

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

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

**UNITED STATES POSTAL SERVICE REPLY COMMENTS REGARDING  
FY 2016 PERFORMANCE REPORT AND FY 2017 PERFORMANCE PLAN**  
(February 22, 2017)

**I. INTRODUCTION**

In Order No. 3718, the Postal Regulatory Commission (Commission) established a separate comment period regarding the United States Postal Service's Fiscal Year (FY) 2016 Performance Report and FY 2017 Performance Plan (Performance Report and Performance Plan).<sup>1</sup> Consistent with this order, on February 8, 2017, the Public Representative filed comments (PR Comments) on the Postal Service's 2016 Performance Report and 2017 Performance Plan.<sup>2</sup>

The Commission is charged with the responsibility of evaluating whether the Postal Service has sufficiently complied with the provisions of 39 U.S.C. Sections 2803 and 2804, which concern the contents and presentation of the Performance Report and Performance Plan.

While noting that the Postal Service did not fully achieve the goals it had established for FY 2016 pursuant to Section 2803, the Public Representative also

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<sup>1</sup> PRC Order No. 3718, Notice and Order Regarding the Postal Service FY 2016 Annual Performance Report and FY 2017 Annual Performance Plan, Docket No. ACR2016 (Jan. 3, 2017).

<sup>2</sup> Public Representative Initial Comments on the FY 2016 Performance Report and FY 2017 Performance Plan, Docket No. ACR2016 (Feb. 8, 2017) (PR Comments).

enumerates areas in which the Postal Service either met or exceeded its targets. The Public Representative highlights the Postal Service's improvement in every category for the "Deliver High-Quality Service" goal, describing the improvements as "sizeable." PR Comments at 4. The Public Representative also concludes that the Postal Service's 2017 Performance Plan meets the statutory requirements. PR Comments at 8-9. Finally, in addition to responding to the Postal Service's 2016 Performance Report and 2017 Performance Plan, the Public Representative compliments the Postal Service's commitment to diversity and inclusion and recommends that the Postal Service set goals and develop new metrics to measure outcomes in this area. PR Comments at 10-18.

The Postal Service hereby submits these reply comments.

## **II. "SUBSTANTIAL," "SIZEABLE" SERVICE IMPROVEMENTS SHOW THE POSTAL SERVICE'S EFFORTS ARE WORKING**

### **A. Any Fair Evaluation Must Begin with the Real Achievements of FY 2016**

The Postal Service appreciates the PR's acknowledgment that service "performance improved in every category" in 2016, with gains that the PR described as both "sizeable" and "substantial." PR Comments at 4-5. Notwithstanding its substantial service performance improvements, the Postal Service is not resting on its one-year achievements. The Postal Service aims higher, not only to meet the targets against which it is measured in these proceedings, but, more fundamentally, to provide a consistently high level of service for its customers.

As a matter of record, the target for Presort Three-to-Five-Day service in 2016 was 95.25, as opposed to 96.25 as depicted in Figure 2. PR Comments at 6.

Nevertheless, the Postal understands that opportunities remain to build upon improvements in the Three-to-Five-Day delivery standard for both Single-Piece and Presort First-Class Mail. The Postal Service identified key operational factors which contributed to the gap and is continuously implementing improvement initiatives to achieve the foundational goal of delivering high-quality service to its customers.

As outlined in its earlier reply comments filed in this docket on February 13 (at 43), the Postal Service continued to experience impacts from the 2015 operating window change into early 2016. Specific factors influencing Three-to-Five-Day service performance included challenges in achieving key clearance time targets within the operating plan known as the 24-Hour Clock, as well as difficulties in optimizing the balance between air and surface transportation.

The 24-Hour Clock clearance time targets of concern were Outgoing (OG) Primary operations cleared by 2330 hours; Outgoing (OG) Secondary operations cleared by 0030 hours; First-Class Mail Assigned (scanned to air transportation) by 0230 hours; Long-Haul (Surface) Trips departing late between the hours of midnight and 0700 hours; and Managed Mail Program (MMP) cleared after 1500 hours. The OG Primary and Secondary clearance times are critically important to preparing mail in time to connect with scheduled surface and air transportation trip departures. Next, the actual departure times of surface transportation trips between the hours of midnight and 0700 hours are important, as they impact arrival times at destinating processing facilities and the ability of those facilities to achieve their MMP cleared by 1500 hours target. The MMP clearance time is important in preparing destinating Two-Day and Three-to-Five-Day First-Class Mail in time for subsequent processing steps within the

24-Hour Clock and on-time delivery to the customer. First-Class Mail Assigned by 0230 hours is a vital step to ensuring that, after processing, OG Primary and Secondary mail is presented timely for air transportation departures. Failure to achieve any of these clearance time targets places mail at risk of being processed late in subsequent steps of the 24-Hour Clock and/or missing scheduled transportation. Either of these scenarios can result in service performance challenges.

Achieving an optimal balance between the most effective use of air and surface transportation is important in ensuring that mail is transported via the most efficient mode that will provide on-time service performance for all mail products. Important factors that influence the ability to achieve optimization include proper modeling to determine the right amount (cubic space) and the best routing of each mode, as well as the effectiveness of mail processing facilities relative to achieving their originating processing 24-Hour Clock targets.

**B. The Postal Service's Plans Are Both Extensive and Ongoing**

The Postal Service has taken significant steps to identify constraints on achieving service performance targets and to institute effective initiatives to resolve those constraints. Indeed, the Postal Service is confident that the service improvement strategies that it instituted in FY 2015, and that it continued to refine throughout FY 2016, are significantly responsible for the remarkable recovery which was realized in FY 2016. As described in its reply comments filed on February 13 in this docket (at 43-46), the Postal Service outlined key strategies in the ACR2015 that were implemented to mitigate the temporary one-time adverse effects on service performance resulting from the operating window change. Although the impact of the operating window change

continued into the early part of FY 2016, the Postal Service continued to pursue several of the original strategies into FY 2016. Specifically, the Postal Service continued to develop analytical reports and tools to provide a better understanding and visibility of factors contributing to service failures; continued to adjust surface and air transportation routings to improve on-time performance; and continued to employ Lean management principles throughout the organization. The deferment of facility consolidations remained in place throughout FY 2016, providing an extended period for operating conditions and service to stabilize. The aforementioned strategies and activities served as integral components of the plans which helped the Postal Service improve service, including the significant improvements that the PR observed “especially for the Single-Piece and Presort 3-to-5-Day categories.” PR Comments at 4.

Recognizing that there is still room to build upon the improvements achieved in FY 2016, the Postal Service will continue to refine, as necessary, many of the same FY 2015-16 strategies in its service improvement plans for FY 2017. As evidenced by the momentum generated during the second half of FY 2016, the Postal Service is confident that service performance will continue to improve in FY 2017.

Going forward, in addition to aggressively using the tools and strategies that produced the substantial improvements in FY 2016, in FY 2017, the Postal Service is also pursuing several additional initiatives. First, the development of specific root cause analysis tools will help to pinpoint where in the processing and transportation cycles failures are occurring. Additionally, from the tools which are currently available, the Postal Service is focusing on the 24-Hour Clock targets described earlier. Analytical tools recently developed in FY 2017 allow the Postal Service to determine the average

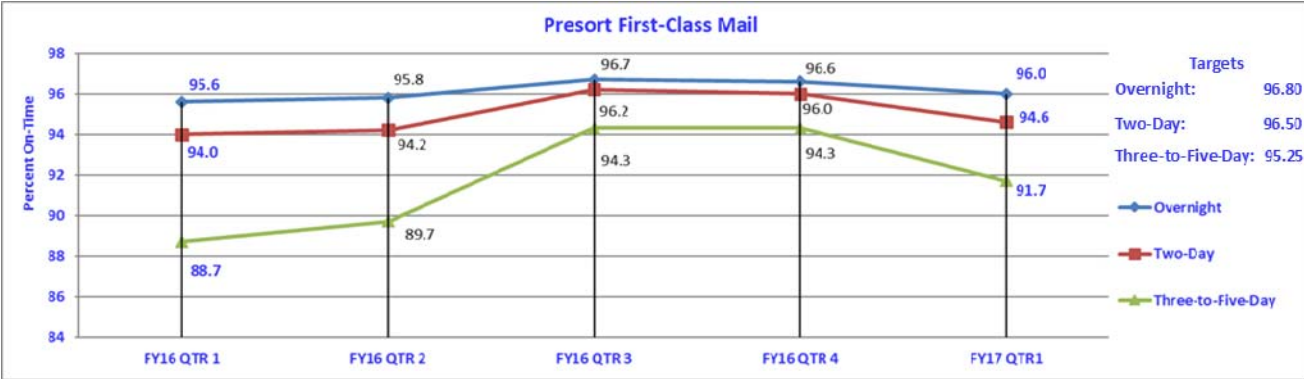
pieces of mail processed after the target clearance time, the number of long-haul surface transportation trips departing late between midnight and 0700 hours and First-Class Mail assigned after 0230 hours. These data aid in the analyses of site- and lane-specific improvement opportunities. The Area and National Operations Control Centers (NOCCs), which were activated just prior to FY 2017 Peak Season, provide near real-time monitoring of key equipment, operations and transportation performance metrics, enabling quick intervention to help prevent or quickly mitigate potential service concerns.

The Postal Service is also driving the advancement of destinating Three-to-Five-Day First-Class Mail into a Two-Day processing and delivery window. This strategy helps to reduce the volume of mail that is at risk of failing service on any given day. Although the largest gap in performance to target is with the Three-to-Five-Day service standard, some of these tools and strategies should help to drive improvements in Overnight and Two-Day First-Class Mail service performance as well.

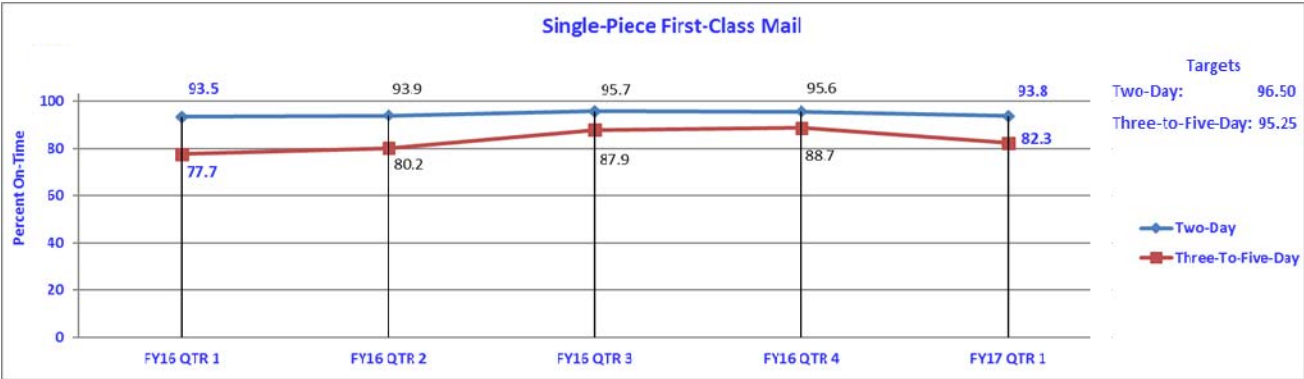
### **C. The Postal Service's Targets Are Realistic as "Stretch" Goals to Challenge Itself**

The Postal Service disagrees with the PR's comments (at 6) that it sets unrealistic targets. As an organization-wide goal of the Postal Service, providing high-quality service requires the establishment of stringent performance targets that are not easily achieved. These targets are also in alignment with the Postal Service principle of striving for continuous improvement. As the charts below reflect (Figures 1 and 2), notwithstanding the 2015 decline in service, the gap-to-target performance increased substantially (gap narrowed) in the last two quarters of FY 2016 and continues into FY 2017, with Quarter 1 performance above that of Quarter 1, FY 2016.

**Figure 1: Presort First-Class Mail 2016-2017 Service Performance**



**Figure 2: Single-Piece First-Class Mail 2016-2017 Service Performance**



As the table below (Figure 3) depicts, the Postal Service has demonstrated the ability to achieve high-level targets in previous years, including targets for Single-Piece Two-Day mail, Presort Overnight, Two-Day and Three-to-Five-Day First-Class Mail and Standard Mail Composite.

**Figure 3: Selected Service Performance Targets and Results from 2016 Annual Report**

<b>U.S. Postal Service FY2016 Results and FY2017 Targets for Corporate-wide Goals</b>										
Goal	Measure	FY2017 Target	FY2016 Actual	FY2016 Target	FY2015 Actual	FY2015 Target	FY2014 Actual	FY2014 Target	FY2013 Actual	FY2013 Target
	Single-Piece First-Class Mail									
	Overnight <sup>1</sup>	N/A	N/A	N/A	95.55	96.80	96.00	96.80	96.14	96.70
	Two-day	96.50	94.66	96.50	93.28	96.50	94.90	96.50	95.26	95.10
	Three-to-Five-day	95.25	83.66	95.25	76.56	95.25	87.70	95.25	91.60	95.00
	Presort First-Class Mail									
Deliver High-Quality Service (% on-time)	Overnight	96.80	96.16	96.80	95.74	96.80	97.00	96.80	97.20	96.70
	Two-day	96.50	95.05	96.50	93.56	96.50	96.40	96.50	97.00	95.10
	Three-to-Five-day	95.25	91.68	95.25	87.78	95.25	92.20	95.25	95.10	95.00
	First-Class Composite <sup>2</sup>	N/A	93.00	96.00	89.64	96.00	94.11	96.00	N/A	N/A
	First-Class Mail Letter & Flat (FCLF) Composite <sup>3</sup>	96.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Standard & Periodical Composite <sup>4</sup>	91.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Standard Composite <sup>5</sup>	N/A	92.97	91.00	89.58	91.00	90.09	91.00	N/A	N/A

It is important to note that service performance for the last two quarters of FY 2016 was significantly better than that of the first half of the year, which is reflective that the initiatives employed to address service were sound and continue to produce positive results. In addition, although service performance dipped as it historically does in Quarter 1 of FY 2017, performance was better in both Presort and Single-Piece First Class Mail than in Quarter 1 of FY 2016. This performance demonstrates that the momentum generated in the last half of FY 2016 has indeed carried forward into early FY 2017. The Postal Service realizes that it has set a high threshold with its service performance targets, many of which are “stretch” goals to challenge itself for continued improvement. The Postal Service remains confident that these targets are achievable over time as it pursues the principles of continuous improvement and delivering high-quality service to its customers.



### **III. THE POSTAL SERVICE PROVIDES EXCELLENT CUSTOMER EXPERIENCES**

The Public Representative highlights that the Postal Service's actual composite score for Customer Experience in FY 2016 exceeded the target. PR Comments at 7. The Postal Service acknowledges the Public Representative's comment that the score for Business Service Network drove this overall result. *See id.* The Postal Service intends to continue its efforts to provide excellent customer experience through its Business Service Network but will also work to improve the other customer experience scores that make up the Customer Insights Composite.

### **IV. THE POSTAL SERVICE'S EFFORTS TO ENSURE A SAFE WORKPLACE AND ENGAGED WORKFORCE HAVE INCREASED SAFETY**

The Public Representative mischaracterizes the Postal Service's Occupational Safety and Health Administration (OSHA) Illness and Injury (I&I) FY 2016 rate as both an increase from the FY 2015 rate and above the goal set for FY 2016. Although the Postal Service acknowledges that the actual target rate was not met for FY 2016, the OSHA I&I rate for FY 2016 reflected a 6 percent improvement over FY 2015. *See* Response to ChIR No. 7, Question 1(a). Moreover, the Postal Service explained in response to ChIR No. 7 that its failure to hit its target was due to an increase in exposure hours (i.e., physical labor hours) over last year. *Id.*

The Public Representative suggests that the Postal Service adopt metrics for Postal Pulse survey scores at some point in the future. In its response to Chairman's Information Request Number 14, the Postal Service explained that while it has set goals for a minimum response rate and number of organization units entering executable

action plans, it does not believe score targets are desirable. See Response to ChIR No. 14, Question 3.

**V. THE POSTAL SERVICE MET ITS NET CONTROLLABLE INCOME GOAL**

The Postal Service appreciates the Public Representative's acknowledgment that the Postal Service met its FY 2016 target for net controllable income and the Public Representative's assessment that the Postal Service's explanation of the shortfall in Deliveries per Total Work Hours (DPTWH) is sufficient. PR Comments at 8. As the Public Representative notes, the shortfall in DPTWH is due to a variety of factors that increased work hours. *Id.* In addition to the specific factors listed by the Public Representative, work hours also increased as a result of the continued shift in the type of mail the Postal Service delivers. Specifically, First-Class Mail decreased and Shipping and Packages volume increased. That shift resulted in increased work hours, affecting the DPTWH calculation, but also increased the Postal Service's revenue. See FY 2016 Performance Report and FY 2017 Performance Plan at 23.

**VI. THE PERFORMANCE PLAN MEETS THE REQUIREMENTS OF 39 U.S.C. § 2803**

The Public Representative concludes that the Postal Service's 2017 Performance Plan complies with Section 2803. PR Comments at 8. As explained above, the Postal Service acknowledges the Public Representative's comment regarding Postal Pulse metrics but has set minimum rate and geographic distribution targets for FY 2017 rather than score goals. See *id.* at 9; see also Response to ChIR No. 14, Question 3.

## **VII. STRATEGIC INITIATIVES**

The Postal Service acknowledges the Public Representative's recommendation that in the next annual performance report the Postal Service include strategic initiatives for the upcoming year. PR Comments at 10. The Postal Service will take this recommendation under advisement in developing its FY2018 Plan.

## **VIII. THE POSTAL SERVICE VALUES DIVERSITY**

The Postal Service appreciates the Public Representative's comments regarding the Postal Service's commitment to diversity and the "ripple effects" that commitment has on other employers around the country.

### **A. The Postal Service Is Committed to Maintaining a Diverse Workforce**

The Public Representative highlights a number of ways the Postal Service demonstrates its commitment to hiring and maintaining a diverse workforce, including through training initiatives, use of demographic data to determine focuses for area and district initiatives, and diversity within management. PR Comments at 11-13. The Postal Service acknowledges the Public Representative's recommendations regarding use of demographic information to further "the advancement of minorities and women and to target specific areas for improvement" and will continue to take this into consideration as it enhances its diversity initiatives. See PR Comments at 16.

### **B. One-third of the Postal Service's FY 2016 Contract Commitments Were with Small, Minority, and Women-Owned Businesses**

The Postal Service appreciates the Public Representative's findings and attention to the issue of diversity in the contracting process. The Postal Service is pleased to confirm that it already tracks contract commitment percentages with Small,

Minority, and Women-Owned Business (SMWOB) firms using a data driven annual goal setting process. The Postal Service voluntarily tracks and uses information in setting fiscal year commitment SMWOB participation goals each year. In FY 2016 the percentage of contract commitments with SMWOB participation reached approximately one-third of all contract commitments — nearly 32.7 percent with small businesses, 4.2 percent with minority businesses, and 7.2 percent with women-owned businesses. The Postal Service remains committed to a broad and diverse supply base, which it considers critical to furthering its business and competitive interests.<sup>3</sup>

### **C. The Postal Service Strives To Meet the Needs of its Diverse Customer Base**

As the Public Representative notes, the Postal Service is committed to serving all customers equitably. See PR Comments at 17-18. The Postal Service appreciates the Public Representative's suggestion regarding adding demographic questions to the Point of Sale and Customer Care Center surveys and setting targets for different ethnic groups. However, the Postal Service notes that efforts to increase the response rate to its surveys have required streamlining to focus on key indicators, eliminating questions to make it easier for customers to provide feedback. The Postal Service will continue to look for innovative ways to meet the needs of all its customers as it strives to continue to meet its universal service obligation.

## **IX. CONCLUSION**

The Postal Service appreciates the Public Representative's effort to highlight areas where the Postal Service met or exceeded its FY 2016 goals and the Public

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<sup>3</sup> More information can be found on the Postal Service's website. See <http://about.usps.com/suppliers/diversity-program.htm>.

Representative's acknowledgment that the FY 2017 goals meet the statutory requirements. The Postal Service also notes that in areas where the Postal Service was unable to meet its FY 2016 goals the Public Representative noted the considerable and substantial improvements and considered the Postal Service's explanations reasonable. Finally, the Postal Service thanks the Public Representative for her recommendations regarding future ACRs.

Respectfully submitted,

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