Incoming Processing (IP) productivity from 6,584 pph in FY14 to 5,880 pph in FY15.

b. The avoided costs for Standard Mail Dropship DNDC Letters perhaps appear to decrease by 95 percent from FY 2014 to FY 2015 because avoided costs for FY 2014 were reported in dollars per pound but avoided costs in FY 2015 were reported in dollars per piece. The reason for this change is that Docket No R2015-4 eliminated pound prices for Standard Mail Letters (Docket No R2015-4 also eliminated pound prices for Carrier Route and High Density/Saturation letters; see questions 19d, 19e, 19f, and 19g). Without any pound prices, the Dropship discounts had to be reported in dollars per piece. Therefore, reporting the avoided costs on the basis of dollars per piece became the only meaningful way to calculate workshare passthroughs when pound prices were eliminated.

For the record, the avoided costs for both DNDC Dropship and DSCF Dropship actually increased in FY 2015 from FY 2014 when comparing dollar per piece to dollar per piece or when comparing dollar per pound to dollar per pound. The avoided costs will only show a 95 percent decrease when comparing dollar per pound to dollar per piece. These costs can be found in USPS-FY15-13 STD_TOTAL.xls, Tab: Summary and USPS_FY14-13 STD_TOTAL.xls, Tab: Summary.

c-g. See the response to b.

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h. The avoided costs for Periodicals Saturation Presorting is calculated by taking the difference between the delivery costs for Standard Mail Saturation Flats and the delivery costs for Standard Mail High Density Flats. In FY 2015, the difference was 0.75 cents, as compared to 3.42 cents in FY 2014. The decrease in avoided costs is explained by methodological changes that impacted the treatment of direct and indirect city carrier street time costs. Please refer to the response to question 2(b) of this ChIR for a more detailed discussion of the impact of these methodological changes on the delivery costs for Standard Mail Saturation Flats.

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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.

RESPONSE:

a. The statement on page 58 of the ACR regarding the standard by which sufficiency of sampling is determined relates to the objective for estimating overall customer satisfaction. That objective (in the sense of driving the level of sampling conducted) does not pertain to estimates for responses to each specific individual question.

b. Please see the Excel file provided in USPS-FY15-46 for the requested FY 2014 residential Library Mail survey results. The data can be aggregated

at the National level annually. Based on the number of responses to Library Mail, an estimate at the National level can be made with a confidence level of 90% +-7 percentage points.

c. Bound Printed Matter (BPM) is a commercially-offered product that, as a practical matter, is not utilized by any material number of *residential* customers, if any. See, MCS §§ 1415, 1420.

d. For the reason specified in response to part c, there are no residential data available for BPM.

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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.

RESPONSE:

In USPS-FY14-23 and USPS-FY15-23, the Postal Service provided the actual MODS data used to compute the previously reported "unscrubbed" summary statistics. The data provided allow the calculation of the previously provided summary statistics, which were not used elsewhere in the ACR. The Stata

program files modsprod_fy15_chir7.do and ndcprod_fy15_chir7.do, provided as part of USPS-FY15-46, show the modifications to the USPS-FY15-23 MODS productivity code to report the pre-screening MODS datasets for plants and NDCs in Excel format, and to compute the previous summary statistics.

a. Please see the file CHIR7_Q21_MODSprod2014_stats.xlsx, provided in folder USPS-FY15-46. The column headers are as follows:

   i. group – operation group code

   ii. rawtot_tpf – sum of MODS Total Pieces Fed over observations (at a facility-month level of aggregation) for each reported operation group, prior to application of the 1% tails screen

   iii. rawtot_tph – sum of MODS Total Pieces Handled over observations (at a facility-month level of aggregation) for each reported operation group, prior to application of the 1% tails screen

   iv. rawtot_hrs – sum of MODS workhours over observations (at a facility-month level of aggregation) for each reported operation group, prior to application of the 1% tails screen

   v. mprod1 – median productivity (TPF/Hours), computed over observations (at a facility-month level of aggregation) for each reported operation group, prior to application of the 1% tails screen

vi. mtphrate – median ratio of TPH to TPF, computed over observations (at a facility-month level of aggregation) for each reported operation group, prior to application of the 1% tails screen

vii. raw_prod1 – unscreened productivity (rawtot_tpf/rawtot_hrs)

viii. raw_tphrate – unscreened TPH/TPF ratio (rawtot_tpf/rawtot_hrs)

b. Please see the file CHIR7_Q21_MODSprod2015_stats.xlsx, provided in folder USPS-FY15-46. Please see the response to part (a) for column descriptions.

c. Please see the file CHIR7_Q21_NDCprod2014_stats.xlsx, provided in folder USPS-FY15-46. Please see the response to part (a) for column descriptions.

d. Please see the file CHIR7_Q21_NDCprod2015_stats.xlsx, provided in folder USPS-FY15-46. Please see the response to part (a) for column descriptions.

e. The requested file has been provided as part of nonpublic folder USPS-FY15-NP35.

f. Please see the file CHIR7_Q21_mods2015prod_prescreen.xlsx, provided in folder USPS-FY15-46, for the requested dataset in Excel format.

g. Please see the file CHIR7_Q21_ndc2015prod_prescreen.xlsx, provided in folder USPS-FY15-46, for the requested dataset in Excel format.

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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.

RESPONSE:

The requested MODS dataset has been provided under seal as part of folder USPS-FY15-NP35.

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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.

RESPONSE:

a. Cell J10 in Library Reference USPS-FY15-NP2, folder "ICRA Core Files," Excel file "Inputs.xls," tab "Product-Specific Costs" (Inputs) is distributed on the proportion of RPW pieces.

b. The costs in row 24 are for International Service Performance programs.

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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

RESPONSE:

a.- b. The expenses for both the Khala Post Group (KPG) membership and the International Post Corporation (IPC) membership are included in cell J32 of Library Reference USPS-FY15-NP2, folder "ICRA Core Files," Excel file "Inputs.xls," tab "Product-Specific Costs" (Inputs).

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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.

RESPONSE:

The requested materials are provided under seal in USPS-FY15-NP35, except that data are only generated monthly and annually, and quarterly data do not exist.

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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.

RESPONSE:

In FY 2013 and FY 2014, there were no IOCS tallies for International Competitive Outbound Registered Mail because, as explained on page 68 of this year's ACR, they were inadvertently reported under International Market Dominant Outbound Registered Mail. The coefficient of variation and confidence interval for the cost coverages in FY 2013 and FY 2014 are thus not available. In FY 2015, there were 27 tallies. The coefficient of variation for the cost estimate is 34 percent.

Independently, in the FY 2015 ICRA, most of the relatively small revenue for this product was also inadvertently reported under International Market Dominant Outbound Registered Mail. However, the correctly-separated revenue data have subsequently been identified. As discussed in greater detail in the nonpublic version of the response to this question filed under seal as part of the Preface of USPS-FY15-NP35, the resulting cost coverage after the revenue correction is still slightly less than 100 percent, but with an approximate 95 percent confidence interval spanning well above and well below 100 percent.

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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.

RESPONSE:

(a) Column A contains the value "0" or in some instances no value for the reasons explained in response to Chairman's Information Request No. 2, question 5b. These results are the remnant of the convention used in the FY 2014 ICRA, which is further explained in the response to Question 27 b. i. below.

(b) i. Confirmed. The data in the "Merged ICM Data" of Library Reference USPS-FY14-NP2 Revised, Excel file "NSA Summary (Booked).xls tab originated from several sources. Some of the sources were not cumbersome to process, so their monthly records were retained and identified by the values of 1 through 12 in column A. However, data from other sources consisted of a large number of detailed records, and to aid processing, were compressed across months as described in the response to Chairman's Information Request No. 2, question 5b. For the compressed records, the value in column A was left blank.

Column A was developed for FY 2015 by compressing all records across months and assigning the value 0 to column A, although some values remained blank as an artifact of the processing convention used for FY 2014.

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The values in column A of the "Merged ICM Data" tab are not used by the NSA Summary workbook.

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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.

RESPONSE:

As requested, a revised "NSACostRevenueSummary_FY15" file is being provided as a revision to folder USPS-FY15-NP27.

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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.

RESPONSE:

The contract reference in Docket No. CP 2015-109 is assumed to be Priority Mail Contract 135.

Priority Mail Contract 135 (Docket No, CP2015-109) did not cover its costs in Quarter 1 FY 2016. The Postal Service remains in discussions with the customer to determine whether the contract is viable or should be terminated.

With respect to Parcel Return Service Contract 8 (Docket No. CP2015-74), more recent Quarter 1 FY 2016 data from this customer's profile suggest a shift in the characteristics of the parcels shipped, and that currently the contract is covering its costs. More details are provided in the nonpublic version of this response submitted under seal as part of the Preface of USPS-FY15-NP35. The Postal Service remains in discussions with the customer.