

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

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1 AND 3-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 19

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 19, issued on February 17, 2017. Each question is stated verbatim and followed by the response.

Respectfully submitted,

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By its attorney:

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

1. The Postal Service states that the NPA system allows for tracking the associated performance indicators for its corporate-wide performance goals “down to a scorecard for each Area of operation, District and business unit.” FY 2016 *Annual Report* at 13. The following questions relate to the NPA system.
 - a. Please provide workpapers showing how the FY 2016 Area, District, and business unit performance indicator scorecards were weighted and rolled up to the corporate-wide score.
 - b. Please provide workpapers showing how the FY 2017 Area, District, and business unit performance indicator scorecards will be weighted and rolled up to the corporate-wide score.
 - c. Please provide the FY 2015 and FY 2016 performance indicator results at the Area and District levels for the Deliver High-Quality Service, Provide Excellent Customer Experiences, Ensure a Safe Workplace and Engaged Workforce, and Sustain Controllable Income goals in a similar format and comparable to those provided in Docket No. ACR2015, Responses of the United States Postal Service to Chairman's Information Request No. 13, February 18, 2016, Tables 1.1 and 1.2. Please specify the FY 2016 Area and District performance indicator target if it differed from the FY 2016 corporate-wide target.
 - d. For Area and District-level performance indicator results that declined in FY 2016 as compared to FY 2015, please discuss, by Area and District, the reasons why such results declined and the plans and schedules to meet those targets in FY 2017.

RESPONSE:

- a. Workpapers for FY 2016 scorecards can be found in the electronically-attached spreadsheet “ChIR.19.Q.1.FY16 Indicators TWD”. The NPA composite or overall score for a unit is computed by adding 60 percent of the Corporate score and 40 percent of the Unit score. There are different combinations of performance indicators, weights and depths of measurement based on the unit type; therefore, the individual scores do not roll up to a corporate-wide score.
- b. Workpapers for FY 2017 scorecards can be found in the electronically-attached spreadsheet “ChIR.19.Q.1.FY17 Indicators TWD”. The NPA composite or overall score

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

for a unit is computed by adding 60 percent of the Corporate score and 40 percent of the Unit score. There are different combinations of performance indicators, weights and depths of measurement based on the unit type; therefore, the individual scores do not roll up to a corporate-wide score.

c. Area- and District-level performance indicator results for FY 2016 and FY 2015 can be found in the electronically-attached spreadsheet "ChIR.19.Q.1.FY15.16 Corplndic Comp." The Area and District targets are the same as the corporate-wide target.

d. Area- and District-level performance indicator results that declined in FY 2016 as compared to FY 2015 (where such a comparison is possible) are identified in the materials provided in response to subpart (c) of this question and are highlighted in gray shading in the FY 2016 entry. Indicators that were measured and weighted in either FY 2015 or FY 2016, but not both, appear on a separate tab with the Area and District ranked by performance scores.

The Postal Service presently has no basis to answer the Commission's inquiry about Areas and Districts experiencing declines in FY 2016 performance indicator results. Any attempt to develop such an explanation, or to obtain plans and schedules to meet new FY 2017 targets at the individual Area and District level, would require extensive consultation with individual field sites.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

3. The Postal Service states that strong package growth caused work hours to increase significantly during FY 2016. FY 2016 *Annual Report* at 22. It states, “[t]hese additional hours are earned from volume and are now accounted for within the DPH equation by removing them from the denominator to compare years strictly on a productivity basis.” *Id.*
- a. Please provide the data source(s) and workpapers showing the derivation of the “additional hours earned from volume.”
 - b. The Postal Service provided Deliveries per Work Hour (DPWH) data in a CHIR response.¹ Please refer to the “YTD Total Workload Volume Workhours” row in the “FY 16 Actual” and “FY 17 Target” tables. Please explain how the “additional hours earned from volume” resulted in the “YTD Total Workload Volume Workhours” for the FY 2016 actual (18 million) and FY 2017 target (2 million). In the response, please explain why the FY 2016 actual “YTD Total Workload Volume Workhours” (18 million) differs significantly from the FY 2017 target (2 million).

RESPONSE:

- a. The workpaper showing the derivation of “additional hours earned from volume” is filed under seal as part of USPS-FY16-NP44, with the file name “Q3a FY16 Q4 Earned Hrs.xls” The general methodology applied in that worksheet to derive additional hours earned from volume is to cost out the impact of incremental volume (year over year) by category, and convert the aggregate cost impact to workhours. Volumes by category come from the Revenue Pieces and Weight (RPW) report for current year and prior year. The Postal Service subtracts prior year volume from current year volume, and the incremental increase or decrease for every mail category is multiplied by the corresponding average unit cost per piece coming from the Cost and Revenue Analysis Report (CRA). The cost impacts of the volume changes are

¹ See Responses of the United States Postal Service to Questions 1 and 11 of Chairman's Information Request No. 14, February 10, 2017, question 11 (Responses to CHIR No. 14).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

aggregated across all categories, the aggregate additional volume impact is added to the network growth impact, and the resulting dollar figure is converted to workhours at the average compensation rate. Supplementing this general approach, however, are additional workhours specifically related to the growth of certain NSAs that are handled outside the normal costing systems. The year-over-year workload growth in these NSAs is added to that calculated above for other volume growth and network growth, as shown in the Excel spreadsheet filed under seal.

b. The "YTD Total Workload Volume Workhours" are essentially the "additional hours from volume" and those expected from delivery network expansion. As explained in response to part a. of this question, the Postal Service calculates the workhours due to increased or decreased volume in each mail category by multiplying the incremental volume (year over year) by the appropriate unit cost per piece, converting the aggregate cost amount to workhours, and supplementing with additional workhour impact from specific NSAs. For FY 2016, these hours from volume (and network growth) totaled 18M, but are projected to be only 2M in FY 2017. In FY 2016, the Postal Service experienced significant parcel growth (including NSAs), with that growth offset in part by non-parcel volume declines. The net weighted workload impact for FY 2016 versus FY 2015 was worth 18M hours. In other words, 18M of the roughly 30M hours that the Postal Service grew from FY 2015 to FY 2016 were directly due to the additional weighted volume impact or network growth, and should not be counted against productivity (and are therefore removed from the denominator). The FY 2017 volume forecast by category, however, drove a much smaller planned incremental workload for

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

FY 2017 over FY 2016. Packages are still planned to grow, but the offset from non-parcel mail is expected to be relatively larger, and the net impact is only 2M workhours.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

4. The following questions relate to the DPWH performance indicator.
- a. Please confirm that the DPWH results for fiscal years 2013 (41.60), FY 2014 (42.00), and FY 2015 (41.50) were calculated using the same methodology. See FY 2016 *Annual Report* at 15. If not confirmed, please explain.
 - b. The Postal Service states that in FY 2016, DPWH increased by 0.1 percent. FY 2016 *Annual Report* at 22. The Postal Service appears to have calculated this result using FY 2016 "YTD Adjusted Total Workhours" (1,139,564,088) instead of FY 2016 "YTD Total Workhours" (1,157,564,088).² As a result, 18 million workhours were removed from the denominator. By comparing the seemingly more comparable inputs ("Total Workhours") in the "September YTD FY 16" and "September YTD FY 15" tables, it would appear that in FY 2016, the DPWH calculated rate decreased (*i.e.*, FY 2016 DPH was 40.9 versus the FY 2015 DPH of 41.5), rather than increased. See Responses to CHIR No. 14, question 11, "Deliveries Per Work Hour Data." Please explain why the Postal Service believes that DPWH increased in FY 2016 given that the FY 2016 and FY 2015 workhours used in the denominators of the FY 2016 and FY 2015 DPWH rates were not comparable.
 - c. Please refer to the "Deliveries Per Work Hour Data" tables provided in the Responses to CHIR No. 14, question 11.
 - i. Please specify the source(s) and input(s) and show the derivation of the FY 2015 to FY 2017 "YTD Adjustment to Delivery Days."
 - ii. Please specify the source(s) and input(s) and show the derivation of the FY 2016 and FY 2017 "YTD Total Workload Volume Workhours."
 - d. Please refer to the tables in the Responses to CHIR No. 14, question 11, and show which inputs were used and the calculation steps for the FY 2017 Deliveries per Total Work Hours % SPLY target result.³

RESPONSE:

- a. Confirmed. DPWH results for FY 2013-2015 were calculated using the same methodology across all three years, but without the workload adjustment

² See Responses to CHIR No. 14, question 11.

³ The "FY17 TARGET" table lists the YTD Actual DPH in the "FY17 Plan" column as 41.2, and the "FY 16 ACTUAL" table lists the "YTD Actual DPH" as 41.6.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

associated with volume growth that was instituted in FY 2016. The prior methodology was simply delivery days multiplied by all delivery points, divided by total hours.

b. The intent of the DPTWH metric is to measure how many hours are being used to service the Postal Service's delivery point network. In FY 2016, the Postal Service changed the formula to account for the fact that, as the weighted volume impact (from all categories, as described in response to question 3 of this Information Request) increases, more hours are going to be spent delivering that mail. Since packages have grown significantly, hours have also increased accordingly. The new formula takes out the amount of incremental hours (year-over-year growth) that are associated with the volume impact, to obtain a pure comparison of year-over-year deliveries per total workhour. Otherwise, any growth in volume that adds workhours would result in a decreased productivity measurement. After removing the portion of the workhour growth that was due to volume impact, the remaining hours are used in the formula to calculate the DPTWH number and, eventually, the %SPLY comparison. Therefore, the Postal Service believes that the new methodology, with the additional volume impact included, is a necessary improvement over the previous methodology, in which such relevant developments were ignored.

The question, however, does not necessarily seem to challenge the validity of the improvement, but rather seems to inquire whether a valid comparison still can be made between the FY 2015 result based on the old methodology without any adjustment, and the FY 2016 result based on the new methodology with the adjustment. Such an inquiry, however appears to be based on a misapprehension of the new methodology. The new methodology takes account of changes in mail volume and mail volume mix

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

(collectively, the volume profile) specifically between the baseline year (in this instance, FY 2015) and the subsequent year (in this instance, FY 2016). It thus allows a valid productivity comparison between those two years.

The question, though, seems rooted in the fact that adjustment in the denominator is only applied to the subsequent year, FY 2016. That is to say, in the table provided in the response to Question 11 of ChIR No. 14, the only denominator adjustment is on the left-hand (FY16 Actual) side (with a corresponding "N/A" entry on the right-hand (FY15) side). As a practical matter, however, it does not matter where the adjustment to account for changes in the volume profile between these two years appears in the calculation. To prove this, imagine a thought experiment in which the FY 2015 volume profile and other parameters, instead of being associated with the baseline year, were instead associated with the subsequent year, and the FY 2016 volume profile and other parameters were instead associated with the baseline year. In this counterfactual hypothetical case, in which the chronological order of the two years displayed in the table is reversed, the volume-related workload would have *decreased* moving from the baseline year to the subsequent year. The Workload adjustment (now showing up in the calculations on the right-hand side of the table) would be to add 18 million workhours to the denominator, yielding an Adjusted Total Workhours of 1,145,877,013 and an Actual DPH value of 40.867. However, on the left-hand side of the table, since that side now represents the baseline year, there is no adjustment to apply, the 18 million workhour adjustment disappears, and the row for the Adjusted Total Workhours reverts to 1,157,564,088. This would yield an Actual DPH value of 40.918. Comparing the left-hand side result (40.918) with right-hand side result

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

(40.867), one sees that despite the fact that the adjustment has been made to the FY 2015 side of the table, the FY 2016 Actual DPH value is still higher than the FY2015 Actual DPH value (by roughly the same 0.1 percentage amount as reflected in the tables as displayed in response to Question 11 of ChIR 14). The Postal Service thus believes it is entirely appropriate to draw the conclusion that, after the new methodology appropriately controls for the change in the volume profile between FY 2015 and FY 2016, productivity did improve when comparing those two years.

c.i. As seen in the spreadsheet "Q4ci Sun Deliv Fraction" provided under seal as part of USPS-FY16-NP44, the YTD Adjustment to delivery days is a calculation to account for the fact that in addition to delivering to all delivery points (~156M) Monday through Saturday, the Postal Service also delivers to a smaller subset of those addresses on Sunday. Specifically, the Postal Service determines the number of stops each Sunday (generally associated with a particular NSA), and keeps a cumulative total of stops year to date. It then takes that number and divides by the full year (~156M) delivery points to get a fraction of a delivery day that all the Sundays in that YTD timeframe represent. In FY 2015, that equated to 0.3384 of a full delivery day, and in FY 2016, that equated to 0.5971 of a full delivery day, as Sunday delivery increased over that time period. For FY 2017 planning, we assumed the same level of NSA Sunday delivery as FY 2016.

c.ii. Please see the response to question 3 of this Information Request (and the associated Excel file provided under seal) for the details of the FY 2016 Total Workload Volume Workhours calculations. For FY 2017 planning, please see the response to Question 1 of ChIR No. 14. As can be seen by a comparison within the "FY 17 Target"

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

portion of that response of the YTD Total Workhours row between from FY16 (1,157,564,088) and the FY17 Plan (1,156,564,088), the Integrated Financial Plan called for a reduction of 1M hours from FY 2016. To be sure, a portion of this reduction was due to the expected change in volume profile between the two years. But to a certain extent, this reduction was also driven by the decrease in delivery days (303 in FY 2017 versus 304 in FY 2016), which needs to be accounted for in trying to isolate a pure productivity measure. But for the lower delivery day impact, instead of increasing by 1M hours, the expected FY 2017 workhours (i.e., after netting out the delivery day effect) would have been increasing relative to FY 2016 by 3.3M hours.

In setting the target, therefore, the remaining task was to estimate how much of the anticipated 3.3M hours increase would likely be due to the workload shift. As explained in response to Question 3.b of this Information Request, when comparing FY 2015 and FY 2016, 18M of the roughly 30M hours that the Postal Service grew from FY 2015 to FY 2016 were estimated to be due to the additional weighted volume impact or network growth. The proportion implicit in these figures is 18M over 30M, or 60 percent. Assuming the same 60 percent proportion, and applying it to the 3.3M total estimated for FY 2017, yields a figure of 2M hours as the amount related to the anticipated workload shift. Therefore, for purposes of calculating a realistic productivity target given the IFP parameters, the Postal Service subtracted 2M hours as the Total Workload Volume Workhours.

d. The FY 2017 target for DPTWH % SPLY is an increase of 0.6 percent. All inputs are used. YTD Delivery Days of 303 are added to YTD Adjustment to Delivery

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

Days of 0.5971, resulting in the YTD Adjusted Delivery Days of 303.5971. This figure is multiplied by the YTD possible deliveries of 156,564,088 as the numerator of the equation (47,532,464,407, which is not shown on spreadsheet). The denominator of the equation is the YTD Adjusted Total Workhours of 1,154,564,088, which is the net of YTD Total Workhours of 1,156,564,088 – YTD Total Workload Volume Workhours of 2,000,000. The result of dividing 47,532,464,407 / 1,154,564,088 rounds to 41.2, as seen in YTD Actual DPH (note that this should say “YTD Plan DPH”, since this is calculating the FY 2017 plan). The same math is done on the FY 2016 actual (right-hand) side of the table, except that there is no need to adjust the FY 2016 hours, since the adjustment made to FY 2017 is the year-over-year growth and already accounts for the growth in hours between the two years. The result of that math for FY 2016 rounds to 40.9, and when the FY 2017 number (actual, not rounded) is divided by the FY 2016 number, the percentage growth target of 0.6 percent is obtained. Please note that, when evaluating any two sequential years, the workload adjustment is applied to the current year and not the prior year, and therefore the actual DPH results of one year do not automatically convert to the baseline of the next year.⁴ For this reason, the target is based on %SPLY, after adjusting for Sunday deliveries and hours from workload volume in comparison to the applicable baseline year.

⁴ For example, looking the tables provided in response of Question 11 of ChIR No. 14, the FY16 YTD Actual DPH value of 41.6, obtained when evaluated in the context of an FY 2015 baseline, does not equal the FY16 YTD DPH value of 40.9 obtained when FY 2016 is being applied as the baseline year for FY 2017.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 19**

5. In FY 2016, the Postal Service replaced DPWH with DPTWH % SPLY as a performance indicator for the Sustain Controllable Income goal. FY 2016 *Annual Report* at 15 n.11, 12. Please describe the DPTWH % SPLY performance indicator. In the response, please explain what DPTWH % SPLY measures and provide the formula for calculating results.

RESPONSE:

As described in the responses to Questions 3 and 4 of this Information Request, the DPTWH % SPLY performance indicator measures the change in deliveries per total workhour from one year to another. This was implemented in FY 2016 as a change from the raw DPH score for the year as done in prior years. Also in FY 2016, the Postal Service adjusted the formulas to account for Sunday deliveries in the numerator and the fact that incremental volume was driving workhour growth in the denominator.

To arrive at DPTWH % SPLY, the Postal Service calculates actual and SPLY DPTWH over a specific two-year period, and then calculates the percentage change from one year to the next. The DPTWH scores are based on the formula:

Delivery Days (adjusted for Sunday) X Delivery Points (all) / Total Workhours
(adjusted for those hours earned from the workload content of the incremental volume).

Current year hours are adjusted to reflect the impact from volume growth year over year, but SPLY hours do not need to be adjusted since workload is defined as the change in hours due to changes in inputs such as volumes from one year to the next.