

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

Annual Compliance Report, 2015

Docket No. ACR2015

CHAIRMAN'S INFORMATION REQUEST NO. 12

(Issued February 9, 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 requests and questions. Answers should be provided to the requests and individual questions as soon as they are developed, but no later than February 16, 2016.

Periodicals

1. In Docket No. R2010-4, Library Reference USPS-R2010-4/9 Operations Plans for Flats (Flats Strategy), July 6, 2010, the Postal Service detailed operations changes regarding the Mail Processing of Flats. In Docket No. ACR2014, the Commission issued a series of Chairman's Information Requests concerning the implementation and costs savings of the operational changes detailed in the Flats Strategy. In Docket No. ACR2014, Responses of the United States Postal Service to Questions 5-7 and 10-12 of Chairman's Information Request No. 4, February 19, 2015, question 11 (February 19, 2015, Responses to CHIR No. 4), the Postal Service indicated that the "Periodicals Lean Six Sigma (LSS) end-to-end value stream mapping project" was completed in 2010. The Postal service stated that in 2011, it "established national Critical Entry Times for Periodicals, eliminated the use of 'Hot 2C' practices by both the Postal Service and mailers,

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

and eliminated management of in-home dates for both Periodicals and Standard Mail.” See February 19, 2015, Responses to CHIR No. 4, question 11(n).

- a. Please provide a copy of the Value Stream Map completed in 2010. If the Value Stream Map has been updated or completed for additional classes of mail, please provide a copy of all such updates and Value Stream Maps that have been completed for additional classes of mail.
 - b. Please provide the areas of inefficient operation identified by the Lean Six Sigma (LSS) project for Periodicals Flats.
 - c. Please explain how the operational changes identified in the February 19, 2015, Responses to CHIR No. 4, question 11(n) were intended to address the areas of inefficient operation identified by the LSS project.
 - d. Please describe the impact of the LSS project on mail processing costs and operations. If no estimate of the impact is available, please indicate a time frame within which it is expected to be completed.
 - e. Did the inefficiencies identified by the LSS project for Periodicals Flats apply to any other Flats product? If not, please explain why the Postal Service believes those inefficiencies were unique to Periodicals Flats. If the Postal Service believes that the inefficiencies identified by the LSS project for Periodicals Flats apply to other Flats products, please identify which Flats products had such inefficiencies, identify those Flats products by LSS project, and describe any operational changes the Postal Service has made to address the inefficiencies it has identified.
2. The Postal Service states that it evaluated Periodicals, including newspaper processing using LSS tools and Kaizen Events during FY 2015 to identify mail flow problems. FY 2015 ACR at 27-28.
 - a. Please state if the evaluation has concluded or is ongoing.

- b. If the evaluation is ongoing, please provide an estimated timeframe for conclusion.
 - c. Please provide the standard workflow developed for Periodicals that was developed from the Kaizen Events.
 - d. Please estimate the percentage of Periodicals mailpieces that adhere to the standard workflow model developed from the Kaizen Events.
 - e. Does the standard workflow developed from the Kaizen Events supersede the "Periodicals Processing SOP/Policy" provided in Docket No. ACR2012, Library Reference USPS-FY12-46, file "ChIR5.Q13.PeriodicalsSOP.pdf," February 6, 2013? If not, please provide an updated version of the "Periodicals Processing SOP/Policy."
3. If the evaluation referred to in Question 2 has concluded, please provide the outcome and any recommendations related to improving operational efficiency for newspapers. Please identify any recommendations that have been, or will be, implemented and indicate when such implementation occurred or is planned to occur. Please identify any obstacles to implementing any recommendation that has not been implemented and for which no current plans have been made to implement.
4. The Commission has previously directed the Postal Service to report on the progress in developing metrics to assess the cost-savings impact of operational strategies. See Docket No. ACR2014, Annual Compliance Determination Report, March 27, 2015, at 40 (FY 2014 ACD).
 - a. Please discuss any metrics the Postal Service has developed or is developing to assess the cost savings impact of operational strategies for Periodicals for FY 2015.
 - b. Please confirm that the Postal Service plans to develop metrics to assess the cost-savings impact of operational strategies for Periodicals.

- i. If confirmed, please discuss the plan to develop metrics.
 - ii. If not confirmed, please identify any obstacles to developing metrics.
5. Please refer to the Responses of the United States Postal Service to Questions 1-23 of Chairman's Information Request No. 4, January 22, 2016, questions 9 and 10 (January 22, 2016, Responses to CHIR No. 4) in this proceeding.
 - a. Please confirm that the Postal Service plans to study if the FY 2015 pricing incentives encouraged customers to enter more Carrier Route pallets in non-Flats Sequencing System (FSS) zones or to prepare Periodicals more efficiently.
 - b. If confirmed, please discuss the study plans.
 - c. If not confirmed, please identify the obstacles to conducting a study or studies.
6. In Order No. 2741, the Commission directed the Postal Service to provide specific information relating to 5-Digit pallets as part of its FY 2015 ACR. See Docket RM2015-18, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Nine), October 1, 2015, at 7-8 (Order No. 2741).
 - a. Please report the percentage of 5-Digit pallets that contained primarily 5-Digit bundles for each quarter of FY 2015 as required by Order No. 2741 at 7.
 - b. Please provide a narrative detailing whether mail processing facilities have altered their procedures for 5-Digit pallets following the implementation of Carrier Route pallet prices as required by Order No. 2741 at 7-8.

Standard Mail

7. In the FY 2015 ACR, the Postal Service states that in FY 2015 it conducted an analysis of outgoing mixed states processing. FY 2015 ACR at 28.
 - a. Please describe the analysis conducted by the Postal Service.
 - b. Please provide examples of mail being directed outside of the corresponding Network Distribution Center (NDC).
 - c. Please explain how the Postal Service plans to align mixed states processing facilities with NDC network service areas.

Flats

8. Please confirm that the Postal Service has collected data that enables it to track the flow of flat-shaped mailpieces in FY 2015.
 - a. If confirmed:
 - i. Please specifically identify any data systems used for tracking the flow of flat-shaped mailpieces.
 - ii. Please state if the Postal Service has identified the lowest cost mail flow for each type of flat-shaped mailpiece.
 - iii. Please state the percentage of flat-shaped mailpieces that followed the lowest cost mail flow.
 - iv. Please identify any operational inefficiencies that prevent flat-shaped mailpieces from following the lowest cost mail flow.
 - v. Please describe any efforts by the Postal Service to reduce the percentage of flat-shaped mailpieces that do not follow the lowest cost mail flow.

- vi. Please provide any standard operating procedures that have been developed to increase the amount of flat-shaped mail that follow the lowest cost mail flow.
 - b. If not confirmed, please identify all obstacles that prohibit the Postal Service from tracking the flow of flat-shaped mailpieces.
9. Please refer to the January 22, 2016, Responses to CHIR No. 4, question 18 in this proceeding.
 - a. Please describe the status of the Postal Service's evaluation of whether to revise Domestic Mail Manual (DMM) bundle preparation requirements.
 - b. Please state if the evaluation is concluded or ongoing.
 - c. If the evaluation has concluded, please provide the outcome of the evaluation and any recommendations. Please state which recommendations have been implemented. If any recommendations have not been implemented, please identify the obstacles to implementing each such recommendation.
 - d. If the evaluation is ongoing, please provide an estimated timeframe for conclusion.
10. The Postal Service states that by addressing the indicators identified in the Mail Pieces At-Risk Report it has "improved operational throughput, increased the percentage of flats sorted in delivery point sequence, and reduced the overall amount of At-Risk pieces for the FSS operation." FY 2015 ACR at 20. Please provide the analysis to support each of these conclusions.
11. Please confirm that the Postal Service has not developed a process to measure either the cost or service impact of FSS scheme bundles. See FY 2015 ACR at 25. If not confirmed, please identify and describe the process developed by the Postal Service and provide all analyses of each such process.

12. According to the Office of Inspector General Report Number FF-AR-12-006, the Postal Service uses the Mail History Tracking System and the Intelligent Mail Accuracy and Performance System to measure mail flow analysis and service performance. See Office of Inspector General, Evaluation of the External First-Class Measurement System, Report Number FF-AR-12-006, September 18, 2012, at 23.
 - a. Please explain, for each shape of mail, the capabilities of these systems to track pieces and target and correct service failures.
 - b. Please provide, for each shape of mail, all current uses of these data systems.
 - c. Please explain, for each shape of mail, any additional uses that are planned for these data systems.
 - d. Please describe, for each shape of mail, all data that are contained within these data systems.
 - e. Please explain, for each shape of mail, if the mail flow analysis prepared by these data systems is consistent with the mail flows presented in the Postal Service cost avoidance models.
 - f. Please discuss, for each shape of mail, whether the Postal Service has considered using these data systems to track costs. If the Postal Service has not considered using these data systems to track costs, please explain why it has not.
13. In the FY 2014 ACR, the Postal Service stated that its Flat Recognition Improvement Program (“FRIP”) – Software Upgrade would increase address recognition rates and reduce error rates, which would result in improved customer service and reduced keying hours as well as manual distribution operations. See Docket No. ACR2014, Notice of the United States Postal

Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015, Attachment A at 8-9.

- a. Please provide the increased address recognition rate that resulted from the FRIP – Software Upgrade for FY 2015.
 - b. Please provide the reduced error rates that resulted from the FRIP – Software Upgrade for FY 2015.
 - c. Please provide metrics demonstrating the improved customer service that resulted from the FRIP – Software Upgrade for FY 2015.
 - d. Please provide the amount of reduced keying hours that resulted from the FRIP – Software Upgrade for FY 2015.
 - e. Please identify the reduced manual distribution operations that resulted from the FRIP – Software Upgrade for FY 2015.
 - f. Please explain if the Postal Service anticipates any future FRIP – Software Upgrades, and the estimated impact of any upgrade.
14. In the FY 2014 ACR, the Postal Service stated that “Management from the 46 FSS sites had participated in FSS refresher training” and that the training had focused on operational performance, proper mail flow, and “At Risk” indicators to help improve key performance metrics. See Docket No. ACR2014, Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015, Attachment A at 10.
- a. Did similar training occur in FY 2015?
 - b. If such training did occur, please list what topics were covered in the FY 2015 training.
 - c. If training did not occur in FY 2015, please explain the rationale for not conducting such training.

Domestic Market Dominant NSAs

15. On page 54 of its FY 2015 ACR, regarding the PHI Acquisitions, Inc. (PHI) Negotiated Service Agreement (PHI NSA), the Postal Service stated “using the Commission’s preferred methodology, as also shown in USPS-FY15-30, the net value of the [PHI] NSA to the Postal Service’s net financial position over the contract year was \$283 thousand.” In Library Reference USPS-FY15-30, Excel file “FY15 30 ACR_NSA_2015,” Tab “4_Commission’s Methodology,” Cell “D14,” the Standard Mail elasticity used to calculate the net value of the agreement is -0.888. On January 20, 2016, the Postal Service provided FY 2015 elasticities, and updated the model specification used for elasticities. See Market Dominant - United States Postal Service's Demand Equation Estimation and Volume Forecasting Methodologies, January 2016, Word file “DemandEquationTables(md),” January 20, 2016. The updated elasticity for Standard ECR is -0.822. *Id.* at 15. The revised model includes a specification for Standard Regular Machineable Non-Letters (a more detailed estimate than Standard Regular as a whole). The elasticity for Standard Regular Machineable Non-Letters is -0.452. *Id.* at 14.
- a. Please confirm that 98.827 percent of the total volume mailed by PHI in the contract year was mailed as Standard Mail Flats Carrier Route. *Id.* at Tab “2_MC2014-21 PHI NSA,” Cells “J28:J35,” and 1.173 percent of the total volume mailed by PHI in the contract year was mailed as Standard Mail Flats Pre-Sort Regular. *Id.* at Tab “2_MC2014-21 PHI NSA,” Cells “J11:J24.” If not confirmed, please explain.
 - b. With the volume distribution from part a. and the FY 2015 elasticities, please confirm that the FY 2015 Standard Mail elasticity for PHI is -0.818. If not confirmed, please explain.
 - c. If part b. is confirmed, please provide an updated calculation of the net value of the PHI NSA.

POStPlan

16. As of the end of FY 2015, please provide the number of POStPlan offices categorized as:
 - a. Level 2;
 - b. Level 4;
 - c. Level 6; and
 - d. Level 18 (upgraded as per POStPlan).
17. Please provide the total number of POStPlan offices converted in FY 2015, if different from the sum of question 16 a-d, above. If the sum of 16 a-d differs from the total number of POStPlan offices converted in FY 2015, please explain why they are different.

By the Acting Chairman.

Robert G. Taub