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

ANNUAL COMPLIANCE REVIEW, 2015	Docket No. ACR2015

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(February 12, 2016)

In Order No. 2968, the Postal Regulatory Commission solicited comments on the United States Postal Service's Annual Compliance Report ("ACR") for Fiscal Year ("FY") 2015.[1] On February 2, 2016 (or before), the Public Representative ("PR") and 10 private parties filed comments.[2] The Postal Service hereby submits its reply comments.

I. Scope of ACR Proceeding

As in past ACR dockets, it has become necessary to reiterate the scope of the instant proceeding under the Postal Accountability and Enhancement Act (PAEA). Section 3653 of title 39 directs the Commission to do four things in this docket, two of which relate to compliance and two of which do not. As to compliance, the Commission is charged with determining: (1) whether any rates or fees in effect during the preceding year were not in compliance with chapter 36 and its accompanying regulations; and (2) whether any service standards in effect during the preceding year were not met.[3]

[1] Order No. 2968, Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, Docket No. ACR2015 (Dec. 30, 2015); United States Postal Service FY 2015 Annual Compliance Report, Docket No. ACR2015 (Dec. 29, 2015) (hereinafter "FY 2015 ACR").
[2] Beyond the Public Representative, parties filing comments on February 2, 2015, included the Association of Postal Commerce, American Catalog Mailers Association, Association of Magazine Media, National Postal Policy Council (NPPC), Valpak, UPS, Pitney Bowes, National Association of Presort Mailers, American Consumer Institute Center for Citizen Research, Progressive Direct Mail Advertising, and Americans for Tax Reform. The Taxpayers Protection Alliance filed on February 1, 2016.
[3] 39 U.S.C. § 3653(b).

Separate from these compliance determinations, the Commission: (3) is directed to review whether the Postal Service has met its performance goals; and (4) may advise the Postal Service as to the protection or promotion of the public policy objectives of title 39.[4] While fewer comments fall outside the scope of the ACR this year than in years past, the tendency to stray remains.

It may also be useful to reiterate that the wide scope of comments submitted precludes response to each and every assertion made by the parties. The mere fact that the Postal Service in these reply comments does not address a claim, argument, or opinion expressed in an initial comment should not be construed to suggest that the Postal Service agrees with that claim, argument, or opinion.

II. Pricing and Costing

A. The Commission Should Reject Valpak's Arguments Concerning Underwater Product Pricing

Valpak's comments regarding the pricing of Standard Mail Flats continue in the vein of the past several ACR proceedings, focusing on "underwater" products, notably Standard Mail Flats, and recommending that the Commission order large price increases to eliminate negative contribution. As with its previous comments, Valpak continues to incorrectly claim that the Postal Service's Standard Mail (particularly Flats) pricing is "irrational," and that the Postal Service could readily improve its finances by eliminating negative contribution through price adjustments within the constraints of the PAEA CPI price cap. In fact, the Postal Service has carefully considered the effects of its pricing policies on total contribution, and has showed that pricing paths that might be contribution-maximizing in the absence of a price cap can have adverse effects on

[4] 39 U.S.C. § 3653(d).

contribution with the cap. Thus, Valpak's pricing claims are not well-founded. Valpak's comments are also characterized by a number of other misimpressions and factual misrepresentations, as discussed below.

The tenor of Valpak's comments is that the Postal Service's pricing of Standard Mail Flats is "irrational" and "without any economic justification whatsoever."[5] On the contrary, in the past several ACR proceedings, the Postal Service has patiently set forth a very real economic rationale, documented in the *Christensen Associates Scenario Analysis for Standard Mail Contribution* (hereinafter "Christensen Associates Contribution Analysis").[6] As the Postal Service made clear in the Christensen Associates Contribution Analysis, pricing paths that may be contribution-enhancing or contribution-maximizing in the short run may not be the same in the long run—***as long as a price cap is in place***. Furthermore, Valpak erroneously implies that the Postal Service lacks a Standard Mail pricing model, inappositely citing an Office of Inspector General (USPS OIG) audit report.[7] It is also not true that the Postal Service has not "propose[d] above-CPI price increases."[8] On the contrary, the Docket No. R2015-4 average price increase for Standard Mail Flats, 2.549 percent, exceeded the 1.966 percent CPI change (and price cap) by 30 percent.[9]

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[5] Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. ("Valpak"), Initial Comments on the United States Postal Service FY 2015 Annual Compliance Report, PRC Docket No. ACR2015 (February 2, 2016) (hereinafter "Valpak Comments"), at 29, 26.
[6] USPS-FY12-43, Christensen Associates Scenario Analysis for Standard Mail Contribution, PRC Docket No. ACR2012 (Dec. 28, 2012) (hereinafter "Christensen Associates Contribution LR").
[7] Valpak Comments, at 37 n.26 (citing to the Office of Inspector General, United States Postal Service, Market Dominant Price Adjustment Filings—Audit Report CP-AR-16-003 (Jan. 13, 2016), at 1). The Postal Service OIG audit report was principally concerned with the Postal Service's procedures for market dominant rate adjustments, not the economic basis for the adjustments as such.
[8] Valpak Comments at 8.
[9] PRC-LR-R2015-4/9, Compliance Calculations for Standard Mail, Excel File "PRC CAPCALC-STD-R2015-4.xls," tab "Detailed Price Change Summary," PRC Docket No.R2015-4 (May 7, 2016) (hereinafter "Compliance Calculation Standard Mail R2015-4").

The Postal Service agrees with Valpak's general assertion that in a normal business environment, a contribution-enhancing or contribution-maximizing strategy is to use the price lever to improve the profitability of or drive away loss-making volume. But Valpak fails to acknowledge that the PAEA price cap system is not such a normal business environment. Rather, the PAEA price cap puts the Postal Service in the position of having to evaluate certain unusual short-run and long-run tradeoffs. In the short run, contribution is indeed likely to be enhanced by devoting more of the price cap's authority to Standard Mail Flats. This is because relatively more of the profitable product (Letters) is retained and relatively more of the loss-making product (Flats) is driven away—and indeed this is evident in the Christensen Associates Contribution Analysis. But down the road, revenue and contribution are impaired (permanently) from dedicating the price cap's limited authority to a product (Flats) whose volume is declining independently of price (*i.e.,* autonomously). In the long run, such volume declines prevent the Postal Service from actually collecting the revenue (and contribution) notionally authorized by the cap. Since the previously used price cap authority cannot be retroactively recovered from other products, the lost revenue and contribution accumulate as long as the product is in decline, until eventually the cumulative contribution would have been higher if the cap space had not been expended on the declining, underwater product. This was also demonstrated in the Christensen Associates Contribution Analysis. Under a set of realistic assumptions concerning the own-price elasticity of demand and the autonomous volume trend, the analysis showed that the cumulative net contribution effect of, early on, devoting relatively more cap space to Standard Mail Flats can turn negative compared to rate increases at CPI after only four or five years.[10]

Management of the price cap therefore requires a consideration of short-run and long-run tradeoffs. Valpak perennially fails to grasp this, and instead has repeatedly proffered a model – *The Valpak Multi-Period Model for Optimizing Contribution from Standard Mail* (hereinafter the "Valpak model") – that ignores the long run.[11] Among other defects, the Valpak model examined only two years, making it unable to render the longer-term dynamics of the Christensen Associates Contribution Analysis, and failed to model Standard Mail Flats volume as declining autonomously.[12] This renders the Valpak model out of touch with the Standard Mail Flats environment. That environment, indeed, continues to be one of autonomously declining volume. After declining by 12.4 percent in FY 2012, 6.3 percent in FY 2013, and 9.2 percent in FY 2014, Standard Mail Flats were on track to decline by an estimated 6.8 percent in FY 2015—until volume increased by 3.8 percent after an estimated 540 million Carrier Route Flats were reclassified as Standard Mail Flats pursuant to the elimination of the Carrier Route option at FSS destinations. This reclassification had the effect of

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[10] *See* USPS-FY12-43, PDF file "ScenarioAnalysisforStandardMailContribution.pdf" at 4, Excel Files "StdProspectiveV1a.xls," "StdProspectiveV1b.xls."

[11] Valpak, Initial Comments on the United States Postal Service FY 2013 Annual Compliance Report—Appendix, PRC Docket No. ACR2013 (January 31, 2014). Contrary to Valpak's peevish assertion that the Postal Service has not given their model "the courtesy of a hard look," Valpak, Initial Commends on United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies, PRC Docket No. RM2016-2 (January 27, 2016), at 7 n.5, the Postal Service reviewed the model and found it to be inadequate. Hence, the Postal Service critiqued the allegedly "improved" model in its FY 2013 ACR Reply Comments. *See* United States Postal Service, Reply Comments, PRC Docket No. ACR2013 (February 14, 2014), at 4–5.

[12] In addition, as the Postal Service noted in its Docket No. ACR2013 Reply Comments, the Valpak model appeared not to implement a correct multi-period optimization algorithm. *Id.* Given the complexity of Standard Mail rate structures and postal and non-postal substitution possibilities for the Standard Mail Flats product, the Postal Service does not view the Valpak's model as solving the true contribution "optimization" problem. In any event, Valpak has not addressed the Postal Service's criticisms of the Valpak model in this proceeding.

increasing the recorded loss from Standard Mail Flats—even though the Postal Service's obvious intent in shifting those 540 million pieces from Carrier Route to FSS was not to diminish their unit contribution, as the FSS price is higher than the Carrier Route price. Moreover, the Postal Service demonstrated that approximately $50 million of the increase in total loss for Flats is due to costing methodology changes.[13] Consequently, comparing the increase in the total loss from $411 million in FY 2014 to $522 million in FY 2015 is not "apples to apples."

Instead of acquiescing to Valpak's request that it examine and direct the Postal Service to adopt Valpak's model,[14] the Commission (and Valpak) may want to reexamine the Christensen Associates Contribution Analysis. Such a review would reveal that Valpak is incorrect when it claims that, in the analysis, 1) "contribution is not a consideration," and 2) "the negative effect of underwater Flats on net contribution is ignored."[15]

In the end, Valpak recommends that the Commission issue a new remedial order specifically eliminating, through price increases, FY 2015's $522 million loss on Standard Mail Flats within two years.[16] The Postal Service again stresses that it increased the Standard Mail Flats price in Docket No. R2015-4 by substantially more than the Commission-ordered 1.05 times CPI, electing to increase the price by 1.30 times CPI.[17] The Postal Service does not recommend Valpak's remedy. It is too aggressive—risking a harmful long-run contribution impact as described above, as well as rate shock to Flats mailers. It should also be borne in mind that under a price cap,

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[13] FY 2015 ACR at 29.
[14] Valpak Comments at 37.
[15] *Id.* at 32 n.21.
[16] *Id.* at 7.
[17] *See supra* note 3.

the concept of a cross-subsidy is somewhat nebulous. For example, hypothetically the Postal Service could eliminate all Standard Mail Flats – as alluded to, also hypothetically, by Valpak in their comments[18] – but this would not materially change the way all other (remaining) Standard Mail is priced. Instead, that mail would likely continue to be priced at approximately +CPI, on average. In this scenario, therefore, all other Standard Mail is not influenced by the elimination of Standard Mail Flats' "underwater" status. It is only when there is a general rate adjustment, and the price cap must be rationed among different products and rate categories, that other Standard Mail is influenced (beneficially) from relatively more of the cap space being devoted to Standard Mail Flats. But, as discussed above, the rationing needs to be mindful of potentially harmful effects on long-run contribution.

B. PostCom's Criticism of FSS Pricing and Preparation Requirement is Based on a Misunderstanding of Postal Service Operations

The Association for Postal Commerce ("PostCom") filed comments criticizing the Postal Service's FSS pricing and FSS Preparation requirements. PostCom's criticism is based on a fundamental misunderstanding of basic Postal Service operations. At the vortex of PostCom's storm of false statements is their unhappiness with the Postal Service's requirement to have all Carrier Route Flats destined for DFSS locations prepared for the FSS Machines at those locations and priced as Standard Mail Flats rather than Carrier Route Flats. PostCom asserts that that Postal Service has "irrationally created disincentives for mailers and [MSPs] to produce mail in the most efficient manner" – Carrier Route.[19] PostCom seems to be under the mistaken

[18] Valpak Comments at 23.
[19] Initial Comments of the Association for Postal Commerce, PRC Docket No. ACR2015 (Feb. 2, 2016), at 2 (hereinafter "PostCom Comments").

impression that the most efficient preparation for Flats destined for FSS zones is Carrier Route. PostCom clearly fails to understand or conveniently is ignoring the fact that the cost advantages of Carrier Route Flats disappear when they are destined for FSS zones. The cost advantages vanish because even Carrier Route Flats must pass through the FSS machines so they can be sorted into delivery order, before they are moved on to the delivery units. In order to take full advantage of the FSS machines, moreover, the Postal Service must get all the Flats mail destined to these zones on the machines. Since all the mail requires FSS processing, there is very limited value to having some of the mail presorted to Carrier Route.

In addition, PostCom's suggestion that these disincentives caused declining Standard Mail Flats cost coverage for the final four months of FY 2015 is patently false.[20] The cost coverage of Standard Mail Flats declined primarily because, as explained in response to numerous questions posed on PostCom's behalf in Chairman's Information Request ("ChIR") No. 7, recently approved changes in city carrier costing methodology had a larger than average impact on such mail. Moreover, during the first 8 months of FY 2015, mailers received the lower Carrier Route prices for Flats destined for FSS zones on Flats mail that needed to have the carrier route sorted bundles broken and then run on the FSS Machine with all of the other FSS mail stream to produce one sorted FSS mailstream. Mailers enjoyed lower Carrier Route prices for sortation that was not helping achieve the cost saving of providing carriers with one FSS mailstream to deliver. Cost coverage declines when revenue is lower and costs are higher, not the reverse.

[20] *Id.*

C. PostCom Wrongly Claims Standard Mail Letter Cost Avoidance Decreased 95 percent – PostCom Should Review Postal Service Answer to CHIR No. 7, Question 19(b)

PostCom repeats the incorrect assertion that the Postal Service is reporting decreases of 95 percent for various Standard Mail Letters entry cost avoidances.[21] PostCom first included these erroneous percentages in a question submitted in its Docket No. ACR2015 Second Motion for Issuance of Information Request.[22] The Commission proceeded to adopt PostCom's question verbatim in ChIR No. 7.[23] In its response to the ChIR (filed a few days after PostCom submitted its comments), the Postal Service explains that the cost avoidances did not actually decrease by 95 percent; instead, dollars per pound avoidances have been replaced by dollars per piece cost avoidances, because the Postal Service eliminated pound prices for Standard Mail Letters in Docket No. R2015-4.[24]

D. Contrary to PostCom's Claims, the FSS Scheme Pallet Minimum Weight Requirement Is the Result of Reasoned Decision-making and Collaboration with Mailers

PostCom argues that the FSS Scheme Pallet minimum weight requirement creates inefficiencies by increasing the number of pallets processed and implies that the requirement is the result of unreasoned decision-making.[25] On the contrary, before the 250 pound FSS Scheme Pallet requirement went into effect in January 2014, the Postal Service hosted industry workgroups in order to frame FSS preparation, including a workgroup that explored FSS Scheme Pallets and the minimum weight requirement.

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[21] *Id.* at 10.
[22] Second Motion of the Association for Postal Commerce for Issuance of Information Request, PRC Docket No. 2015ACR (Jan. 29, 2016), at 3.
[23] Postal Regulatory Commission, Chairman's Information Request No. 7 (Feb. 1, 2016), at 8–9.
[24] Responses of the United States Postal Service to Chairman's Information Request No. 7, Question 19(b), PRC Docket No. ACR2015 (Feb. 8, 2016).
[25] PostCom Comments at 3.

The Postal Service determined that if the Scheme Pallet minimum weight requirement increased beyond 250 pounds, the MSPs would make many fewer FSS Scheme Pallets, resulting in FSS Scheme bundles being placed onto a lower pre-sort pallet (*i.e.*, Sectional Center Facility pallet or Network Distribution Center pallet), which in turn would result in higher costs to the Postal Service. In addition, initial modeling performed by the MSPs, based on the information available at that time, also indicated that the 250 pound Scheme Pallet would have little to no impact on their operations. Subsequent modeling by the Postal Service indicated that adjusting the volume from 250 pounds to a 500 pound Scheme Pallet minimum would migrate over 1 million bundles a month back to bundle sort operations, which would have negatively impacted the current processing windows for packages. PostCom fails to acknowledge the fact that increasing the weight requirement would lead to inefficiencies.

Furthermore, PostCom similarly fails to recognize that the FSS Scheme Pallets continue to provide multiple benefits for mailers and the Postal Service. First, the Scheme Pallets offer a later critical entry time to mailers (11:00 AM versus 8:00 AM) because Scheme Pallets bypass bundle distribution and flow directly to the FSS preparation area. This allows for improved cycle time and reduces the potential for bundle breakage. When mailers elect DFSS entry for FSS Scheme Pallets, the mail is available significantly earlier in the processing window than if it was entered at a DSCF site. In addition, dropping the FSS Scheme Pallet at a DFSS site results in a decrease in the workload content associated with moving and transporting this volume to the processing site.

E. PostCom is Wrong to Assert that Network Rationalization is Increasing Costs

PostCom claims that Network Rationalization is raising costs, citing as evidence large increases in purchased transportation cost (cost segment 14) for High Density Saturation Flats and Parcels (83 percent) and Periodicals (nearly 30 percent).[26] In fact, these apparently large percentage increases relate to relatively small changes in a very small unit cost base for these products. Therefore, as previously explained by the Postal Service in Information Request responses, the circumstances highlighted by PostCom can best be explained by statistical variation associated with the Postal Service's sampling systems, rather than any material real changes in purchased transportation costs for these products.[27]

F. PostCom's Product Cost Concerns Are Baseless

PostCom raises four concerns regarding the volatility in certain cost changes between the FY 2014 and the FY 2015 ACRs. First, PostCom expresses concern about the growth in the total cost per piece for three Standard Mail products: High Density/Saturation Letters ($0.062 to $0.070, 12.9 percent), High Density/Saturation Flats and Parcels ($0.078 to $0.105, 34.6 percent), and Carrier Route ($0.188 to $0.206, 9.6 percent).[28] PostCom finds these increases "disturbing" and suggests that "inefficiencies abound."[29] As described in the Postal Service's response to ChIR No. 7, question 2, PostCom's mistaken concern and claims of inefficiencies are misplaced because improved cost methodologies for city carrier and vehicle costs account for

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[26] PostCom Comments at 6.
[27] *See* Responses of the United States Postal Service to Chairman's Information Request No. 7, Question 17(m) and (n), PRC Docket No. ACR2015 (Feb. 8, 2016).
[28] PostCom Comments at 7–8.
[29] *Id.*

much of the changes in unit costs. The improved costing methods were the new city carrier street time letter route cost model,[30] and the modified carrier vehicle costs to be consistent with new city carrier letter route street time model.[31] The response to ChIR No. 7, question 2, specifically identifies the share of the unit cost changes High Density/Saturation Letters (approximately 0.5 of the 0.8 cents change in unit costs) and High Density/Saturation Flats and Parcels (approximately 2.4 of the 2.6 cents change in unit costs) which result from the new cost methods. The same can be demonstrated for Standard Mail Carrier Route; the attributable cost for Standard Mail Carrier Route in FY 2014 was 19.2 cents.[32] Thus, the change in unit attributable costs in FY 2015 for Standard Mail Carrier Route was 1.4 cents, not 1.8 cents. Of this 1.4 cents change, the new city carrier street letter route cost model explains 0.6 cents, as discussed in the Postal Service's response to ChIR No. 7, question 17, part k. Additional indirect cost impacts of the new cost methods account for some of the remaining change as well.

Second, citing the ACR at page 17, PostCom laments lower cost coverage for Standard Mail Flats, which declined 3 percent to 80.2 percent in FY 2015.[33] PostCom implies that this decline has resulted from the migration of Carrier Route FSS pieces to Standard Mail Flats and from the Postal Service's lack of cost control. But PostCom ignores the ACR discussion on page 29, which indicates that cost methodology changes would have added approximately 2.1 percent to FY 2014 unit costs. Given unit costs rose 3.2 percent for Standard Flats (50.1 cents in FY 2015 versus 48.5 cents in

[30]See Order No. 2792, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), PRC Docket No. RM2015-7 (Oct. 29, 2015). The Postal Service filed a petition for the initial petition for this rulemaking was on December 11, 2014. The rulemaking involved extensive filings of material by the Postal Service and other parties.
[31]See Docket No, RM2016-3, Proposal Twelve, Order No. 2915 (December 22, 2015)
[32] Financial Analysis of the United States Postal Service, Financial Results and 10-K Statement, Fiscal Year 2014 at 74 (April 1, 2015).
[33] PostCom Comments at 8.

FY 2014), the costing methodology change accounts for the bulk of the rise in unit costs and the bulk of the decline in cost coverage.

Next, PostCom argues that the higher delivery costs in recent years for Standard Mail flats and Periodicals “run directly counter to promises made by the Postal Service [concerning FSS], and point to poor management and pricing decisions.”[34] For support, PostCom cites to an 8 percent increase in delivery cost for Standard Mail Flats from FY 2013 to FY 2014, and higher delivery costs in FY 2015 for Standard Mail Flats and Periodicals Outside County (with increases of 7.90 percent and 7.91 percent, respectively). PostCom claims that these increases are proof that the FSS does not save delivery costs. These claims fail to consider methodology improvements that were first implemented in FY 2015. As discussed in the Postal Service’s response to ChIR No. 7, questions 7 and 18, the increase in delivery costs for FY 2015 for Standard Mail Flats and Periodicals Outside County is the result of two methodology improvements: the new city carrier street time letter route cost model[35] and the modified carrier vehicle costs to be consistent with new city carrier letter route street time model.[36] In addition, in the response to ChIR No. 7, question 7, the Postal Service demonstrates that delivery costs are lower in FSS zones as compared to non-FSS zones. Thus, PostCom is simply wrong in its assertion that the FSS has not saved delivery costs.

Finally, PostCom claims significant and unexplained changes in certain cost segments, as evidence that the Postal Service needs to get improved data. PostCom lists 14 “unexplained changes” in cost segments 3, 6, 7, 10 for various products. On the

[34] PostCom Comments at 8.
[35] *See* Order No. 2792.
[36] *See* Order No. 2915, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Twelve), PRC Docket No. RM2016-3 (Dec. 22, 2015).

contrary, as shown in the Postal Service's response to ChIR no. 7, question 17, three factors explain these cost changes. First, the improvements in city carrier street costing methodology as per RM2015-7 explains the rise in cost segment 7 costs for High Density/Saturation Letters, High Density/Saturation Flats and Parcels, Carrier Route and Standard Mail Flats.[37] Second, changes in volume explain the change in the total amounts of costs associated with a product. For example, the 8.5 percent volume growth for High Density/Saturation Letters accounts for much of the 12.83 percent increase in cost segment 3 costs for High Density/Saturation Letters. Volume growth was also a factor in explaining the growth in High Density/Saturation Letters cost segment 6 costs, High Density/Saturation Flats and Parcels cost segment 6 costs, Standard Mail Flats cost segment 6 costs, Bound Printed Matter Flats cost segment 6 costs, Bound Printed Matter Parcels cost segment 6 costs, and High Density/Saturation Letters cost segment 10 costs. The third factor accounting for these changes is statistical variation that stems from the use of sampling systems to determine the share of labor time or truck utilization by product. Sampling variation was a factor in explaining at least some of the changes in: cost segment 3 costs for High Density/Saturation Letters and EDDM, cost segment 6 costs for Standard Mail Flats and Bound Printed Matter Flats, and the cost segment 14 costs for High Density/Saturation Flats and Parcels and Periodicals.

[37] *See also* the responses of the Postal Service to CHIR no. 7, question 2 and 18 regarding the cost impacts of the carrier street cost methodology changes.

G. Mailer Criticisms of First-Class Mail Presort Pricing Lack Merit

Three parties, Pitney Bowes, the National Postal Policy Council ("NPPC") and the National Association of Presort Mailers, make very similar arguments relating to the pricing of Presort (mainly Automation Presort) Letters and, in particular, the pricing of 5-Digit Automation Letters.[38] Their arguments can be summarized as:

1. The overall increase for Presort Letters has been high and should be brought down, or the Postal Service should just reduce the price for Presort Letters; and
2. The passthrough for 5-Digit Automation Letters should not be below 100 percent, i.e., 5-Digit Automation Letters should have been given a lower increase than what the Postal Service proposed in the last few price change dockets.

The Postal Service's ability to raise prices is limited by the CPI cap. Given the financial challenges of the Postal Service and the CPI cap, the Postal Service can enhance revenue and contribution by devoting cap space to volume that will be in the mail stream in the year when the price increase goes into effect, and in additional years down the line. Although First-Class Mail volume has declined significantly over the last few years, the decline has not been uniform across all products. A brief history is provided below.

	Total FCM Volume	Cumulative Percent change	Presort Letters	Cumulative Percent change	5-Digt Auto Letters	Cumulative Percent change	SP Letters	Cumulative Percent change
	(000)		(000)		(000)		(000)	
FY2009	83,770,183		44,807,701		20,960,480		30,016,465	
FY2010	78,203,156	-6.6%	43,293,821	-3.4%	20,967,385	0.0%	27,147,918	-9.6%
FY2011	73,520,543	-12.2%	41,740,735	-6.8%	19,902,350	-5.0%	24,550,824	-18.2%
FY2012	69,639,569	-16.9%	38,724,894	-13.6%	20,246,100	-3.4%	22,755,205	-24.2%
FY2013	66,700,419	-20.4%	39,935,898	-10.9%	19,834,593	-5.4%	21,524,306	-28.3%
FY2014	64,452,475	-23.1%	37,994,999	-15.2%	22,078,462	5.3%	20,599,377	-31.4%
FY2015	63,305,152	-24.4%	38,004,707	-15.2%	23,914,846	14.1%	19,737,174	-34.2%

Source: RPW

[38] Comments of Pitney Bowes Inc., PRC Docket No. ACR2015 (Feb. 2, 2016); Comments of the National Association of Presort Mailers, PRC Docket No. ACR2015 (Feb. 2, 2016); Comments of the National Postal Policy Council, PRC Docket No. ACR2015 (Feb. 2, 2016).

As a percent of total First-Class Mail volume, Presort Letters increased from 53 percent in FY 2009 to 60 percent in FY 2015. The proportion that is 5-Digit Automation Presort Letters has increased from 25 percent in FY 2009 to almost 38 percent in FY 2015. In contrast, Single-Piece Letter volume as a percent of total First-Class Mail volume declined from almost 36 percent in FY 2009 to 31 percent in FY 2015. The Postal Service gains the maximum revenue from the anemic CPI cap by using the cap wisely on volumes that are stable and will exist in the mailstream when higher prices are implemented.

An additional factor that the Postal Service must consider regarding 5-Digit Automation Letters is the change in labelling lists that allowed 5-Digit scheme preparations and made a large portion of lesser presort mail eligible for 5-Digit prices without much additional work by the mailers. While the mailers may argue that the Postal Service is not recognizing the total cost avoidance in the price for Automation 5-Digit Letters, it has certainly allowed more pieces to claim the discount without much additional work by mailers. A cursory glance at the attributable costs by presort level shows that prices at each presort level cover the estimated attributable cost.[39] Just because the Postal Service is giving a slightly higher price to 5-Digit Automation Letters does not mean that other presort rates are not covering their, respective, estimated attributable costs. Last, but not the least, the PAEA (39 U.S.C. § 3622(e)) does not require a floor on the passthroughs and allows the Postal Service some degree of pricing flexibility to generate as much revenue and contribution as possible given the price cap constraints at the class level.

[39] *See* USPS-FY15-30 – FY 2015 Market Dominant NSA Materials, PRC Docket No. ACR2015 (Dec. 29, 2016) (providing the attributable costs for Presort Letters for each presort level).

H. The PR's Suggestion that the Postal Service Fix Passthroughs at the Time of the Rollback Conflicts with a Previous Commission Order

The PR urges the Commission to require the Postal Service to fix the passthroughs that are above 100 percent and were not justified according to one of the four statutory exceptions no later than at the time of reversing the exigent surcharge.[40] The PR's suggestion contradicts Order No. 2319, in which the Commission plainly states that the Postal Service should only address 39 U.S.C. § 3622(e)'s worksharing requirements when it makes CPI-based adjustments.[41] Moreover, in that order, the Commission gave the Postal Service the ability to "exercise its flexibility" and *elect* to file a rate adjustment to come into effect at the same time as the removal of the exigent surcharge, or not.[42] If the Postal Service elects not to file a notice of rate adjustment concurrent with the notice of exigent surcharge removal, it need not adjust the workshare discounts at that time. The PR's proposal that the Commission direct the Postal Service to file a rate adjustment is contrary to the Commission's previous mandate and would interfere with the Postal Service's pricing flexibility. Moreover, as noted in the ACR, the FY 2015 passthroughs are similar to past passthroughs, so the Commission should likewise allow the Postal Service to address the passthroughs in the next general market dominant price change.[43]

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[40] Public Representative Comments, PRC Docket No. 2015ACR (Feb. 2, 2016), at 43, 47 (hereinafter "PR Comments"). Alternatively, if the surcharge is made permanent, the PR suggests requiring the Postal Service to promptly file a market dominant rate adjustment and provides 3 months as an example of what it considers to be a "promptly" mandate. *Id.*

[41] Order No. 2319, Order on Exigent Surcharge Removal, PRC Docket No. R2013-11 (Jan. 12, 2015), at 9 ("[T]he Postal Service should only address the requirements of that section for inflation-based adjustments to the rate base (that is, the base rate plus any applicable inflation-based adjustment.").

[42] *Id.*at 5.

[43] *See* FY 2015 ACR at 7–8 ("Ultimately, the best approach is to address these passthroughs later, when there is more cap space available, taking into consideration the complex interrelationship between prices within a class, and considering current business needs. This approach would be no less appropriate now than in prior years. Overall, the workshare discount picture for FY 2015 falls within the limits of what can reasonably be addressed by a measured approach when compared to prior years, viewed both in terms

I. Contrary to the PR's assertion, the Commission Has Approved the Postal Service's Use of Exigent Prices in the ACR Passthrough Calculation

The PR asserts that the Postal Service incorrectly calculated some passthroughs based on exigent prices because the Commission has clearly stated that passthroughs are to be calculated using CPI-only prices.[44] The PR therefore suggests that the Commission direct the Postal Service to recalculate the passthroughs using CPI-only prices.[45] The PR fails to focus on the limited context in which the Postal Service is using Exigent prices for the passthrough calculations – the ACR. In addition, the PR cites to Order No. 2319 for the proposition that the Commission has "ruled that compliance with 39 U.S.C. § 3622 is to be reviewed using non-exigent prices," failing to acknowledge that Order No. 2319 addresses the Postal Service's compliance with the workshare discount requirements *at the time it removes the exigent surcharge*.[46] Furthermore, far from articulating a clear mandate *for the ACR*, in that order the Commission stated that the "Postal Service will *not be required* to address [the workshare discount requirement] on the exigent surcharge."[47] Moreover, the PR failed to cite to (and likely consider) the Commission's FY 2014 Annual Compliance Determination ("ACD"), in which the Commission accepted the Postal Service's use of exigent prices in the ACR passthrough calculations. [48] In the ACD, which post-dated Order No. 2319, the Commission states that:

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of the 8 proportion of total passthroughs that are over 100 percent, and in terms of the size of those passthroughs.").

[44] PR Comments at 44, 47.

[45] *Id.*

[46] PR Comments at 44 (citing to Order No. 2319 at 9). Order No. 2319 at 8. The section of the order that the PR cites to is titled "Removal Plan Compliance with 39 U.S.C. 3622." *Id.*

[47] *Id.* at 9.

[48] Postal Regulatory Commission, Annual Compliance Determination Report FY 2014, PRC Docket No. ACR2014 (March 27, 2015), at 9.

> Section 3653(b)(1) of U.S.C. Title 39 requires the Commission to base its determinations on rates and fees "in effect" during FY 2014. The prices in effect in FY 2014 are the prices approved in Docket No. R2013-11 and include a temporary exigent surcharge of 4.3 percent. Order No. 1926. Discounts evaluated for compliance are based on these prices.[49]

Consequently, in the FY 2015 ACR, the Postal Service calculated its passthroughs using exigent prices because those were the rates in effect during FY 2015.

J. The Postal Service is Adequately Addressing the Financial Performance of International Competitive Services

The Postal Service submits that it has adequately addressed, in various responses to ChIRs in this docket, the PR's observations about contribution from International Money Transfer Service ("IMTS"), Inbound Parcel Post (at UPU Rates), International Ancillary Services, and Inbound Parcel Post at non-UPU Rates.

As for IMTS, in the ACR, the Postal Service explained that it planned to raise prices for IMTS on January 17, 2016, to address concerns about IMTS-Outbound cost coverage.[50] The Public Representative affirms that such measure "might have positive impact on International Money Transfer Service cost coverage in FY 2016."[51] The Postal Service submits that the recent price increase for competitive services, effective January 17, 2016, satisfactorily addresses the below-cost situation for IMTS.

With respect to Inbound Parcel Post (at UPU Rates), the Public Representative believes that this product "requires special attention from the Postal Service and close monitoring by the Commission."[52] The Postal Service is well aware of this matter and is committing its full attention to resolving it. As the Postal Service explained in the ACR, however, Inbound Parcel Post at UPU Rates consist of inbound air and surface parcels

[49] *Id.*
[50] FY 2015 ACR at 67-68.
[51] PR Comments at 54.
[52] PR Comments at 55.

for which rates are set according to formulae determined by the Universal Postal Union (UPU) Acts.[53] The Postal Service cannot change these rates unilaterally and, absent other incentives to negotiate rate increases for this service, is constrained in negotiations with other postal operators by the fact that other posts can insist on resort to default UPU rates.[54] The Postal Service will continue to explore efforts to resolve this matter, considering the many constraints involved and the absence of unilateral pricing authority. As the Postal Service stated in its response to ChIR No. 4, Question 21 in this docket, "the Postal Service continuously seeks costs reductions in several operational areas and pursues bilateral agreements to increase cost coverage over default UPU rates."

With respect to international Ancillary Services, the PR "believes that the Postal Service should provide comprehensive information regarding the deterioration in the financial performance of the International Ancillary Services to further analyze this issue."[55] The Postal Service has provided additional information concerning Outbound Competitive International Registered Mail in response to ChIR No. 4, Question 22, and ChIR No. 7, Question 26 in this docket.

The PR also supports the Postal Service's determination to exit arrangements for Inbound Air Parcel Post (at non-UPU rates) as a result of the FY14 ACD, and finds the Postal Service's remediation by exiting the arrangement to be "reasonable".[56] As indicated in the ACR, the Postal Service has furnished appropriate notices to the

[53] FY 2015 ACR at 66-67.
[54] *Id.*
[55] PR Comments at 56.
[56] *Id.*

counterparties of the agreement that the Postal Service will exit the agreement according to its terms on June 30, 2016.[57]

K. The Postal Service Has Made Pricing and Operational Changes to Improve Periodicals Cost Coverage

The Association of Magazine Media ("MPA") states that in the FY 2014 Annual Compliance Determination, the Commission directed the Postal Service to "make operational and pricing changes that significantly improve the overall cost coverage of Periodicals Mail."[58] In the most recent price change, Docket No. R2015-4, the Postal Service priced most bundles and containers at cost, and also introduced new container levels to move Carrier Route bundles to finer presort pallets. The Postal Service, moreover, provided incentives for the preparation and dropshipment of FSS pallets to the facilities where FSS mail is processed. To offset these price increases, the Postal Service reduced the pound prices to bring the overall increase within the limited cap.

Arguably, these steps appear to have been largely successful in encouraging behavior to reduce the costs they were intended to reduce. Outside County unit mail processing costs were reduced from 19.78 cents in FY2014 to 18.89 cents in FY2015. The unit mail processing costs for the bundle sorting cost pools (Automated Parcel Bundle Sorter (APBS) Other and Priority Mail, Opening Units, and Pouching) have fallen nearly 10 percent from 2.17 cents to 1.96 cents.[59]

MPA criticizes the Postal Service for not using its pricing flexibility to provide efficient pricing signals to the Periodicals mailing community. The truth is that the

[57] *See* FY 2015 ACR at 67; Responses of the United States Postal Service to Commission Requests for Additional Information Regarding IMTS and EPG in the FY2014 Annual Compliance Determination, June 30, 2015.
[58] MPA Comments at 1-2.
[59] Compare USPS-FY14-26 and USPS-FY15-26.

Postal Service did use its pricing flexibility to encourage efficient preparation, even if MPA would like to have seen more dramatic changes favorable to its members.

The Postal Service is not dismissing MPA's request to move further towards 100 percent passthrough of avoided costs. However, we believe that there is a natural tension between passing through more avoided costs and improving the Periodicals cost coverage. When a passthrough is increased from something less than 100 percent to 100 percent, the additional workshare incentive may induce some mailers to move to the workshared rate category (taking into consideration the operational cost to the mailer of effecting that change). But this does not materially improve the cost coverage for the overall product because the incremental cost savings are offset by revenue reductions. Meanwhile, mailers already using the workshared rate category enjoy a price decrease without incurring any additional expense to themselves, nor actually reducing Postal Service costs because the mailers were already performing the desired workshare activity. All else being equal, this works against improving cost coverage. The latter is an especially important consideration because 57 percent of all Periodicals piece volume is already presorted to Carrier Route. A price reduction geared to enticing the 43 percent of the mail that is not Carrier Route to join that category will give the current 57 percent a windfall while their postal costs remained unchanged.

Another of the major challenges facing the Postal Service in pricing Periodicals is the diverse nature of publications. A few large customers providing a bulk of the volume are capable of utilizing the efficient pricing signals, and preparing mail that reduces the combined costs for them and the Postal Service. On the other hand, a large number of publications with small volumes do not have the flexibility to change their preparation in a meaningful way and are faced with double-digit price increases, even though the overall Periodicals price increase is under 2 percent.

MPA specifically criticizes the piece prices for Basic Carrier Route and 5-Digit Automation Machinable Flats. They would love to see significantly lower prices for Basic Carrier Route (by raising the passthrough to 100 percent) and slightly higher prices for 5-Digit Automation Flats (by lowering the passthrough to 100 percent). A rough analysis of these two changes, i.e., 100 percent passthroughs for both Basic Carrier Route and 5-Digit Automation Flats, indicates that the result would be approximately a 37 percent reduction in the price of Basic Carrier Route, and about a 5 percent increase in the price of 5-Digit Automation Flats. This rough analysis indicates that making these two changes would require the Postal Service to increase the prices for other cells by approximately12 percent. An increase of that magnitude may lead to significant postage increases for a huge number of small volume mailers.

In principle, the Postal Service agrees with the direction of changes proposed by MPA, but these changes need to be pursued at a moderate pace in future price change filings.

III. Customer Satisfaction

A. Customer Access to Postal Services

1. Number of Post Offices

With regard to the customer access as reflected in the number of post offices, the Public Representative correctly notes that there were some discrepancies in the materials submitted with the original ACR filing.[60] Those discrepancies were addressed and resolved, however, in the Postal Service's responses to specific questions in ChIR

[60] PR Comments at 21-22.

No. 6, and with a revised folder USPS-FY15-33. Those updated materials were filed on February 3, 2016, which unfortunately was one day after the PR Comments were submitted. The PR Comments acknowledged that a revised version of folder USPS-FY15-33 was pending, however, and the Postal Service wishes to note that it indeed was submitted.[61] The revised folder confirms that, as stated in the ACR, no post offices, stations, or branches were closed in FY 2015.

2. Number of Collection Boxes

The PR notes a decline in the number of collection boxes, noting that there were 2,346 fewer residential and business collection boxes from the beginning of FY 2015 to the end of FY 2015.[62] Based upon this observation, the PR notes his interest in the Postal Service's cost/benefit analysis concerning its decisions to reduce the number of collection boxes.[63] Respectfully, the Postal Service is not obligated to provide information to the Commission regarding a cost/benefit analysis concerning its decisions to reduce collection boxes. Nothing in 39 U.S.C. §§ 2803 and 2804, nor in the Commission's regulations, lends itself to an interpretation consistent with the Public Representative's request.

B. Wait-Time-In-Line

The PR notes that the FY 2015 national average for Wait-Time-In-Line (WTIL) has increased by 12 seconds as compared to the previous years' WTIL measurement.[64] The Postal Service notes that the measurement was developed as part of the Mystery Shopper program, now known as Retail Customer Experience (RCE), as a national

[61] *Id.* at 22.
[62] *Id.*
[63] *Id.* at 23.
[64] *Id.*

average for WTIL. As such, this system is not designed to capture WTIL data in a more disaggregated form. Further, it would not be possible to develop such metrics as a national “peak time” measurement, since peak times vary in different areas of the country.

C. Results of Customer Experience Surveys

The Postal Service strives to meet customer needs in every service sector. With regard to Market Dominant Products, the Postal Service acknowledges recent declines in customer satisfaction for residential and small business segments and attributes the declines to misdelivered mail and gaps in our scanning processes. To increase the customer satisfaction, the Postal Service is working to ensure that customers understand the meaning of the delivery scans and that employees are trained to maintain high scanning integrity. Our customer CARE centers are being refined to provide better root cause analysis on No Delivery - No Attempt and Failed First Attempt scans. The Mobile Delivery Devices (MDD) have improved software that will help improve scan events. In the future, the MDDs will have an upgrade in software to ensure delivery accuracy.

IV. The Postal Service is Committed to Improving Service and Has Deployed All Available Resources to Achieve Results and Engage the Public in its Efforts

The PR expresses numerous concerns about service performance in the past year, and urges the Commission to mandate that the Postal Service take action to correct said deficiencies.[65] The PR raises concerns about service performance for a number of market dominant products, and claims the Postal Service lacks a plan to

[65] PR Comments at 6, 11, 19-20.

achieve performance.[66] The PR urges the Commission to exercise extraordinary action unwarranted by present circumstances. Specifically, the PR suggests that the Commission require the Postal Service to file detailed plans that outline the steps it proposes to take to improve service performance for certain market dominant products.[67] The PR argues that this should be followed up with quarterly reports to the Commission on progress being made, and new efforts that may be undertaken.[68] In the same vein, the PR suggests that the Commission host quarterly public meetings where the Postal Service presents service performance results and explains plans for improvement.[69] Finally, the PR proposes that visibility into service performance could be improved by requiring the Postal Service to report average calendar days-to-delivery for each deliverable market dominant mail product, instead of business rule days.[70] For the reasons explained below, the Postal Service respectfully urges the Commission to reject these suggestions.

In January 2015, the Postal Service resumed implementation of its Network Rationalization initiative with the start of Phase 2. This second phase not only included facility consolidations, but also involved a one-time, fundamental shift in the operating window that was implemented at all mail processing sites across the entire country on the same day. To implement this phase of the initiative, the Postal Service was required to realign its processing complement work schedules. The effects of this change in the operating window had a much greater impact on service than was anticipated, but it was a one-time event that is not likely to be replicated.

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[66] *Id.* at 5, 6.
[67] *Id.* at 11, 13, 14, 16.
[68] *Id.* at 11.
[69] *Id.* at 19.
[70] *Id.* at 19-20.

Further, in response to these combined challenges, the Postal Service developed several strategies to mitigate adverse impacts:

- The Postal Service expanded on its partnership with the mailing industry to improve entry of mail at 187 Hub facilities and expanded acceptance hours in 68 facilities.
- The Postal Service instituted comprehensive service improvement plans focusing on critical sites.
- The Postal Service accelerated the development of new analytical reports and data analysis, using these to identify problem areas for correction.
- The Postal Service worked with its logistic providers to expand its capacity to transport mail and adjust to changes in transportation needs on a lane-by-lane basis.[71]
- The Postal Service continued its use of the precepts and tools of the Lean program to fix and stabilize processes that contribute to service performance.
- The Postal Service increased package processing capacity by deploying or planning for the deployment of over 30 new Small Parcel Sorting Systems (SPSS) and expanding 124 Automated Package and Bundle Sorters (APBS) to add 5,488 additional separations.
- The Postal Service also suspended all additional consolidation efforts until the service could be stabilized. Those stabilizations are still ongoing, and consolidation efforts continue to be withheld.

During FY 2015, the Postal Service continued to host Mailer's Technical Advisory Committee (MTAC) meetings where up-to-date information and data were shared, and service improvement opportunities were highlighted. The MTAC Mail Preparation and Entry Steering Committee served as a forum for bulk mailers and the Postal Service to explore new ideas for strengthening mail preparation and mail entry requirements and service improvements.

[71] With respect to the air network, the Postal Service increased average daily capacity by 340,000 cubic feet.

To ensure effective communication concerning the Postal Service's strategies for improving service, webinars were conducted with mailing industry representatives to address service improvement, including planning for Fall Mail season and holiday periods. Through webinars, the Postal Service also shared current service performance and plant conditions, as well as mail transport equipment (MTE) inventory. Industry alerts were issued to communicate network impacts due to weather and operational disruptions. The Postal Service also partnered with the mailing industry to address specific service concerns for certain mail types. Rapid improvement projects were conducted for newspapers and First-Class Mail, Priority Mail and Parcel Select Lightweight parcels to identify root causes for service quality issues and to develop sustainable process improvements. These efforts continue into FY 2016 and will also include exploration of opportunities to improve non-profit mail processing improvements. Going forward, the Postal Service will continue to work collaboratively with the mailing industry to build partnerships for service improvement.

Internally, several strategies were also implemented in FY 2015 to empower local field operation managers to use Lean principles to drive service improvements. These efforts have been continued and expanded into FY 2016. National service improvement symposiums were held with District, Area, and Headquarters leadership in attendance. With a focus on Delivery, Network Operations, and Packages, each symposium stressed the availability of diagnostic tools and identified key strategies for service improvement. Headquarters used analytics to identify facilities that required intervention strategies, and escalation to on-site rapid service improvement teams. Initially, daily teleconferences were conducted with Area managers to address air network conditions. These were expanded to include all processing operations during the Fall 2015 mailing season and December peak mailing period. The combination of these efforts led to stabilization and recovery from the impacts of the implementation of operational changes and increases in parcel volume.[72]

These strategies and techniques continue as key elements of current service improvement efforts. Building on the success of extensive rapid service improvement activity in FY 2015, two National Service Improvement Events were held in FY 2016, assembling key Area managers to identify and commit to key processing absolutes and operational strategies to drive continued service improvements. The implementation of these strategies and absolutes is foundational to building upon the positive service trends and meeting service targets in FY 2016.

The Postal Service is also using various granular operational data to drive service improvement. During FY 2015 and continuing through FY 2016 Quarter 2, the Postal Service has developed several new reports based upon data analytics to more quickly identify service issues. These reports run the gamut from mail delays at origin based on processing scans, local missing barcode scan reports for enroute mail at origin and destination plants, equipment utilization reports that compare throughput against capacity, destination facility ranking reports for First-Class Mail processing, transportation deep dives of high volume districts and pairs, service performance, cycle times and service performance for Periodicals and Standard Letter and Flat Mail, and tray weight utilization based on weight as a proxy. These reports and accompanying data inform management decision-making at all levels and provide a basis for remediation and corrective action.

[72] For FY 2015 parcel volume increased 14 percent, or 1.6 Billion pieces.

Air and surface transportation improvements have also been targeted. To address surface transportation opportunities, weekly analysis is conducted to identify underperforming service lanes and deep-dive analysis is conducted to identify any transportation related issues in these lanes. In response, surface routing adjustments can be implemented as needed, including changes to dispatch schedules, improved utilization of available point-to-point surface trips and available air capacity. In addition, reports are utilized to identify insufficient turnaround times at transfer points and to make adjustments to trips as necessary.

The Postal Service utilizes Continuous Improvement and Lean methodologies which rely on collaborative team efforts analyzing data to improve performance and systematically remove defects. More than half of the 230 LSS and rapid service improvement projects completed in 2015 focused on service improvement. The combination of these projects resulted in positive service improvement across all products.

In FY 2015, the Postal Service deployed Headquarters peak-season teams to multiple high-impact locations across the country. These cross-functional teams focused on integrating operations and network communication to maximize network utilization. The positive results from the peak-season actions provided valuable insight for the service recovery activities initiated after the service disruption in Quarter 2. Throughout the remainder of FY 2015 and into the current fiscal year, the Postal Service has utilized the peak-season team concept for federal holidays in high-volume service areas. Based on the success from the previous peak season and input from the mailing industry, the Postal Service has increased the number of teams into over fifteen locations and expanded the peak support period to include the week prior to Thanksgiving through the first week in January. Additionally, Headquarters regularly supports field initiatives through Lean projects, rapid service improvement project events, as well as equipment deployment and enhancement projects. Deployment and repositioning equipment expanded package and bundle sortation capabilities and reduced the use of older mail sorting platforms. The increased use of rapid service improvement events allow for a quicker implementation of result-driven improvements.

The Postal Service faced a number of unique challenges in FY 2015. As service issues became evident during the winter months, a multi-faceted plan to both mitigate these challenges and to return service to levels that would meet or exceed operational targets was developed. After January 2015 (Quarter 2, FY 2015) when the Postal Service experienced service disruptions during implementation of operational changes, service scores rebounded in Quarters 3 and 4 of FY 2015, showing a positive trend going forward. Additionally, for Quarter 1 of FY 2016, service performance improved for Standard Mail Flats, when compared to the first quarter for FY 2014 and FY 2015. After the disruption in Quarter 2, FY 2015, Bound Printed Matter Flats service performance improved in Quarters 3 and 4 of FY 2015 as well a Quarter 1 of FY 2016.

In summary, the Postal Service has a comprehensive plan in place to improve service performance and the plan is yielding results. Management is committed to service improvement and has deployed its top resources to meet the challenge. Accordingly, the Postal Service urges the Commission to reject the PR’s suggestion that it submit new plans for quarterly review. The Postal Service already submits quarterly service performance reports on Market Dominant products, which can be used to monitor management's progress.

V. Conclusion

The Postal Service appreciates the opportunity to comment on the issues raised by the parties in their initial comments.

Respectfully submitted,

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