

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

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

THIRD NOTICE OF THE UNITED STATES POSTAL SERVICE OF
FILING OF REVISED ANNUAL COMPLIANCE REPORT PAGES -- ERRATA
(March 6, 2017)

The Postal Service hereby gives notice of filing of revised versions of pages 41, 46, 47, 48 and 79 of the FY 2016 Annual Compliance Report, originally filed on December 29, 2016. The revised pages are attached. The changes in the first four attached revised pages reflect corrections of workshare passthroughs in USPS-FY16-3 as a consequence of cost avoidance estimate modifications that emanate from revisions in USPS-FY16-13 and USPS-FY16-14 (also filed today). These passthrough changes are relatively minor, and do not alter any justifications or related discussions submitted previously. Likewise, the relatively minor change in the number of collection boxes reported on page 79 reflects a revision to USPS-FY16-33 also filed today, and is necessary to make the reporting procedures consistent with previous years. More information can be found in the revised Prefaces of each revised folder.

Page 41

Change:

The passthrough for DNDC letters was 175 percent and the passthrough for DSCF letters was 191.3 percent.

To:

The passthrough for DNDC letters was 184.2 percent and the passthrough for DSCF letters was 200 percent.

Page 46

Change: 160 percent

To: 168.4 percent

Page 47

Change: 187 percent

To: 195.5 percent

Change: 2.3 cents

To: 2.2 cents

Change: 160 percent

To: 168.4 percent

Page 48

Change: 187 percent

To: 195.5 percent

Page 79

Change:

Nationally, there were 148,267 collection boxes available at the end of FY 2016, compared to 154,006 at the beginning of FY 2016.

To:

Nationally, there were 152,539 collection boxes available at the end of FY 2016, compared to 154,006 at the beginning of FY 2016.

Other than these revisions and those filed on January 25 and January 31, 2017,

all other pages remain as originally filed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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FY 2014, increased to 7.2 cents in FY 2015, and fell to 7.1 cents in FY 2016. The price approved for this letter category in Docket No. R2017-1 will reduce the discount from 8.9 cents to 8.7 cents, thereby reducing the passthrough to 122.5 percent. However, adjusting the Nonautomation 5-Digit letter price to bring the passthrough down to 100 percent would require a price increase as high as 4.3 percent, which could result in rate shock for mailers in this price category. The Postal Service acknowledges that the passthrough can also be reduced by lowering the price of the benchmark instead of increasing the price of Nonautomation 5-Digit letters. The Postal Service does not favor this approach, however, as lowering the price of the benchmark would send an inefficient price signal to mailers by reducing their incentive to presort their mail. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce this passthrough in the next general market-dominant price adjustment, or to cite to a statutory exception at that time, taking into consideration other business and operational needs.

Dropship Discounts

Two passthroughs for the Dropship Discounts for Letters exceed 100 percent. The passthrough for DNDC letters was 184.2 percent and the passthrough for DSCF letters was 200 percent. These percentages compare favorably to the 225 percent passthroughs that were reported last year. In Docket No, R2017-1, the Postal Service dropped the discount for DNDC letters from 0.35 to 0.26 and dropped the discount for DSCF letters from 0.44 to 0.35. Reducing these discounts will further improve these passthroughs when the prices become effective in FY 2017. However, aligning these discounts with their avoided costs at one time would result in a price increase as large

plan to reduce these passthroughs by at least 10 percentage points (e.g., from 175 percent to 165 percent) in subsequent general market-dominant price adjustments.²⁷

iv. Carrier Route

Two Carrier Route dropship discounts exceeded their cost avoidances in FY 2016: DNDC entry compared to origin entry and DSCF entry compared to origin entry.

Carrier Route Letters DNDC Entry

Carrier Route Letters with DNDC entry had a passthrough of 168.4 percent in FY 2016. This compares favorably to last year's passthrough, which was 206.3 percent. Though the Postal Service has made significant progress toward aligning this discount with its avoided cost, adjusting the price of DNDC letters to reduce the passthrough to 100 percent at one time could result in a price increase as high as 4.8 percent. Such a significant price increase could result in rate shock for the mailers in this price category. The Postal Service acknowledges that the passthrough can also be reduced by lowering the price of the benchmark instead of increasing the price of DNDC letters. The Postal Service does not favor this approach, however, as lowering the price of the benchmark would send an inefficient price signal to mailers by reducing their incentive to enter their mail at the DNDC. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce this passthrough in the next general market-dominant price adjustment, or to cite to a statutory exception at that time, taking into consideration other business and operational needs.

²⁷ Docket No. R2017-1, Order No. 3610 - Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, at 38 (November 15, 2016).

Carrier Route Letters DSCF Entry

Carrier Route Letters with DSCF entry had a passthrough of 195.5 percent in FY 2016. This reflects a discount of 4.3 cents and a cost avoidance of 2.2 cents. In FY 2015, Carrier Route Letters had a passthrough of 220 percent. Though the Postal Service has made significant progress toward aligning this discount with its avoided cost, adjusting the price of DSCF letters to reduce the passthrough to 100 percent at one time would require a price increase as large as 8.2 percent. Such a significant price increase could result in rate shock for the mailers in this price category. The Postal Service acknowledges that the passthrough can also be reduced by lowering the price of the benchmark instead of increasing the price of DSCF letters. The Postal Service does not favor this approach, however, as lowering the price of the benchmark would send an inefficient price signal to mailers by reducing their incentive to enter their mail at the DSCF. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce this passthrough in the next general market-dominant price adjustment, or to cite to a statutory exception at that time, taking into consideration other business and operational needs.

v. High Density and Saturation Letters, Flats, and Parcels

Two dropship discounts associated with High Density and Saturation Letters, and High Density and Saturation Flats/Parcels, exceeded avoided costs in FY 2016: DNDC Letters compared to origin entry and DSCF Letters compared to origin entry.

DNDC Letters

The passthrough for DNDC Letters compared to Origin Letters is 168.4 percent for FY 2016. This compares favorably to the passthrough in FY 2015, which was 206.3

percent. Lowering the passthrough to 100 percent by increasing the DNDC prices would require a price increase as high as 7.4 percent. Such a significant price increase could result in rate shock for the users of this price category. The Postal Service acknowledges that the passthrough can also be reduced by lowering the price of the benchmark instead of increasing the price of DNDC letters. The Postal Service does not favor this approach, however, as lowering the price of the benchmark would send an inefficient price signal to mailers by reducing their incentive to enter their mail at the DNDC. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce this passthrough in the next general market-dominant price adjustment, or to cite to a statutory exception at that time, taking into consideration other business and operational needs.

DSCF Letters

The passthrough for DSCF Letters compared to Origin Letters is 195.5 percent for FY 2016. This is an improvement over the FY 2015 passthrough for this category, which was 225 percent. However, lowering this passthrough to 100 percent by increasing the DNDC prices would require a price adjustment as high as 14 percent. Such a significant price increase could result in rate shock for the mailers in this price category. The Postal Service acknowledges that the passthrough can also be reduced by lowering the price of the benchmark instead of increasing the price of DSCF letters. The Postal Service does not favor this approach, however, as lowering the price of the benchmark would send an inefficient price signal to mailers by reducing their incentive to enter their mail at the DSCF. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce

C. Consumer Access to Postal Services

Information regarding Post Offices, collection boxes, wait time in line, and delivery points is contained in USPS-FY16-33. The Postal Service did not close Postal Service operated retail facilities in FY 2016;⁴⁷ see additional discussion on suspended retail units below.

At the end of FY 2016, there were 26,611 Post Offices, 4,451 stations and branches, and 523 carrier annexes. At the end of FY 2016 there were 2,880 Contract Postal Units (CPUs), 855 Village Post Offices (VPOs), and 8,253 Approved Shipper active locations. Nationally, there were 152,539 collection boxes available at the end of FY 2016, compared to 154,006 at the beginning of FY 2016. Average wait time in line increased at the national level from 2 minutes 36 seconds in FY 2015 to 2 minutes 48 seconds in FY 2016.

In the FY 2015 ACD, the Commission noted that the number of Postal Service operated retail units under suspension has continued to grow. ACD at 150. The Commission took note of the number of suspended units, and expressed concern about this growth trend. *Id.* The Commission reiterated its recommendation that the Postal Service proceed expeditiously in determining whether to discontinue or reopen suspended retail facilities. *Id.* The Commission expected the Postal Service to reduce the number of facilities under suspension in FY 2016. *Id.* Absent a reduction in the backlog, the Commission directed the Postal Service to include a detailed explanation of why measures were not taken to address suspended retail units in the FY 2016 ACR.

⁴⁷ USPS-FY16-33 assigns numerical values for the “Closings During Fiscal Year” column; however, these numbers are the result of discontinued finance numbers and similar accounting adjustments, and do not represent the closing of any physical postal retail facilities.