Postal Regulatory Commission
Submitted 3/28/2017 1:29:40 PM
Filing ID: 99644
Accepted 3/28/2017

POSTAL REGULATORY COMMISSION

Annual Compliance Determination Report

Fiscal Year 2016

March 28, 2017

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY 1
A. Principal Findings: Market Dominant Rate and Fee Compliance 1
B. Principal Findings: Market Dominant Noncompensatory Products 2
C. Principal Findings: Competitive Products Rate and Fee Compliance 3
D. Principal Findings: Service Performance and Customer Access 3
E. Principal Findings: Flats Cost and Service Issues 4
Chapter 1: INTRODUCTION 5
A. Statutory Context 5
B. Timeline and Review of Report 6
C. Focus of the ACR 6
D. Other Reports 6
E. Commission Responsibilities 6
F. Procedural History 7
G. Methodology Changes 8
H. Attributable Costs in FY 2016 ACD 8
I. Product Analysis 8
J. Service Performance 9
K. Confidentiality 9
L. Requests for Additional Information 9
CHAPTER 2: MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS 10
A. Introduction 10
B. The Class-Level Price Cap 10
C. Workshare Discounts 10
1. First-Class Mail 11
2. Periodicals 16
3. Standard Mail 23
4. Package Services 36
D. Preferred Rate Requirements 41
Chapter 3: MARKET DOMINANT PRODUCTS: OTHER RATE AND FEE COMPLIANCE ISSUES 42
A. Introduction 42
B. Noncompensatory Products 42
1. Periodicals 42
2. Standard Mail Flats 48
3. Standard Mail Parcels 57

4. Stamp Fulfillment Services 59
5. Money Orders 60
6. Collect on Delivery 61
7. Stamped Envelopes 62
8. Market Dominant International Mail 63
9. Media Mail/Library Mail 70
C. Domestic Market Dominant NSAs 71
D. Nonpostal Services 74
E. Other Issues 75
1. Metered Letter Prices 75
2. First-Class Mail Product Cost Coverage Disparity 76
3. Discount for Automation 5-Digit Letters 76
CHAPTER 4: COMPETITIVE PRODUCTS 78
A. Introduction 78
B. Cross-Subsidy Provision: 39 U.S.C. § 3633(a)(1) 79
C. Product Cost Coverage Provision: 39 U.S.C. § 3633(a)(2) 80
1. Competitive Domestic Products with Rates of General Applicability. 80
2. Competitive Domestic Products Consisting of NSAs 81
3. Competitive International Products with Rates of General Applicability 83
4. Competitive International Products Consisting of NSAs 84
5. Competitive Nonpostal Services 88
D. Appropriate Contribution Provision: 39 U.S.C. § 3633(a)(3) 88
CHAPTER 5: SERVICE PERFORMANCE 90
A. Service Performance Results 90
1. Introduction 90
2. Measurement Systems 91
3. Analysis of FY 2015 Commission Directives and Postal Service Response (First-Class Mail Single-Piece Letters/Postcards) 100
4. FY 2016 Service Performance Results by Class 129
5. Other Issues 146
B. Customer Access 147
1. Introduction 147
2. Retail Facilities 148
3. POStPlan 149
4. Suspensions 149
5. Delivery Points 151
6. Collection Boxes 152

7. Wait Time in Line 152
8. Alternative Access 153
C. Customer Satisfaction with Market Dominant Products 154
1. Background 154
2. Comments 156
3. Commission Analysis 156
CHAPTER 6: FLATS COST AND SERVICE ISSUES 158
A. Introduction 158
B. Commission Directive 158
C. Postal Service Responses 159
1. General Information 159
2. Pinch Point Specific Information 161
D. FY 2016 Results 164
1. Bundle Processing 165
2. Low Productivity on Automation Equipment 165
3. Manual Sorting 166
4. Productivity and Service Issues in Allied Operations 167
5. Increased Transportation Time and Cost 168
6. Last mile/delivery 168
E. Comments 169
F. Commission Analysis and Next Steps 170

Appendix A—Key Commission Findings and Directives Requiring Postal Service Action for Annual Compliance Reports
Appendix B—Commenters 2016 *Annual Compliance Determination*
Appendix C—Acronyms and Abbreviations

EXECUTIVE SUMMARY

This report reviews the Postal Service's performance in Fiscal Year (FY) 2016, fulfilling the Commission's responsibility to produce an annual assessment of Postal Service rates and service mandated by Title 39, section 3653, of the United States Code. It is based on information the Postal Service is required to provide within 90 days after the close of the fiscal year and on comments subsequently received from the public. Specific Commission findings and directives are identified in italics in each chapter.

Consistent with the approach adopted in past years, the *Annual Compliance Determination* focuses on compliance issues as defined in 39 U.S.C. §§ 3653(b)(1) and (b)(2). These statutory subsections require the Commission to make determinations on whether any rates and fees in effect during FY 2016 were not in compliance with chapter 36 of Title 39 of the United States Code and whether any service standards in effect during FY 2016 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2015-4 without the exigent surcharge approved in Docket No. R2013-11 for Market Dominant products, and all the rates in effect during FY 2016 for Competitive Products.

The financial analysis that had been incorporated in ACDs prior to 2013 is expanded in the *Financial Analysis of United States Postal Service Financial Results and 10-K Statement 2016*. The Commission will also issue a separate report on the Postal Service's FY 2016 *Annual Performance Report* and FY 2017 *Performance Plan* to fulfill its statutory responsibilities under 39 U.S.C. § 3653(c).

A. Principal Findings: Market Dominant Rate and Fee Compliance

In Chapter 2, the Commission identifies compliance issues related to 48 workshare discounts, finding that 21 of the discounts did not comply with section 3622(e). Workshare discounts that exceed avoided costs adversely affect Postal Service finances because they incentivize mailers to perform worksharing that the Postal Service could have done on a less costly basis.

- For 5 of the 21 workshare discounts that were not in compliance with section 3622(e), the prices approved in Docket No. R2017-1 align the discounts with avoided costs or eliminate the discount; therefore, no further action is required.
- For the 16 workshare discounts remaining out of compliance with section 3622(e), the Postal Service must either align workshare discounts with avoided costs in the next Market Dominant price adjustment or specify an applicable statutory exception.

Additionally, for the Periodicals class, the Commission finds that the Postal Service meaningfully addressed the FY 2015 ACD directives to report on the cost and contribution impact of worksharing incentives offered for 5-Digit and Carrier Route presortation and progress in improving pricing efficiency. The Commission directs the Postal Service to continue reporting on Periodicals pricing issues in its FY 2017 ACR.

B. Principal Findings: Market Dominant Noncompensatory Products

In Chapter 3, the Commission identifies 11 noncompensatory Market Dominant products: Periodicals In-County, Periodicals Outside County, Standard Flats, Standard Parcels, Media Mail/Library Mail, Inbound Letter Post, Stamp Fulfillment Services, Money Orders, Collect on Delivery, Stamped Envelopes, and the Market Dominant negotiated service agreement (NSA) with PHI Acquisitions, Inc. (PHI).

With respect to Periodicals In-County, Periodicals Outside County, and Standard Mail Flats, the Commission finds that additional transparency is necessary to hold the Postal Service accountable. The Commission will initiate a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues.

For the Special Services products: Money Orders, Collect on Delivery, and Stamped Envelopes, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2017. The Postal Service must investigate the accuracy of the costing methods for these products. For Money Orders and Stamped Envelopes the Postal Service must also improve cost coverage through above average price increases in future Market Dominant price adjustments.

For Inbound Letter Post, the Commission recommends that the Postal Service continue to pursue compensatory Universal Postal Union (UPU) terminal dues and pursue bilateral agreements with foreign postal operators that result in an improved financial position for the Postal Service. The Postal Service used a methodology for the International Cost and Revenue Analysis (ICRA) that was not previously approved by the Commission. If the Postal Service intends to use this methodology in its FY 2017 ACR, it should file the proposed methodology in a rulemaking proceeding.

For the PHI NSA, the Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 2. The Commission directs the Postal Service to report on its forecast for the remainder of the PHI NSA within 90 days of the issuance of this ACD.

For the remaining noncompensatory products, the Commission finds that the Postal Service is taking appropriate steps to improve cost coverage.

C. Principal Findings: Competitive Products Rate and Fee Compliance

In Chapter 4, the Commission finds that revenues for 16 Competitive products did not cover attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2). The Competitive products that did not cover attributable costs are: the non-NSA portion of Parcel Return Service, 13 domestic NSAs, Inbound Air Parcel Post (at non-UPU Rates), and International Money Transfer Service—Inbound (IMTS—Inbound). The Commission directs the Postal Service to take corrective action, including reporting on an investigation of cost estimates, reporting on the status of contract negotiations, and recommends seeking authority to terminate or renegotiate agreements.

D. Principal Findings: Service Performance and Customer Access

In Chapter 5, the Commission finds that the majority of products failed to meet their service performance targets for FY 2016. The Commission also notes its ongoing concern with the increasing number of facilities under suspension.

- The Postal Service met its service performance targets for Standard Mail High Density and Saturation Letters, Standard Mail Parcels, Bound Printed Matter Parcels, Media Mail/Library Mail, and most Special Services products.
- Service performance results for all First-Class Mail products, both Periodicals products, most products in Standard Mail, Bound Printed Matter Flats, and Post Office Box Service did not meet their targets despite Postal Service initiatives to improve performance.
- The number of facilities under suspension increased by 56 from the end of FY 2015 to the end of FY 2016.

In the FY 2015 ACD, the Commission directed the Postal Service to provide an explanation in its FY 2016 ACR identifying specific efforts targeted to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2016. Additionally, the Postal Service was directed to provide a detailed, comprehensive plan to improve service performance for First-Class Mail Single-Piece Letters/Postcards. The Commission requests that the Postal Service provide additional transparency by reporting specific information on First-Class Mail Single-Piece Letters/Postcards metrics within 90 days of the issuance of this report and as part of its FY 2017 ACR.

The Commission continues to note its concern with the growing number of postal retail facilities under suspension. The Commission requires that the Postal Service significantly reduce the number of suspended facilities in FY 2017and provide updated information after the close of each fiscal quarter.

E. Principal Findings: Flats Cost and Service Issues

In Chapter 6, the Commission finds that it does not appear that the Postal Service has a comprehensive plan to measure, track, and report flats cost and service issues. Given the continued decline of cost coverage, and service performance issues, the Commission finds additional transparency is necessary in these areas to hold the Postal Service accountable. Accordingly, the Commission will initiate a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Using the information provided by the Postal Service thus far and soliciting comments from interested parties, the Commission will develop potential data enhancements and consistent reporting requirements that will be used to measure, track, and report the cost and service performance issues concerning flats. The Commission anticipates that the data enhancement and consistent reporting will lead to the development of measurable goals to decrease the costs and improve the service of flats.

CHAPTER 1: INTRODUCTION

A. Statutory Context

Two sections of Title 39 of the United States Code (U.S.C.), as amended by the Postal Accountability and Enhancement Act (PAEA),[1] require ongoing, systematic reports and assessments of the financial and operational performance of the Postal Service. The first provision, 39 U.S.C. § 3652, requires the Postal Service to file certain annual reports with the Commission, including an Annual Compliance Report (ACR). *See* 39 U.S.C. § 3652(a). The second provision, 39 U.S.C. § 3653, requires the Commission to review the Postal Service's annual reports and issue an Annual Compliance Determination (ACD) regarding whether rates were not in compliance with applicable provisions of Title 39 and whether any service standards were not met. 39 U.S.C. § 3653(b). Together, these provisions establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service.

The Commission has once again decided to report separately on the Postal Service's financial condition and its performance plans and program performance.[2] It will issue both its financial analysis and its analysis of the performance plans and program performance, required by 39 U.S.C. § 3653(d), in the second quarter of 2017. This ACD focuses on the requirements of §§ 3653(b)(1) and (b)(2).[3]

For regulations governing rates and fees, Congress divided mail categories and services between Market Dominant and Competitive products. For Market Dominant products, §§ 3622 and 3626 of Title 39 are relevant for rates and fees; § 3633 is relevant for Competitive products.

In Chapter 2, the Commission evaluates the workshare discounts for Market Dominant products to determine compliance with 39 U.S.C. § 3622(e). Chapter 2 also includes a discussion about the preferred rate requirements and the price cap. Chapter 3 focuses on other compliance issues related to Market Dominant products' rates and fees. Chapter 4 covers compliance issues related to the rates and fees of Competitive products. In Chapter 5, the Commission discusses service performance, customer access, and customer satisfaction.

Just as in Chapter 6 of the FY 2015 ACD, the Commission discusses cost and service issues for flat-shaped mailpieces (flats).

---

[1] Pub. L. 109-435, 120 Stat. 3198 (2006).

[2] *See* Notice and Order Regarding the Postal Service FY 2016 *Annual Performance Report* and FY 2017 *Performance Plan*, January 3, 2017 (Order No. 3718).

[3] The Commission addresses only rates and fees that have been challenged by commenters, or otherwise present compliance issues.

There are three appendices to this ACD. Appendix A provides the status of Commission-directed actions from past ACDs and new Commission-directed undertakings in this ACD. Appendix B contains a list of Commenters. Appendix C contains an index of acronyms and abbreviations.

B. Timeline and Review of Report

The Postal Service is required to file the ACR no later than 90 days after the end of each fiscal year (*i.e.*, 90 days after September 30). The Commission is required to complete the ACD within 90 days of receiving the ACR. The Postal Service filed the FY 2016 ACR on December 29, 2016; thus, the Commission must issue this ACD no later than March 28, 2017.

C. Focus of the ACR

In accordance with 39 U.S.C. § 3652, the ACR must provide analyses of costs, revenues, rates, and quality of service sufficient to demonstrate that during the reporting year all products complied with all applicable requirements of Title 39. Additionally, for Market Dominant products, the Postal Service must include product information, mail volumes, and measures of quality of service, including the speed of delivery, reliability, and the levels of customer satisfaction. For Market Dominant products with workshare discounts, the Postal Service must report the per-item cost it avoided through the worksharing activity performed by the mailer, the percentage of the per-item cost avoided that the workshare discount represents, and the per-item contribution to institutional costs. 39 U.S.C. § 3652(b).

D. Other Reports

In conjunction with filing the ACR, the Postal Service must also file its most recent *Comprehensive Statement on Postal Operations*, its *Performance Plan*, and program *Performance Reports*. 39 U.S.C. § 3652(g).

E. Commission Responsibilities

Upon receipt of the ACR, the Commission provides an opportunity for public comment on the Postal Service's submissions. 39 U.S.C. § 3653(a). The Commission is responsible for making a written determination as to whether any rates or fees were not in compliance with applicable provisions of chapter 36 of Title 39 or related regulations, and whether any service standards were not met. 39 U.S.C. § 3653(b). If the Commission makes a timely written determination of non-compliance, it is required to take such action as it deems appropriate. 39 U.S.C. § 3653(c).

F. Procedural History

On December 29, 2016, the Postal Service filed its FY 2016 ACR, covering the period from October 1, 2015, through September 30, 2016.[4] The ACR included an extensive narrative and a substantial amount of detailed public and non-public information contained in library references. The library references include the Cost and Revenue Analysis (CRA), the International Cost and Revenue Analysis (ICRA), cost models supporting workshare discounts, and volume information presented in billing determinants. Library Reference USPS-FY16-9, December 29, 2016, summarizes the other materials included in the ACR, and contains a list of special studies and a discussion of obsolescence[5] in response to § 3050.12 of Title 39 of the Code of Federal Regulations (C.F.R.).

The Postal Service concurrently filed its 2016 *Annual Report* and *Comprehensive Statement on Postal Operations* as part of Library Reference USPS-FY16-17, December 29, 2016, to the FY 2016 ACR.[6] It also filed its *Annual Report* to the secretary of the U.S. Department of the Treasury regarding the Competitive Products Fund, as required by 39 U.S.C. § 2011(i), as part of Library Reference USPS-FY16-39, December 29, 2016.

On December 30, 2016, the Commission issued an order establishing Docket No. ACR2016 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing February 2, 2017 and February 13, 2017, as the deadlines for comments and reply comments, respectively.[7]

---

[4] United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016 (FY 2016 ACR). The Postal Service made nine further filings that revise the FY 2016 ACR and selected Library References. Notice of the United States Postal Service of Filing of Revised Page of Attachment Two to the FY 2016 Annual Compliance Report -- Errata, January 9, 2017; Notice of the United States Postal Service of Filing of Revised Version of USPS-FY16-NP27 -- Errata, January 11, 2017; Notice of the United States Postal Service of Filing of Replacement Disks for USPS-FY16-NP3 and USPS-FY16-NP6 -- Errata, January 11, 2017; Notice of the United States Postal Service of Filing of a Revised Version of USPS-FY16-NP2 -- Errata, January 19, 2017; Notice of the United States Postal Service of Filing of Revised Annual Compliance Report Pages -- Errata, January 25, 2017 (January 25, 2017 Errata); Second Notice of the United States Postal Service of Filing of Revised Annual Compliance Report Pages -- Errata, January 31, 2017; Notice of the United States Postal Service of Filing of Revised Versions of USPS-FY16-NP3, USPS-FY16-NP4 and USPS-FY16-NP9 -- Errata, February 2, 2017; Notice of the United States Postal Service of Filing of a Revised Version of USPS-FY16-NP5 and a Further Revised Version of USPS-FY16-NP2 -- Errata, February 3, 2017; Third Notice of the United States Postal Service of Filing of Revised Annual Compliance Report Pages – Errata, March 6, 2017 (March 6, 2017 Errata). Unless otherwise noted, references to the Postal Service's FY 2016 ACR are to its ACR, as revised.

[5] Here, obsolescence refers to studies that may be outdated (*e.g.*, a study may not reflect current operating conditions and procedures).

[6] 2016 *Annual Report* and Comprehensive *Statement of Postal Operations*, December 29, 2016. Included as parts of Library Reference USPS-FY16-17 are the Postal Service's FY 2016 *Annual Performance Report* and its FY 2017 *Performance Plan*.

[7] Order No. 3717, Notice of Postal Service's Filing of *Annual Compliance Report* and Request for Public Comments, December 30, 2016; *see also* 82 FR 1764 (January 6, 2017). On January 3, 2017, the Commission established separate comment dates for the Postal Service's FY 2016 *Performance Report* and FY 2017 *Performance Plan*. *See* Order No. 3718.

G. Methodology Changes

The FY 2016 ACR generally employs the methodologies used most recently by the Commission.[8] In this ACR proceeding, the Postal Service relies upon two approved changes.[9]

In addition, the Commission posts the most current workshare cost avoidance models on its website.[10] Those models were used in its preparation of the FY 2016 ACD.

H. Attributable Costs in FY 2016 ACD

In Order No. 3506, the Commission expanded the scope of attributable costs, which was previously described as the sum of volume-variable costs and product-specific fixed costs, to include those inframarginal costs calculated as part of a product's incremental costs.[11] In effect, this expands the scope of attributable costs to the level of incremental costs. Incremental costs are the costs avoided by not providing a class or product of mail, and these costs are higher than the previous definition of attributable costs.[12] In the FY 2016 ACR, the Postal Service reported product-level incremental costs, though it experienced challenges developing incremental costs for International Mail, certain Standard Mail products, and Negotiated Service Agreements (NSAs). FY 2016 ACR at 7-10. As part of its FY 2016 ACD and pursuant to Order No. 3506, the Commission will be using incremental costs as its calculations of attributable costs, and will use incremental costs in determining cost coverage compliance. Any fiscal year (FY) 2016 cost figures reported in this document are based on the expanded definition of attributable costs.[13] In addition, the Commission will provide directives related to incremental costs, and are discussed in further detail in the chapters below.

I. Product Analysis

The Postal Service provides an analysis of each Market Dominant product, including special services, and domestic and international NSAs active during FY 2016. This analysis includes a discussion of workshare discounts and passthroughs for Market Dominant

---

[8] *See* FY 2016 ACR at 3-9.

[9] *Id.* at 10. Both methodologies were approved prior to the filing of the FY 2016 ACR. *Id.* In addition, the Postal Service used an unapproved methodology in International Mail. In response to CHIR No. 5, the Postal Service changed the methodology to calculate inbound international mail costs, aggregating costs that were previously split by groups of countries because of a lack of sufficient In-Office Cost System tallies. Response to CHIR No. 5, question 3. This change is discussed in greater detail in Chapter 3.

[10] *See* directory of Commission workshare cost avoidance models (available at: *https://www.prc.gov/sites/default/files/FY%202015%20Workshare%20Cost%20Model%20Directory%2003.31.2016.pdf*).

[11] *See* Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals, One, Two and Three, September 9, 2016 (Order No. 3506). *See also* Docket No. RM2016-2, Notice of Errata, October 19, 2016.

[12] *See id.* Appendix A.

[13] Cost figures for previous years are based on the previous definition of attributable costs (the sum of volume-variable costs and product-specific fixed costs). In addition, because the cost pools for NSAs and International Mail are insufficient to develop Incremental Costs, any costs reported for NSAs and International Mail continue to be based on the sum of volume-variable costs and product-specific fixed costs.

products, required by 39 U.S.C. § 3652(b). The Postal Service also provides data for Competitive products and discusses the data with reference to standards under 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. Last, the Postal Service discusses four Competitive market tests conducted in FY 2016.[14]

J. Service Performance

The ACR also included information regarding service performance, customer satisfaction, and consumer access, as required under 39 U.S.C. § 3652(a)(2) and 39 C.F.R. part 3055.

K. Confidentiality

Commission rules require the Postal Service, when it files non-public materials with the Commission, to simultaneously file an application for non-public treatment. 39 C.F.R. § 3007.20. The application for non-public treatment must clearly identify all non-public materials and fulfill the burden of persuasion that the materials should be withheld from the public by showing that the information is commercially sensitive and by identifying the nature, extent, and likelihood of commercial harm that would result from disclosure. The ACR included such an application with respect to certain Competitive products.

L. Requests for Additional Information

Twenty-nine Chairman's Information Requests (CHIRs) were issued with respect to the ACR from January 3, 2017, to March 24, 2017. The Postal Service responded to the CHIRs, often filing supplemental information in support of the responses.[15]

[14] FY 2016 ACR at 91.

[15] Several of the Postal Service's CHIR responses were accompanied by motions requesting late acceptance. *E.g.,* Motion of the United States Postal Service for Late Acceptance of Its Responses to Questions 14 and 20-22 of Chairman's Information Request No. 3, January 18, 2017. Each of the Postal Service's motions for late acceptance is granted.

CHAPTER 2: MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

A. Introduction

The PAEA introduced three pricing requirements for Market Dominant products: a class-level price cap based upon changes in the consumer price index for all urban consumers (CPI-U), 39 U.S.C. § 3622(d)(2)(A), a cap on workshare discounts, *id.* § 3622(e)(2), and a cap on preferred rates, *id.* § 3626 (a)(4)-(7). Chapter 2 discusses these requirements.

B. The Class-Level Price Cap

The Postal Service did not initiate a major Market Dominant price adjustment during FY 2016.[16] Additionally, the prices in effect for part of FY 2016 included the exigent surcharge. It is not possible to analyze only the impact of CPI-U price changes for the period where the exigent surcharge is in effect. For this reason, this ACD does not contain an empirical analysis of the price cap.[17]

C. Workshare Discounts

Workshare discounts provide reduced prices for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform. These discounts are based on the estimated avoided costs that result from the mailer performing the activity instead of the Postal Service. 39 U.S.C. § 3622(e)(2) directs the Commission to ensure that workshare discounts do not exceed the costs the Postal Service avoids as a result of the worksharing activity. The statute provides four exceptions to this requirement. *See* 39 U.S.C. §§ 3622(e)(2)(A) through (D).

The Commission analyzes discounts to determine whether they comply with applicable statutory provisions. 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 2016. The prices in effect in FY 2016 were the prices approved in Docket No. R2015-4 and included the exigent surcharge through April 10, 2016. The discounts evaluated for compliance are the Docket No. R2015-4 prices without the exigent surcharge. Workshare discounts that were not

[16] The Commission approved two Market Dominant price adjustments in FY 2016. *See* Docket Nos. R2016-2 and R2016-5. Both dockets involved promotional prices.

[17] In past ACDs, the Commission has analyzed price changes by comparing the percentage change in rates for each class weighted according to two different sets of billing determinants–the historical, pre-implementation billing determinants and the post-implementation billing determinants for the first full year that the rates had been in effect. *See, e.g.*, Docket No. ACR2012, *Annual Compliance Determination* (Revised May 7, 2013), May 7, 2013, Appendix A (Empirical Review of Price Cap Application) (FY 2012 ACD).

greater than the associated avoided costs were in compliance for FY 2016.[18] Although passthroughs below 100 percent are lawful, they send inefficient pricing signals to mailers. Passthroughs set as close as possible to 100 percent promote efficiency, lower the total combined costs for mailers and the Postal Service, and encourage the retention and growth of the Postal Service's most profitable products.

The Public Representative comments that the Commission should require the Postal Service to improve the substance of its justifications under the statutory exceptions which allow greater than 100 percent passthroughs.[19] He states that "it appears that the Postal Service often abuses this temporary status by reusing the same exceptions year-after-year for the same product categories," and highlights the rate shock exception in particular. *Id.* He suggests that the Postal Service submit a plan detailing how it intends to bring excessive passthroughs under 100 percent. *Id.* The Postal Service addresses the Public Representative's comments by noting improvement in passthroughs in Docket No. R2017-1, and reiterating its goal of continued improvement.[20]

The sections below are organized by class of mail and review workshare discounts that are greater than the avoided costs associated with the discounts.

1. First-Class Mail

Seven First-Class Mail workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2016. These seven workshare discounts are in the Presorted Letters/Cards and Flats products.

a. Presorted Letters/Cards

The following four workshare discounts for Presorted Letters/Cards exceeded avoided costs in FY 2016:

- Automation automated area distribution center (AADC) Letters
- Automation Mixed AADC Cards
- Automation AADC Cards
- Automation 5-Digit Cards

Each is discussed below. All remaining discounts offered for Presorted Letters/Cards were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2016. Table II-1 shows the discounts for the Presorted Letters/Cards product for FY 2016.

[18] The difference between the workshare discount and the avoided cost is referred to as the passthrough. Passthroughs above 100 percent indicate discounts that are greater than avoided costs. Passthroughs below 100 percent indicate discounts that are below avoided costs.

[19] Public Representative Comments, February 2, 2017, at 45 (PR Comments).

[20] Reply Comments of the United States Postal Service, February 13, 2017, at 5-8 (Postal Service Reply Comments).

Table II-1
First-Class Presorted Letters/Cards
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
First-Class Mail Automation Letters: Barcoding & Presorting			
Automation Mixed AADC Letters (Metered Letters)	4.6	5.8	79.3%
Automation AADC Letters (Automation Mixed AADC Letters)	2.0	1.8	111.1%
Automation 3-Digit Letters (Automation AADC Letters)	0.0	0.5	0.0%
Automation 5-Digit Letters (Hybrid Automation AADC/3-Digit Letters)	2.3	3.4	67.6%
First-Class Mail Non-automation Letters: Barcoding			
Non-automation Presort Letters (Metered Letters)	1.3	7.1	18.3%
First-Class Mail Automation Cards: Barcoding & Presorting			
Automation Mixed AADC Cards (Non-automation Presort Cards)	1.1	0.6	183.3%
Automation AADC Cards (Automation Mixed AADC Cards)	0.9	0.6	150.0%
Automation 3-Digit Cards (Automation AADC Cards)	0.0	0.1	0.0%
Automation 5-Digit Cards (Hybrid Automation AADC/3-Digit Cards)	1.3	1.1	118.2%

Source: Library Reference PRC–LR–ACR2016/3.

(1) Automation AADC Letters

The discount for Automation AADC Letters was 111.1 percent of avoided cost. FY 2016 ACR at 15. The Postal Service states it aligned the discount with the FY 2015 avoided cost in Docket No. R2017-1. However, because the cost avoidance decreased in FY 2016, the passthrough now exceeds 100 percent. *Id.* The Postal Service states that it does not provide a statutory reason to justify this excessive passthrough because "[n]o statutory exception exists to address the fact that cost avoidances for each fiscal year are estimated after the end of the fiscal year, and too late to be factored into an annual price change filed before

the new cost avoidances are available." *Id.* The Public Representative states that this passthrough is not in compliance. PR Comments at 46.

The Commission finds that the discount for Automation AADC Letters was not in compliance in FY 2016. The Postal Service must align the discount for Automation AADC Letters with avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

(2) Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards

The discounts for Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards reflected passthroughs of 183.3 percent, 150.0 percent, and 118.2 percent of avoided costs, respectively. FY 2016 ACR at 16, 17. The Postal Service states that it aligned the discounts with the FY 2015 avoided costs in Docket No. R2017-1, but because the cost avoidances decreased in FY 2016, the passthroughs increased above 100 percent. *Id.* at 16-18. The Postal Service notes that when the prices approved in Docket No. R2017-1 takes effect, the passthroughs for Automation Mixed AADC Cards and Automation AADC Cards will decrease, but not below 100 percent. *Id.* at 16-17. The Postal Service states that it does not provide a statutory reason to justify these excessive passthroughs because "[n]o statutory exception exists to address the fact that cost avoidances for each fiscal year are estimated after the end of the fiscal year, and too late to be factored into an annual price change filed before the new cost avoidances are available." *Id.* at 16-18. The Public Representative states that these passthroughs are not in compliance. PR Comments at 46.

The Commission finds that the Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards discounts were not in compliance in FY 2016. The Postal Service must align these discounts with avoided costs in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

b. First-Class Mail Flats

The following three workshare discounts for First-Class Mail Flats exceeded avoided costs in FY 2016:

- Automation area distribution center (ADC) Flats
- Automation 3-Digit Flats
- Automation 5-Digit Flats

All three discounts for Flats were greater than avoided costs and were thus inconsistent with 39 U.S.C. § 3622(e) in FY 2016. Table II-2 shows the discounts for the Flats product for FY 2016.

Table II-2
First-Class Mail Flats
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
First-Class Mail Automation Flats: Barcoding & Presorting			
Automation ADC Flats (Automation Mixed ADC Flats)	8.0	7.3	109.6%
Automation 3-Digit Flats (Automation ADC Flats)	4.0	3.9	102.6%
Automation 5-Digit Flats (Automation 3-Digit Flats)	19.2	11.9	161.3%

Source: Library Reference PRC–LR–ACR2016/3.

(1) Automation ADC Flats and Automation 3-Digit Flats

The discounts for Automation ADC Flats and Automation 3-Digit Flats reflected passthroughs of 109.6 percent and 102.6 percent of avoided costs, respectively. FY 2016 ACR at 18, 19. In Docket No. R2017-1, the Postal Service maintained the passthroughs below 100 percent, based on avoided costs from FY 2015. *Id.* Had the Postal Service aligned the discounts to match the FY 2015 avoided costs in Docket No. R2017-1, the FY 2016 passthroughs would be greater than 109.6 percent and 106.2 percent, respectively. *Id.* at 18-19. The Postal Service states that it does not provide a statutory reason to justify the excessive passthroughs because "[n]o statutory exception exists to address the fact that cost avoidances for each fiscal year are estimated after the end of the fiscal year, and too late to be factored into an annual price change filed before the new cost avoidances are available." *Id.* at 19, 20. The Public Representative states that these passthroughs are not in compliance. PR Comments at 46.

The Commission finds that the discounts for Automation ADC Flats and Automation 3-Digit Flats were not in compliance in FY 2016. The Postal Service must align these discounts with avoided costs in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

(2) Automation 5-Digit Flats

The discount for Automation 5-Digit Flats was 161.3 percent of avoided cost. FY 2016 ACR at 20. The Postal Service contends that the above 100-percent passthrough is justified by the rate shock exception in 39 U.S.C. § 3622(e)(2)(B), due to the volatility of cost avoidance estimates and the 17 percent price increase that would result from aligning the Automation 5-Digit Flats workshare discount with its avoided cost. *Id.* at 20-21. However, it does not explain the adverse effects the increase would have on users of Automation 5-Digit Flats.

See id. The Public Representative demonstrates that the history of this discount does not indicate any progress in phasing out this excessive passthrough, and concludes that the discount is not in compliance. PR Comments at 46-47. The Postal Service counters that the change in discount in Docket No. R2017-1 is evidence of progress. Postal Service Reply Comments at 6.

In its response to CHIR No. 4, the Postal Service committed to reduce this passthrough by at least 5 percentage points in each subsequent Market Dominant price adjustment, contingent on cap availability, operational efficiency, and cost avoidance changes.[21] The Postal Service notes that it does not want to give price increases that are significantly above-average to the most finely presorted flats, and it does not see an opportunity to lower the benchmark price. *Id.* It also notes that the cost avoidance has fluctuated since the advent of the PAEA. *Id.*

The Commission finds that the discount for Automation 5-Digit Flats was sufficiently justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2016. However, the Commission expects the Postal Service to achieve progress in moving this discount toward a 100 percent passthrough in future price increases. In the next Market Dominant price adjustment and each adjustment thereafter, the Postal Service shall implement its proposed plan to reduce this excessive discount by at least 5 percentage points until such time that the discount is equal to avoided cost. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

c. Single Piece Letters/Cards

No workshare discounts for Single Piece Letters/Cards exceeded avoided costs and, therefore, all discounts were consistent with 39 U.S.C. § 3622(e) in FY 2016. Table II-3 shows the discounts for the Single Piece Letters/Cards product for FY 2016.

[21] Responses of the United States Postal Service to Questions 7-9 of Chairman's Information Request No. 4, January 19, 2017, question 7 (January 19, 2017 Responses to CHIR No. 4).

Table II-3
First-Class Single Piece Letters/Cards
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
First-Class Mail Single Piece Letters: Qualified Business Reply Mail Barcoding			
QBRM (Handwritten Reply Mail)	1.4	1.5	93.3%
First-Class Mail Single Piece Cards: Qualified Business Reply Mail Barcoding			
QBRM (Handwritten Reply Cards)	1.4	1.5	93.3%

Source: Library Reference PRC–LR–ACR2016/3.

2. Periodicals

a. Fiscal Year 2016 Periodicals Workshare Discounts

(1) Passthroughs over 100 percent

Two In-County Periodicals workshare discounts and eleven Outside County Periodicals workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2016. Table II-4 identifies these 13 passthroughs.

Table II-4
Periodicals Workshare Discounts Exceeding Avoided Costs[22]

Type of Worksharing	Year End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Outside County			
Presorting			
1. Machinable Non-automation 5-Digit Flats	10.5	9.6	109.4%
2. Saturation	2.3	0.3	766.7%
3. Machinable Automation FSS Flats	16.0	7.5	213.3%
4. Machinable Automation 5-Digit Flats	9.0	8.4	107.1%
5. Non-machinable Non-automation 3-Digit/SCF Flats	10.7	4.3	248.8%
6. Non-machinable Non-automation 5-Digit Flats	14.3	8.4	170.2%
7. Non-machinable Automation 3-Digit/SCF Flats	8.8	4.0	220.0%
8. Non-machinable Automation 5-Digit Flats	13.7	8.5	161.2%
Presorting Automation Letters			
9. Automation ADC Letters	3.7	1.4	264.3%
10. Automation 3-Digit Letters	2.0	0.5	400.0%
11. Automation 5-Digit Letters	6.8	2.5	272.0%
In-County			
Presorting			
12. Saturation	1.4	0.3	466.7%
Presorting Automation Letters			
13. Automation 3-Digit Letters	1.1	1.0	110%

Source: Library Reference PRC–LR–ACR2016/5.

[22] The Periodicals pricing structure differs from the other Market Dominant classes, in that it includes piece, pound, bundle, and container elements. *See* Library Reference PRC–LR–ACR2016/5 for a comprehensive display of all Periodicals prices and worksharing relationships for FY 2016.

Workshare discounts are allowed to exceed avoided costs if a statutory exception applies. *See* 39 U.S.C. § 3622(d). The Postal Service justifies Periodicals workshare discounts that exceeded 100 percent passthroughs on the basis of 39 U.S.C. § 3622(e)(2)(C), which authorizes workshare discounts greater than avoided costs if provided in connection with a subclass that consists exclusively of mail matter with educational, cultural, scientific, or informational (ECSI) value. FY 2016 ACR at 52.

(2) Commission Analysis

(a) Statutory Considerations for Passthroughs

Because the Periodicals class consists exclusively of ECSI mail, the Commission finds that the Periodicals workshare discounts that exceeded avoided costs in FY 2016 were consistent with 39 U.S.C. § 3622(e). Given that the Periodicals class does not cover costs, sending efficient price signals is particularly important. Although 39 U.S.C. § 3622(e) does not prohibit the Postal Service from offering workshare discounts with passthroughs that are less than 100 percent, other statutory requirements and objectives focus on sending efficient pricing signals to mailers. This concept is relevant to all passthroughs, including those that qualify for ECSI consideration. Generally, prices must "...enable the Postal Service, under best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States." 39 U.S.C. § 404(b). Moreover, the Market Dominant ratemaking system is designed to achieve nine objectives, of which one is "[t]o maximize incentives to reduce costs and increase efficiency." 39 U.S.C. § 3622(b)(1). Therefore, the Postal Service should, in all cases, consider whether such passthroughs send efficient pricing signals to mailers.

Inefficient pricing signals may contribute to Periodicals revenues not covering costs if the price does not incentivize mailers to prepare Periodicals mailings efficiently. However, as the Postal Service notes, for a specified discount, a sudden price change to bring passthroughs to 100 percent may not be prudent. Continued improvement of the relationship between discounts and avoided costs should signal to the mailer the mail preparation method that is most efficient for both the Postal Service and the mailer. The Commission emphasized in past ACDs that, as a general principle, passthroughs closer to 100 percent would send better pricing signals to mailers and would increase contribution and cost savings to the Postal Service.[23]

In Docket No. R2015-4, the Postal Service improved the alignment of bundle and pallet price signals and costs.[24] In Docket No. R2017-1, the Postal Service further improved the

[23] *See* Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 76 (FY 2009 ACD); Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011, at 96-97 (FY 2010 ACD); Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 108-110 (FY 2011 ACD); FY 2012 ACD at 100-101; Docket No. ACR2013, *Annual Compliance* Determination, March 27, 2014, at 21-23 (FY 2013 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015, at 14-16 (FY 2014 ACD); Docket No. ACR2015, *Annual Compliance Determination,* March 28, 2016, at 17-19 (FY 2015 ACD).

[24] Docket No. R2015-4, United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015, at 27-28 (Docket No. R2015-4 Notice).

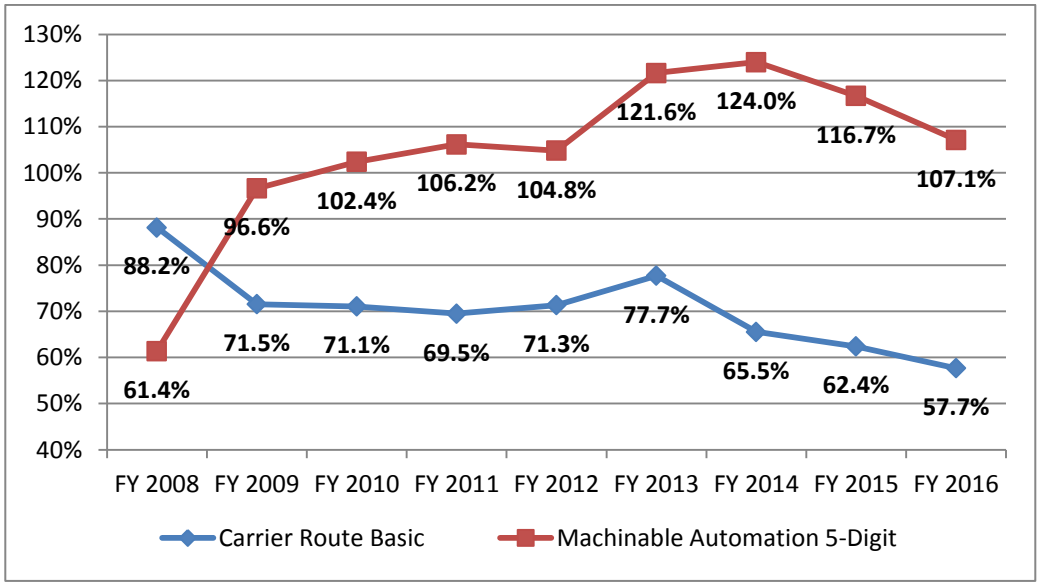
alignment of these price signals and costs.[25] In addition, the Postal Service provided a greater incentive for mailers to enter additional Carrier Route bundles on Carrier Route pallets. *Id*. While the Commission notes that some improvements have been made, continued improvement of Periodicals pricing efficiency would maximize contribution (or in this case, minimize negative contribution) and cost savings.

(b) Sending Efficient Pricing Signals

Since FY 2013, the Commission highlighted the growing disparity between the Postal Service's pricing signals that appear to encourage 5-Digit presortation and discourage Carrier Route presortation.[26]

Most Outside County Periodicals is volume presorted to Machinable Automation 5-Digit or Carrier Route Basic. Figure II-1 details changes in passthroughs for Carrier Route Basic and Machinable Automation 5-Digit piece presorting from FY 2008 to FY 2016.

Figure II-1
Carrier Route Basic and Machinable Automation 5-Digit Passthroughs



Source: Library Reference PRC–LR–ACR2016/5.

Between FY 2008 and FY 2016, the Machinable Automation 5-Digit passthrough increased considerably, whereas the Carrier Route Basic passthrough decreased considerably.[27] In

[25] Docket No. R2017-1, Response of United Postal Service to Questions 2 and 3 of Chairman's Information Request No. 3, October 24, 2016, question 3.

[26] *See* FY 2013 ACD at 21, FY 2014 ACD at 15, FY 2015 ACD at 18.

[27] In FY 2016, the difference between the Machinable Automation 5-Digit and Carrier Route Basic prices was 9.8 cents when the exigent surcharge is not included, unchanged from FY 2008. The price difference between Machinable Automation 5-Digit and Carrier Route Basic approved in Docket No. R2017-1 is 10.7 cents.

FY 2016, the passthrough for Carrier Route Basic decreased to 57.7 percent. The Machinable Automation 5-Digit passthrough continued to be above 100 percent in FY 2016, decreasing from 116.7 percent to 107.1 percent.

b. Fiscal Year 2015 Annual Compliance Determination Directives

In the FY 2014 ACD, the Commission directed the Postal Service to report: the cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation; and progress in improving Periodicals pricing efficiency. FY 2014 ACD at 16-17. In the FY 2015 ACD, the Commission found the Postal Service failed to meaningfully address those directives and instructed the Postal Service to file a report within 120 days of issuance of the FY 2015 ACD addressing four issues regarding Periodicals pricing efficiency (120-day Report). FY 2015 ACD at 23-24. The Postal Service timely filed the 120-day Report.[28]

The Commission also directed the Postal Service to include an updated version of the report in its FY 2016 ACR. FY 2015 ACD at 24. The Postal Serviced filed this updated report as Library Reference USPS-FY16-44, December 29, 2016, Report Responding to Periodicals Pricing Directives (Updated Report).

(1) Comments

The Commission received comments on the directives included in the FY 2015 ACD from the Public Representative. He concludes that the Postal Service did not provide a material response to the Commission's request to quantify the financial impact of Periodicals operations in its FY 2015 ACR. PR Comments at 39.

(2) Commission Analysis

The Commission directed the Postal Service in the FY 2015 ACD to file a report within 120 days of issuance of the FY 2015 ACD, and an updated report in the FY 2016 ACR, on the following:

- Whether the 5-Digit, Carrier Route, and Flats Sequencing System (FSS) workshare discounts are the proper economic incentives and send efficient pricing signals to mailers (Directive One).
- The cost, contribution, and revenue impact of the pricing changes made by the Postal Service in FY 2015 (Directive Two).
- A detailed quantitative analysis of the progress made in leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing in FY 2015 (Directive Three).

- Any obstacles to providing the requested analysis as well as the Postal Service's strategy and timeframe for addressing those obstacles. The Postal Service was

[28] Docket No. ACR2015, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, July 26, 2016, Report Responding to Periodicals Pricing Directives.

> directed to provide the steps it has taken towards overcoming the obstacles identified (Directive Four).

FY 2015 ACD at 23-24.

Directive One. In the FY 2015 ACD, the Commission directed the Postal Service to discuss in the 120-day Report whether the 5-Digit, Carrier Route, and FSS workshare discounts were the proper economic incentives and sent efficient pricing signals to mailers. FY 2015 ACD at 24.

In its updated report, the Postal Service provides specific examples of how pricing decisions incentivize cost-efficient mailer behavior. Updated Report at 3. The Postal Service notes that workshare discounts are not optimal (*i.e.,* at 100 percent) due to the tension between the Postal Service's responsibility to bind the nation together and the operational and market realities of Periodicals. *Id.* at 4. The Postal Service observes that it began a gradual move away from its prior across-the-board approach (*i.e.,* the same percentage increase applied to each Periodicals price cell) to pricing most bundles and pallets based on their bottom-up costs. *Id.*

The Postal Service notes that in the FY 2015 ACD, the Commission suggested that it "increase its efforts to narrow the gap between 5-Digit and Carrier Route passthroughs to promote Carrier Route presortation in non-FSS zones." *Id.* The Postal Service states this goal could be accomplished by increasing the passthrough for Carrier Route pieces relative to the passthrough for Machinable Automation 5-Digit Flats. *Id.* The Postal Service details how increasing the Carrier Route piece discount would be unlikely to result in significant growth of Carrier Route volume. *Id.* at 4-6. Rather, the Postal Service states it intends to implement a pricing strategy that moves Carrier Route bundles to finer presort pallets. *Id.* at 6.

The Postal Service notes that FSS pricing was eliminated in Docket No. R2017-1. *Id.* at 9. The Postal Service states that the pricing change will increase the Postal Service's flexibility to take advantage of FSS processing efficiencies by moving zones into or out of FSS processing without impacting the rates for affected pieces. *Id.*

Directive Two. In the FY 2015 ACD, the Commission directed the Postal Service to report the cost, contribution, and revenue impact of the pricing changes made by the Postal Service in FY 2015. FY 2015 ACD at 24. The Postal Service responds that it cannot explicitly measure this impact. Updated Report at 9. The Postal Service also details how factors other than postage prices may influence customers' production decisions (*e.g.,* mail preparation requirements). *Id.* at 9-10.

The Postal Service does compare cost and revenue between Quarter 2 of FY 2015 and Quarter 2 of FY 2016. During this time period, unit cost increased 0.07 percent and unit revenue increased by 1.8 percent. *Id.* at 11-12. The Postal Service posits that since unit revenue increased at a faster rate than unit cost, it appears that contribution is also

increasing somewhat. *Id.* at 13. The Postal Service cautions that definitively linking the increase in unit revenue to the FY 2015 price changes is not possible. *Id.*

Directive Three. In the FY 2015 ACD, the Commission directed the Postal Service to provide a detailed quantitative analysis of the progress made in leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing in FY 2015. FY 2015 ACD at 24. The Postal Service responds that as a result of the price changes approved in Docket No. R2015-4, container and bundle prices were moved significantly closer to efficient component prices. Updated Report at 14. The Postal Service provides an example demonstrating that its pallet prices for Carrier Route produce better postage minimizing preparation decisions than the previous price regime. *Id.*

The Postal Service states that bundle prices are set near the estimated direct bundle handling costs. *Id.* The Postal Service also explains that it decreased all pound prices to incentivize additional weight. *Id.* at 15.

Directive Four. In the FY 2015 ACD, the Commission directed the Postal Service to identify any obstacles to providing the requested analysis as well as the Postal Service's strategy and timeframe for addressing those obstacles. FY 2015 ACD at 24. In addition, the Commission directed the Postal Service to provide the steps it has taken towards overcoming the obstacles identified. *Id.*

The Postal Service responds by stating it views its responses to Directives One, Two, and Three "as providing the requested analysis, and explaining the relevant obstacles." Updated Report at 16. Although the Postal Service identifies obstacles and its strategy for addressing those obstacles, it does not provide a timeframe for addressing those obstacles in either the 120-day Report or the Updated Report.

The Commission concludes that, on the whole, the Postal Service's reports meaningfully respond to the Commission's directives. In the Periodicals' 120-day Report and the Updated Report, the Postal Service provided a robust narrative and workpapers containing quantitative analyses. By performing a quantitative analysis of changes in cost, contribution, and revenue after implementation of new prices, the Postal Service has begun to make progress in analyzing the pricing efficiency of Periodicals. Such analysis provides a useful tool for the Postal Service to more fully understand potential impacts of new prices on cost, revenue, and contribution. In future rate changes, such analysis can aid in increasing Periodicals pricing efficiency.

The Commission directs the Postal Service to include an updated version of the 120-day Report in its FY 2017 ACR. The report must include an analysis of how the removal of FSS pricing in Docket No. R2017-1 impacted the cost, contribution, and revenue of Periodicals in FY 2017 and whether the removal improved the efficiency of Periodicals pricing in FY 2017.

3. Standard Mail[29]

Nineteen Standard Mail workshare discounts exceeded the avoided costs of the corresponding mailer workshare activity in FY 2016. These nineteen workshare discounts are in the Letters, Flats, Parcels, Carrier Route, and High Density and Saturation Letters products.

a. Letters

The following six workshare discounts for Letters exceeded avoided costs in FY 2016:

- Automation Mixed automated area distribution center (AADC) Letters
- Automation AADC Letters
- Non-automation 3-Digit Non-machinable Letters
- Non-automation 5-Digit Non-machinable Letters
- Destination network distribution center (DNDC) dropship Letters
- Destination sectional center facility (DSCF) dropship Letters

Each is discussed below. All remaining discounts offered for Letters were less than or equal to avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2016. Table II-5 shows the discounts for the Letters product for FY 2016.

[29] Standard Mail was renamed Marketing Mail as of January 22, 2017. The Commission continues the use of Standard Mail because it was the class name in FY 2016, and was used by the Postal Service in the FY 2016 ACR.

Table II-5
Standard Mail Letters (Commercial and Nonprofit)[30]
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Standard Mail Automation Letters: Barcoding (Cents/Piece)			
Automation Mixed AADC Letters (Non-automation Machinable Mixed ADC Letters)	1.6	0.2	800.0%
Standard Mail Automation Letters: Presorting (Cents/Piece)			
Automation AADC Letters (Automation Mixed AADC Letters)	1.7	1.4	121.4%
Automation 3-Digit Letters (Automation AADC Letters)	0.0	0.4	0.0%
Automation 5-Digit Letters (Automation 3-Digit Letters)	1.9	2.6	73.1%
Standard Mail Non-automation Letters: Presorting (Cents/Piece)			
Non-automation AADC Machinable Letters (Non-automation Mixed AADC Machinable Letters)	1.7	1.7	100%
Non-automation ADC Non-machinable Letters (Non-automation Mixed ADC Non-machinable Letters)	7.4	7.6	97.4%
Non-automation 3-Digit Non-machinable Letters (Non-automation ADC Non-machinable Letters)	2.6	2.3	113.0%
Non-automation 5-Digit Non-machinable Letters (Non-automation 3-Digit Non-machinable Letters)	8.9	7.1	125.4%
Standard Mail Letters: Dropship (Cents/Piece)			
DNDC Letters (Origin Letters)	3.5	1.9	184.2%
DSCF Letters (Origin Letters)	4.4	2.2	200.0%

Source: Library Reference PRC–LR–ACR2016/4; *See* March 6, 2017 Errata.

(1) Automation Mixed AADC Letters

The passthrough for Automation Mixed AADC Letters was 800 percent in FY 2016, up from 325 percent in FY 2015. FY 2016 ACR at 39. This increase was due to the unit cost avoidance decreasing from 0.4 cents to 0.2 cents. *See id.* The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D), asserting that the barcoding discount encourages mailers to provide Intelligent Mail barcodes (IMbs) on their mailpieces, thereby improving operational efficiency. *Id*. The Postal Service states further that it will endeavor to eliminate the portion of this discount above avoided cost in future price adjustments. *Id*.

[30] In FY 2016, all Standard Mail Letters commercial and nonprofit discounts were equal.

The Public Representative asserts that this excessive passthrough is not justified, and recommends the excessive discount be phased out over time. PR Comments at 49. His primary concern is that there is no plan for correcting this passthrough. *Id.* PostCom disagrees with the Public Representative and states that immediate correction of passthroughs is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates.[31]

The Commission finds that the Automation Mixed AADC Letters discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2016 because encouraging mailers to use IMbs should improve operational efficiency. The Commission supports the Postal Service's commitment to eliminate the portion of the discount above avoided cost.

(2) Automation AADC Letters, and Non-automation 5-Digit Non-machinable Letters

In FY 2016, Automation AADC Letters, and Non-automation 5-Digit Non-machinable Letters had passthroughs of 121.4 percent and 125.4 percent, respectively. FY 2016 ACR at 39-40. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* at 40-41. It states that aligning these discounts with the avoided costs would result in price increases as large as 8.7 percent and 4.3 percent, respectively, which could cause rate shock to mailers. *Id*. at 41. The Postal Service also reported that it would require a 1.0 percent reduction for the Automation AADC Letters benchmark price and a 3.2 percent reduction for the Non-automation 5-Digit Non-machinable Letters benchmark price to align these discounts with avoided costs. January 19, 2017 Responses to CHIR No. 4, question 8.a. The Postal Service provides a plan to reduce passthroughs for these discounts by at least 10 percentage points in future price adjustments. January 19, 2017 Responses to CHIR No. 4, question 9. In Docket No. R2017-1, the Postal Service reduced the discount for 5-Digit Non-machinable Letters from 8.9 to 8.7 cents and made no changes to the Automation AADC Letters discount. FY 2016 ACR at 41. Using Docket No. R2017-1 discounts, the passthrough for Automation AADC Letters would remain at 121.4 percent and the passthrough for Non-automation 5-Digit Non-machinable Letters would be 122.5 percent. January 19, 2017 Responses to CHIR No. 4, question 9.

The Public Representative asserts that these excessive passthroughs are not justified, and recommends the excessive discounts be phased out over time. PR Comments at 49. His primary concern is that there is no plan for correcting these passthroughs. *Id.* PostCom disagrees with the Public Representative and states that immediate correction of passthroughs is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates. PostCom Reply Comments at 4-5.

[31] Reply Comments of the Association for Postal Commerce, February 13, 2017, at 4-5 (PostCom Reply Comments).

The Commission finds that the discounts for Automation AADC Letters and Non-automation 5-Digit Non-machinable Letters were not in compliance in FY 2016. The Postal Service's use of the rate shock exception for the Automation AADC Letters and Non-automation 5-Digit Non-machinable Letters discounts is not adequately supported and the Commission finds that the Postal Service did not take sufficient steps in FY 2016 to reduce these excessive passthroughs. In addition, the Postal Service took no substantial action to reduce these excessive passthroughs in Docket No. R2017-1. The Postal Service must align the discounts for Automation AADC Letters and Non-automation 5-Digit Non-machinable Letters with avoided costs in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

(3) Non-automation 3-Digit Non-machinable Letters

Non-automation 3-Digit Non-machinable Letters had a passthrough of 113.0 percent in FY 2016, unchanged from FY 2015. FY 2016 ACR at 40. In Docket No. R2017-1, the Postal Service reduced the discount from 2.6 cents to 2.5 cents. *Id*. The unit cost avoidance remained at 2.3 cents from FY 2015 to FY 2016. *Id.* The Postal Service does not provide a justification for this excessive passthrough. *Id.* The Postal Service intends to reduce this passthrough to 100 percent during the next Market Dominant price adjustment, or cite a statutory exception. *ld*.

The Public Representative notes that the Postal Service did not provide a statutory exception for Non-automation 3-Digit Non-machinable Letters. PR Comments at 49. He concludes that this discount should be found not in compliance with 39 U.S.C. § 3622(e). *Id.* PostCom disagrees with the Public Representative and states that immediate correction of passthroughs is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates. PostCom Reply Comments at 4-5.

The Commission finds that this discount was not in compliance in FY 2016. The Postal Service must either align the Non-automation 3-Digit Non-machinable Letters discount with avoided cost during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception.

(4) DNDC and DSCF Dropship Letters

In FY 2016, the passthroughs for DNDC dropship and DSCF dropship were 184.2 percent and 200.0 percent, respectively. FY 2016 ACR at 41-42; March 6, 2017 Errata. The Postal Service justifies these excessive discounts pursuant to 39 U.S.C. § 3622(e)(2)(B). FY 2016 ACR at 42. It states that aligning these discounts with avoided costs results in price increases as large as 10.1 percent. *Id.* The Postal Service intends to continue reducing the discounts until the passthroughs reach 100 percent, and has committed to reducing these passthrough by at least 10 percentage points in future Market Dominant price adjustments. *ld*. Consistent with this plan, the Postal Service reduced each passthrough by more than 10

percentage points in Docket No. R2017-1.[32]

The Public Representative asserts that these excessive passthroughs are not justified, and recommends the excessive discounts be phased out over time. PR Comments at 49. His primary concern is that there is no plan for correcting these passthroughs. *Id.* He also notes that the excessive portions of the discounts could be phased out immediately, or within one to two rate adjustment cycles. *Id.* PostCom disagrees with the Public Representative and states that immediate correction of passthroughs is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates. PostCom Reply Comments at 4-5.

The Commission concludes that a substantial one-time reduction in the passthrough percentages would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2017-1 to continue to phase out these excessive passthroughs. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2016. The Commission expects the Postal Service to align these discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

b. Standard Mail Flats

Four workshare discounts for Standard Mail Flats exceeded avoided costs in FY 2016:

- Automation Mixed ADC Flats
- Automation FSS Non-Scheme Flats
- Automated FSS Scheme Flats
- Non-automation FSS Non-Scheme Flats

Each is discussed below. All remaining discounts offered for Standard Mail Flats were less than or equal to avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-6 shows the discounts for the Standard Mail Flats product for FY 2016.

[32] In FY 2015, the passthroughs for DNDC and DSCF Letters were both 225.0 percent. FY 2015 ACD at 25. In Docket No. R2017-1, the passthrough for DNDC Letters was 162.5 percent and the passthrough for DSCF Letters was 170.0 percent. Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016, at 33 (Order No. 3610).

Table II-6
Standard Mail Flats (Commercial and Nonprofit)[33]
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Standard Mail Automation Flats: Barcoding (Cents/Piece)			
Automation Mixed ADC Flats (Non-automation Mixed AADC Flats)	4.1	1.7	241.2%
Standard Mail Automation Flats: Presorting (Cents/Piece)			
Automation ADC Flats (Automation Mixed ADC Flats)	1.7	6.0	28.3%
Automation 3-Digit Flats (Automation ADC Flats)	5.5	6.8	80.9%
Automation 5-Digit Flats (Automation 3-Digit Flats)	9.1	11.8	77.1%
Automation FSS Non-scheme Flats (Automation 3-Digit Flats)	13.6	7.7	176.6%
Automation FSS Scheme Flats (Automation FSS Non-Scheme Flats)	3.0	0.9	333.3%
Standard Mail Non-automation Flats: Presorting (Cents/Piece)			
Non-automation ADC Flats (Non-automation Mixed ADC Flats)	3.4	3.8	89.5%
Non-automation 3-Digit Flats (Non-automation ADC Flats)	5.2	5.2	100.0%
Non-automation 5-Digit Flats (Non-automation 3-Digit Flats)	6.9	9.3	74.2%
Non-automation FSS Non-scheme Flats (Non-automation 3-Digit Flats)	8.4	4.8	175.0%
Non-automation FSS Scheme Flats (Non-automation FSS Non-scheme Flats)	0.5	1.0	50.0%
Standard Mail Flats: Dropship[34] (Cents/Pound)			
DNDC Flats (Origin Flats)	16.1	24.4	66.0%
DSCF Flats (Origin Flats)	20.9	28.3	73.9%

Source: Library Reference PRC–LR–ACR2016/4.

(1) Automation Mixed ADC Flats

The passthrough for Automation Mixed ADC Flats was 241.2 percent in FY 2016, down from 273.3 percent in FY 2015. FY 2016 ACR at 43. The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D). *Id.* The Postal Service explains that the discount encourages mailers to place IMbs on mailpieces, which improves

[33] In FY 2016, all Standard Mail Flats commercial and nonprofit discounts were equal.

[34] All Standard Mail Flats FSS Scheme and FSS Non-Scheme dropship discounts, avoided costs, and passthroughs are presented in Library Reference PRC–LR–ACR2016/4.

operational efficiency. The Postal Service also plans to reduce this passthrough in future Market Dominant price adjustments. *Id*.

The Public Representative asserts that this excessive passthrough is not justified, and recommends the excessive discount be phased out over time. PR Comments at 49. His primary concern is that there is no plan for correcting this passthrough. *Id.* PostCom disagrees with the Public Representative and states that immediate correction of this passthrough is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates. PostCom Reply Comments at 4-5.

The Commission finds that the Automation Mixed ADC Flats discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2016 because encouraging mailers to use IMbs should improve operational efficiency. The Commission supports the Postal Service's commitment to eliminate the portion of the discount above avoided cost.

(2) Automation FSS Non-Scheme Flats, Automation FSS Scheme Flats, and Non-automation FSS Non-Scheme Flats

The passthroughs for Automation FSS Non-Scheme Flats, Automation FSS Scheme Flats, and Non-automation FSS Non-Scheme Flats were 176.6 percent, 333.3 percent, and 175.0 percent, respectively. FY 2016 ACR at 42-44. These discounts were first introduced in Docket No. R2015-4 as part of the worksharing initiative to move FSS Flats into a distinct price category.[35] In Docket No. R2017-1 these discounts were eliminated. FY 2016 ACR at 42-44. The Postal Service does not provide a justification for these excessive passthroughs. *Id*.

The Public Representative concludes that the passthroughs for Automation FSS Non-Scheme, Automation FSS Scheme, and Non-automation FSS Non-Scheme are not in compliance with 39 U.S.C. § 3622(e)(2), but states that no further corrective action is necessary because the categories are being eliminated. PR Comments at 48-49.

The Commission finds these discounts were not adequately justified in FY 2016. However, because these discounts were eliminated in Docket No. R2017-1, no further action is necessary.

c. Parcels

Five workshare discounts for Parcels exceeded avoided costs in FY 2016:

- Nonprofit network distribution center (NDC) Irregular Parcels
- NDC Marketing Parcels
- Nonprofit Mixed NDC Machinable Barcoded Parcels

[35] Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015, at 19 (Order No. 2472).

- Nonprofit Mixed NDC Irregular Barcoded Parcels
- Mixed NDC Barcoded Marketing Parcels

Each is discussed below. All remaining discounts offered for Parcels were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-7 and Table II-8 shows the discounts for the Parcels product for FY 2016.

Table II-7
Standard Mail Parcels (Commercial and Nonprofit)[36]
Presort and Barcode Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Nonprofit Standard Mail Parcels: Presorting (Cents/Piece)			
NDC Machinable Parcels (Mixed NDC Machinable Parcels)	39.8	49.9	79.8%
5-Digit Machinable Parcels (NDC Machinable Parcels)	28.6	68.3	41.9%
NDC Irregular Parcels (Mixed NDC Irregular Parcels)	33.4	25.0	133.6%
SCF Irregular Parcels (NDC Irregular Parcels)	38.1	52.8	72.2%
5-Digit Irregular Parcels (SCF Irregular Parcels)	7.8	60.8	12.8%
Nonprofit Standard Mail Parcels: Barcoding (Cents/Piece) [a]			
Mixed NDC Machinable Barcoded Parcels (Mixed NDC Machinable Non-barcoded Parcels)	6.1	3.7	164.9%
Mixed NDC Irregular Barcoded Parcels (Mixed NDC Irregular Non-barcoded Parcels)	6.1	3.7	164.9%
Standard Marketing Parcels: Presorting (Cents/Piece)			
NDC Marketing Parcels (Mixed NDC Marketing Parcels)	40.1	34.6	115.9%
SCF Marketing Parcels (NDC Marketing Parcels)	37.8	38.3	98.7%
5-Digit Marketing Parcels (SCF Marketing Parcels)	9.5	62.2	15.3%
Standard Marketing Parcels: Barcoding (Cents/Piece)[a]			
Mixed NDC Barcoded Marketing Parcels (Mixed NDC Non-barcoded Marketing Parcels)	6.1	3.7	164.9%

[a] The Postal Service charges a surcharge for non-barcoded pieces.

Source: Library Reference PRC–LR–ACR2016/4.

[36] In FY 2016, all commercial and nonprofit discounts for Standard Mail Marketing Parcels were equal. Machinable and Irregular Standard Mail Parcel prices are only offered to nonprofit mailers and do not have corresponding commercial prices.

Table II-8
Standard Mail Parcels (Commercial and Nonprofit)
Dropship Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Nonprofit Standard Mail Machinable Parcels: Dropship (Cents/Pound)			
DNDC Machinable Parcels (Origin Machinable Parcels)	24.5	45.6	53.7%
DSCF Machinable Parcels (Origin Machinable Parcels)	50.8	67.1	75.7%
DDU Machinable Parcels (Origin Machinable Parcels)	70.5	90.5	77.9%
Standard Mail Marketing Parcels: Dropship (Cents/Pound)			
DNDC Marketing Parcels (Origin Marketing Parcels)	24.5	45.6	53.7%
DSCF Marketing Parcels (Origin Marketing Parcels)	50.8	67.1	75.7%
DDU Marketing Parcels (Origin Marketing Parcels)	70.5	90.5	77.9%
Nonprofit Standard Mail Irregular Parcels: Dropship (Cents/Pound)			
DNDC Irregular Parcels (Origin Irregular Parcels)	24.5	45.6	53.7%
DSCF Irregular Parcels (Origin Irregular Parcels)	50.8	67.1	75.7%
DDU Irregular Parcels (Origin Irregular Parcels)	70.5	90.5	77.9%

Source: Library Reference PRC–LR–ACR2016/4.

(1) Nonprofit NDC Irregular Parcels and NDC Marketing Parcels

In FY 2016, the passthroughs for Nonprofit NDC Irregular Parcels and NDC Marketing Parcels were 133.6 percent and 115.9 percent, respectively. FY 2016 ACR at 44-45. The Postal Service does not provide any statutory justifications for the excessive discounts. The Docket No. R2017-1 discounts bring the Nonprofit NDC Irregular Parcels passthrough down to 105.2 percent and the NDC Marketing Parcels down to 96.5 percent.[37] The Postal Service states that it will either fix the discounts in the next Market Dominant price adjustment or cite a statutory exception. FY 2016 ACR at 44-45.

The Public Representative notes that the Postal Service did not provide a statutory exception for Nonprofit NDC Irregular Parcels and NDC Marketing Parcels. PR Comments at 49. He concludes that these discounts should be found not in compliance with 39 U.S.C. § 3622(e). *Id.*

[37] The Docket No. R2017-1 discounts for NDC Irregular Parcels and NDC Marketing Parcels are 26.3 cents and 33.4 cents, respectively. *See* Docket No. R2017-1, PRC–LR–R2017-1/2, Excel file, "PRC-WORKSHARE-STD17.xlsx." These discounts, combined with the FY 2016 ACR avoided costs, result in the reported passthroughs.

The Commission finds that these two discounts were not in compliance in FY 2016. The Postal Service must either align the Nonprofit NDC Irregular Parcels discounts with avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception. No further action is required for the NDC Marketing Parcels discount because the discount approved in Docket No. R2017-1 brings the passthrough below 100 percent.

(2) Nonprofit Mixed NDC Machinable Barcoded Parcels, Nonprofit Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels

Nonprofit Mixed NDC Machinable Barcoded Parcels, Nonprofit Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels each had a passthrough of 164.9 percent in FY 2016. FY 2016 ACR at 45. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(D), stating that it has been sending a signal to mailers through the non-barcoded surcharge to develop a fully barcoded parcels mailstream. *Id.* The Postal Service also intends to reduce these passthroughs by 10 percentage points in future Market Dominant price adjustments. *Id*. at 45-46.

The Public Representative asserts that these excessive passthroughs are not justified, and recommends the excessive discounts be phased out over time. PR Comments at 49. His primary concern is that there is no plan for correcting these passthroughs. *Id.* PostCom disagrees with the Public Representative and states that immediate correction of passthroughs is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates. PostCom Reply Comments at 4-5.

The Commission finds that these three discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) because having a fully barcoded mailstream would increase operational efficiency. The Commission expects the Postal Service to follow its plan to reduce passthroughs by at least 10 percentage points in future Market Dominant price adjustments.

d. Carrier Route

Two workshare discounts for Carrier Route Letters exceeded avoided costs in FY 2016:

- DNDC dropship Letters
- DSCF dropship Letters

Each is discussed below. All remaining discounts offered for Carrier Route were less than avoided costs and thus were in compliance with 39 U.S.C. § 3622(e). Table II-9 shows the discounts for the Carrier Route product for FY 2016.

Table II-9
Standard Mail Carrier Route (Commercial and Nonprofit)[38]
Dropship and Presort Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Standard Mail Carrier Route Letters: Dropship (cents/piece)			
DNDC Letters (Origin Letters)	3.2	1.9	168.4%
DSCF Letters (Origin Letters)	4.3	2.2	195.5%
Standard Mail Carrier Route Flats: Dropship (cents/pound)			
DNDC Flats (Origin Flats)	16.1	30.3	53.1%
DSCF Flats (Origin Flats)	20.9	34.0	61.5%
DDU Flats (Origin Flats)	25.2	38.8	64.9%
Standard Mail Carrier Route Flats: Presorting (cents/piece)			
Origin Flats on 5-Digit Pallets (Other Origin Flats)	0.5	2.3	21.7%
DNDC Flats on 5-Digit Pallets (Other DNDC Flats)	0.5	2.3	21.7%
DSCF Flats on 5-Digit Pallets (Other DSCF Flats)	0.5	2.3	21.7%
DDU Flats on 5-Digit Pallets (Other DDU Flats)	0.5	2.3	21.7%
Standard Mail Carrier Route Flats: Dropship (cents/pound)			
DNDC Flats on 5-Digit Pallets (Origin Flats)	16.1	30.3	53.1%
DSCF Flats on 5-Digit Pallets (Origin Flats)	20.9	34.0	61.5%
DDU Flats on 5-Digit Pallets (Origin Flats)	25.2	38.8	64.9%

Source: Library Reference PRC–LR–ACR2016/4; *See* March 6, 2017 Errata.

In FY 2016, passthroughs for DNDC dropship Letters and DSCF dropship Letters were 168.4 percent and 195.5 percent, respectively. March 6, 2017 Errata at 46-47. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B), stating that to reduce the passthroughs to 100 percent would cause a price increase as large as 4.8 percent for DNDC dropship Letters and 8.2 percent for DSCF dropship Letters. *Id.* The Postal Service also commits to reducing these passthroughs by 10 percentage points in each subsequent Market Dominant price adjustment until each reaches 100 percent. January 19, 2017 Responses to CHIR No. 4, question 9. In an effort to begin to phase these excessive discounts out, the Postal Service reduced each passthrough by more than 10 percentage points in Docket No. R2017-1.[39]

[38] In FY 2016, all commercial and nonprofit discounts for Standard Mail Carrier Route products were equal.

[39] In FY 2015, the passthroughs for Carrier Route DNDC and DSCF Letters were 206.3 percent and 220.0 percent, respectively. FY 2015 ACD at 34. In Docket No. R2017-1, these passthroughs were reduced to 187.5 percent for DNDC Carrier Route Letters and 190.0 percent for DSCF Carrier Route Letters. Order No. 3610 at 33.

The Public Representative asserts that these excessive passthroughs are not justified, and recommends the excessive discounts be phased out over time. PR Comments at 49. His primary concern is that there is no plan for correcting these passthroughs. *Id.* He also notes that the excessive portions of the discounts could be phased out immediately, or within one to two rate adjustment cycles. *Id.* PostCom disagrees with the Public Representative and states that immediate correction of passthroughs is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates. PostCom Reply Comments at 4-5.

The Commission finds that a substantial one-time reduction in the passthroughs would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2017-1 to phase out these excessive passthroughs. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2016. The Commission expects the Postal Service to align discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

e. High Density and Saturation Letters

Two workshare discounts for High Density and Saturation Letters exceeded avoided costs in FY 2016:

- DNDC dropship Letters
- DSCF dropship Letters

Each is discussed below. All remaining discounts offered for High Density and Saturation Letters were less than avoided costs and thus were consistent with 39 U.S.C. § 3622(e). Table II-10 shows the discounts for the High Density and Saturation Letters product for FY 2016.

Table II-10
Standard Mail High Density and Saturation Letters (Commercial and Nonprofit)[40]
Dropship and Presort Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Standard Mail High Density Letters: Presort (cents/piece)			
High Density Letters (Carrier Route)	8.1	33.0	24.5%
Standard Mail High Density Letters: Dropship (cents/piece)			
DNDC Letters (Origin Letters)	3.2	1.9	168.4%
DSCF Letters (Origin Letters)	4.3	2.2	195.5%

Source: Library Reference PRC–LR–ACR2016/4; *See* March 6, 2017 Errata.

In FY 2016, passthroughs for DNDC dropship Letters and DSCF dropship Letters were 168.4 percent and 195.5 percent, respectively. March 6, 2017 Errata at 47-48. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B), stating that to reduce the passthroughs to 100 percent would cause a price increase as large as 7.4 percent for DNDC dropship Letters and 14.0 percent for DSCF dropship Letters. March 6, 2017 Errata at 48. The Postal Service also commits to reducing these passthroughs by 10 percentage points in each subsequent Market Dominant price adjustment until each reaches 100 percent. January 19, 2017 Responses to CHIR No. 4, question 9. In an effort to begin to phase these excessive discounts out, the Postal Service reduced each passthrough by more than 10 percentage points in Docket No. R2017-1.[41]

The Public Representative asserts that these excessive passthroughs are not justified, and recommends the excessive discounts be phased out over time. PR Comments at 49. His primary concern is that there is no plan for correcting these passthroughs. *Id.* He also notes that the excessive portions of the discounts could be phased out immediately, or within one to two rate adjustment cycles. *Id.* PostCom disagrees with the Public Representative and states that immediate correction of passthroughs is not appropriate for several reasons including the lag between cost development and price adjustments and the possibility of sending disruptive price signals due to volatility in cost avoidance estimates. PostCom Reply Comments at 4-5.

The Commission finds that a substantial one-time reduction in the passthroughs would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2017-1

[40] In FY 2016, all Standard Mail High Density and Saturation Letters commercial and nonprofit discounts were equal.

[41] In FY 2015, the passthroughs for High Density DNDC and DSCF Letters were 206.3 percent, and 225.0 percent, respectively. FY 2015 ACD at 35. In Docket No. R2017-1, the passthroughs for DNDC High Density Letters was 150.0 percent and the passthrough for DSCF High Density and Saturation Letters was 155.0 percent. Order No. 3610 at 33.

to phase out these excessive passthroughs. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2016. The Commission expects the Postal Service to align discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.

4. Package Services

Nine Package Services workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2016. These nine workshare discounts are in the Media Mail/Library Mail, Bound Printed Matter (BPM) Flats, and BPM Parcels products.

a. Media Mail/Library Mail

The following two workshare discounts for Media Mail/Library Mail exceeded avoided costs in FY 2016:

- Media Mail Basic presorting
- Library Mail Basic presorting

Each is discussed below. All remaining discounts offered for Media Mail/Library Mail were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2016. Table II-11 shows the FY 2016 discounts, avoided costs, and passthroughs for this product.

Table II-11
Media Mail/Library Mail
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
Media Mail: Presorting (Cents/Piece)			
Basic (Single-Piece)	25.0	22.2	112.6%
5-Digit (Basic)	57.0	145.8	39.1%
Library Mail: Presorting (Cents/Piece)			
Basic (Single-Piece)	24.0	22.2	108.1%
5-Digit (Basic)	54.0	145.8	37.0%

Source: Library Reference PRC–LR–ACR2016/6.

The Basic presort discounts for both the Media Mail/Library Mail categories exceeded avoided costs in FY 2016. The passthroughs were 112.6 percent and 108.1 percent, respectively. FY 2016 ACR at 56. The Postal Service justifies the FY 2016 passthroughs

pursuant to 39 U.S.C. § 3622(e)(2)(C) because Media Mail/Library Mail consists of mail matter with ECSI value. *Id.* The Postal Service explains that with the Commission's approval of the prices filed in Docket No. R2017-1, the passthroughs will fall below 100 percent. *Id.*

The Commission concludes that the Media Mail/Library Mail Basic presort discounts were justified pursuant to 39 U.S.C. § 3622(e)(2)(C) because the product qualifies for the ECSI exception.

b. Bound Printed Matter Flats and Bound Printed Matter Parcels

Seven workshare discounts for BPM Flats and BPM Parcels exceeded avoided costs in FY 2016:

- BPM Flats DNDC dropship
- BPM Flats DSCF dropship
- BPM Flats Destination Flats Sequencing System (DFSS) dropship
- BPM Flats destination delivery unit (DDU) dropship
- BPM Parcels DNDC dropship
- BPM Parcels DSCF dropship
- BPM Parcels DDU dropship

Each is discussed below. All remaining discounts offered for BPM Flats and BPM Parcels were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2016. Table II-12 and Table II-13 shows the FY 2016 discounts, avoided costs, and passthroughs for the BPM Flats and BPM Parcel products in FY 2016.

Table II-12
Bound Printed Matter Flats
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
Presorting (Cents/Piece)[a]			
Basic Flats (Single-Piece Flats)	33.9	*See* Note a	N/A
FSS Flats (Single-Piece Flats)	34.1	*See* Note a	N/A
Carrier Route Flats (Basic Flats)	13.7	14.0	97.9%
Presorting (Cents/Piece):[a] Basic, Carrier Route Flats (Single-Piece Flats)			
Zones 1&2	4.5	*See* Note a	N/A
Zone 3	6.7	*See* Note a	N/A
Zone 4	5.6	*See* Note a	N/A
Zone 5	6.3	*See* Note a	N/A
Zone 6	6.4	*See* Note a	N/A
Zone 7	6.3	*See* Note a	N/A
Zone 8	7.0	*See* Note a	N/A
Dropship (Cents/Piece)			
Basic, Carrier Route DNDC Flats (Basic Origin Flats)	11.6	10.2	113.7%
Basic, Carrier Route DSCF Flats (Basic Origin Flats)	58.3	54.8	106.4%
Basic, DFSS Flats (Basic Origin Flats)	59.3	54.8	108.2%
Basic, Carrier Route DDU Flats (Basic Origin Flats)	75.1	70.5	106.5%

[a] The BPM cost model does not estimate cost differences between Single-Piece and presorted BPM Flats. Single-Piece BPM Flats are a residual category with low volume and adequate data are not available. Previously, price differences between Single-Piece and presorted BPM Flats were based on an assumption that unit mail processing costs for Single-Piece BPM Flats were twice that of presorted BPM Flats. *See* Docket No. R2006-1, Direct Testimony of Nina Yeh on Behalf of United States Postal Service, May 3, 2006, at 8 (USPS-T-38).

Source: Library Reference PRC–LR–ACR2016/6.

Table II-13
Bound Printed Matter Parcels
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2016		
	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
Presorting (Cents/Piece)[a]			
Basic Parcels (Single-Piece Parcels)	64.7	*See* Note a	N/A
Carrier Route Parcels (Basic Parcels)	11.9	14.0	85.0%
Presorting (Cents/Pound):[a] Basic, Carrier Route Parcels (Single-Piece Parcels)			
Zones 1&2	5.8	*See* Note a	N/A
Zone 3	6.3	*See* Note a	N/A
Zone 4	5.6	*See* Note a	N/A
Zone 5	5.4	*See* Note a	N/A
Zone 6	6.0	*See* Note a	N/A
Zone 7	3.9	*See* Note a	N/A
Zone 8	3.7	*See* Note a	N/A
Dropship (Cents/Piece)			
Basic, Carrier Route DNDC Parcels (Basic Origin Parcels)	11.6	10.2	113.7%
Basic, Carrier Route DSCF Parcels (Basic Origin Parcels)	60.6	54.8	110.6%
Basic, Carrier Route DDU Parcels (Basic Origin Parcels)	78.3	70.5	111.1%

[a] The BPM cost model does not estimate cost differences between Single-Piece and presorted BPM Flats. Single-Piece BPM Flats are a residual category with low volume and adequate data are not available. Previously, price differences between Single-Piece and presorted BPM Flats were based on an assumption that unit mail processing costs for Single-Piece BPM Flats were twice that of presorted BPM Flats. *See* Docket No. R2006-1, Direct Testimony of Nina Yeh on Behalf of United States Postal Service, May 3, 2006, at 8 (USPS-T-38).

Source: Library Reference PRC–LR–ACR2016/6.

All seven of the dropshipping discounts for BPM Flats and BPM Parcels exceeded the corresponding avoided costs. Both the DNDC dropship discount for BPM Flats and the DNDC dropship discount for BPM Parcels had a passthrough of 113.7 percent. FY 2016 ACR at 57. In Docket No. R2015-4, the Postal Service set the DNDC dropship discounts for BPM Flats and BPM Parcels equal to their respective avoided costs.[42] However, those discounts were set using FY 2014 avoided costs data. Since the Docket No. R2015-4 proceeding, the avoided costs have decreased, resulting in passthroughs greater than 100 percent for FY 2015 and FY 2016.

[42] *See* Docket No. R2015-4, Library Reference PRC–LR–R2015-4/11, May 7, 2015, Excel file "R2015-4 Package Services Worksharing_.xlsx," which shows that the DNDC dropship discount and avoided costs were 11.6 cents for both BPM Flats and BPM Parcels.

The Postal Service states that with the Commission's approval of the prices filed in Docket No. R2017-1, the DNDC dropship passthroughs will improve to 110.8 percent using FY 2016 cost avoidance data. FY 2016 ACR at 57-58.

The DSCF dropship discounts for BPM Flats and BPM Parcels also exceeded avoided costs in FY 2016. These passthroughs for BPM Flats and BPM Parcels were 106.4 percent and 110.6 percent, respectively. *Id.* at 58. In Docket No. R2015-4, the Postal Service set the DSCF dropship discount for BPM Flats equal to its avoided costs and for BPM Parcels slightly above its avoided costs.[43] However, those discounts were set using FY 2014 avoided costs data. The avoided costs have decreased since FY 2014, resulting in passthroughs greater than 100 percent for FY 2015 and FY 2016.

The Postal Service states it intends to adjust DSCF dropship discounts to match the most currently available cost avoidance data during the next Market Dominant price change or cite to a statutory exception at that time. FY 2016 ACR at 59.

The DDU dropship discounts for BPM Flats and BPM Parcels exceeded avoided costs in FY 2016. The passthroughs for BPM Flats and BPM Parcels were 106.5 percent and 111.1 percent, respectively. *Id.* In Docket No. R2015-4, the Postal Service set the DDU dropship discount for BPM Flats equal to its respective avoided costs and the DDU dropship discount for BPM Parcels slightly above avoided costs.[44] However, those discounts were set using FY 2014 avoided costs data. The avoided costs have decreased since FY 2014, resulting in FY 2015 and FY 2016 passthroughs that exceeded 100 percent.

The Postal Service states that with the Commission's approval of the prices filed in Docket No. R2017-1, the passthroughs will improve to 106.4 percent for BPM Flats and 107.5 percent for BPM Parcels, using FY 2016 cost avoidance data. FY 2016 ACR at 60. The Postal Service explains that it intends to adjust the DDU dropship discounts to match the most current cost avoidance data during the next Market Dominant price adjustment. *Id*.

The Public Representative notes that the Postal Service does not offer a statutory exception to justify the BPM products with passthroughs greater than 100 percent and concludes that those passthroughs are out of compliance. PR Comments at 50.

The Commission finds that the BPM Flats DNDC dropship, BPM Flats DSCF dropship, BPM Flats DDU dropship, BPM Parcels DNDC dropship, BPM Parcels DSCF dropship, and BPM Parcels DDU dropship discounts were not in compliance during FY 2016. The Postal Service must either align these discounts with avoided costs during the next general Market Dominant price adjustment or provide support for an applicable statutory exception.

---

[43] *See* Docket No. R2015-4, PRC–LR–R2015-4/11, Excel file "R2015-4 Package Services Worksharing_.xlsx," which shows that the DSCF dropship discounts for BPM Flats and BPM Parcels were 58.3 and 60.6 cents, respectively. Avoided costs were 58.3 cents for each product.

[44] *See* Docket No. R2015-4, PRC–LR–R2015-4/11, Excel file "R2015-4 Package Services Worksharing_.xlsx," which shows that the DDU dropship discounts for BPM Flats and BPM Parcels were 75.1 and 78.3 cents, respectively. Avoided costs were 75.1 cents for each product.

The DFSS dropship discount for BPM Flats exceeded avoided cost in FY 2016 with a passthrough of 108.2 percent. *Id.* at 59. The Postal Service states that with the approval of structural changes filed in Docket No. R2017-1, it eliminated all FSS price categories for flat shaped pieces. *Id.* As a result, the BPM Flats DFSS dropship discount is no longer available. *Id.*

The Commission finds the BPM flats DFSS dropship discount was not adequately justified in FY 2016. However, because this discount was eliminated in Docket No. R2017-1, no further action is necessary.

D. Preferred Rate Requirements

39 U.S.C. § 3626 identifies preferred rate requirements applicable to Periodicals, Standard Mail, and Package Services prices.

Periodicals is a preferred class of mail and receives several statutory discounts in § 3626, such as a 5-percent discount for nonprofit and classroom publications. In Docket No. R2015-4, prices for Periodicals were set to be consistent with statutory preferences for mail in that class. Order No. 2472 at 56-57.

39 U.S.C. § 3626(a)(6) requires nonprofit prices in Standard Mail to be set in relation to their commercial counterparts. In Docket No. R2015-4, nonprofit prices were set to yield average per-piece revenues of 60.2 percent of commercial per-piece revenues at the class level. *Id.* at 44. The Commission calculates that the actual per-piece revenues from Standard Mail nonprofit pieces were 59.1 percent of the per-piece revenues of their commercial counterparts in FY 2016.[45] Changes in the mix of mail after price changes make it difficult to precisely attain the 60 percent relationship required by law.

39 U.S.C. § 3626(a)(7) requires Library Mail prices to be set at 95 percent of Media Mail prices. The Postal Service set the prices for this product accordingly in Docket No. R2015-4. Order No. 2472 at 61.

The Commission finds that prices in FY 2016 were in compliance with all of the preferred rate requirements identified in 39 U.S.C. § 3626.

[45] *See* Library Reference PRC–LR–ACR2016/1.

CHAPTER 3: MARKET DOMINANT PRODUCTS: OTHER RATE AND FEE COMPLIANCE ISSUES

A. Introduction

Commenters raise other rate and fee compliance issues, most of which relate to the objectives and factors established by 39 U.S.C. § 3622 and to the policies of Title 39 of the United States Code. These issues include noncompensatory products and pricing issues related to differences in cost coverage.

This Chapter begins with an analysis of noncompensatory products organized by class. It also includes a discussion of matters relating to NSAs, and other pricing issues.

B. Noncompensatory Products

1. Periodicals

a. FY 2016 Financial Results

The cost coverage for Periodicals decreased from FY 2015 to FY 2016, from 75.6 percent to 73.7 percent. Since the enactment of the PAEA, Periodicals cost coverage has declined from 83.0 percent. As Table III-1 illustrates, this low cost coverage has resulted in cumulative negative contribution of more than $5 billion since FY 2007.

Table III-1
Periodicals Cost Coverage, FY 2007–FY 2016 ($ Millions)[46]

Fiscal Year	Volume	Revenue	Attributable Cost	Cost Coverage	Contribution
2007	8,795	$2,188	$2,636	83.01%	-$448
2008	8,605	$2,295	$2,732	84.00%	-$437
2009	7,953	$2,038	$2,680	76.04%	-$642
2010	7,269	$1,879	$2,490	75.46%	-$611
2011	7,077	$1,821	$2,430	74.94%	-$609
2012	6,741	$1,732	$2,402	72.10%	-$670
2013	6,359	$1,658	$2,179	76.10%	-$521
2014	6,045	$1,625	$2,134	76.16%	-$509
2015	5,838	$1,589	$2,101	75.64%	-$512
2016	5,586	$1,507	$2,043	73.73%	-$537
					-$5,495

Source: Library Reference PRC–LR–ACR2016/5.

Unit revenue for the Periodicals class as a whole decreased slightly from 27.2 cents in FY 2015 to 27.0 cents in FY 2016. FY 2016 ACR at 51-52. However, unit cost increased from 36.0 cents to 36.6 cents during the same period. *Id*. Decreasing revenue coupled with increasing cost caused unit contribution to decline in FY 2016. *Id.* Table III-2 details the unit cost, revenue, and contribution for Periodicals as a whole during the PAEA era.

[46] In this Report, attributable cost means incremental cost. *See* Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016, at 125 (Order No. 3506). The attributable cost for years before FY 2016 reflect the accepted methodology for those years and has not been recalculated.

Table III-2
Periodicals Unit Cost, Revenue, and Contribution, FY 2007–FY 2016

Fiscal Year	Unit Attributable Cost	Unit Revenue	Unit Contribution
2007	$0.2997	$0.2488	-$0.0509
2008	$0.3175	$0.2667	-$0.0508
2009	$0.3370	$0.2563	-$0.0807
2010	$0.3425	$0.2585	-$0.0841
2011	$0.3434	$0.2573	-$0.0860
2012	$0.3562	$0.2568	-$0.0994
2013	$0.3427	$0.2608	-$0.0819
2014	$0.3531	$0.2689	-$0.0842
2015	$0.3599	$0.2722	-$0.0877
2016	$0.3658	$0.2697	-$0.0961

Source: Library Reference PRC–LR–ACR2016/5.

b. Commission Analysis of FY 2016 Financial Results

Since FY 2007, Periodicals volume declined 36.5 percent, revenue declined 31.1 percent, cost declined 22.5 percent, and the Periodicals class accumulated negative contribution of more than $5 billion. Increasing unit cost contributed to Periodicals' inability to cover its attributable cost. The exigent surcharge, which went into effect on January 26, 2014,[47] improved the revenue generated during part of FY 2016. The increase in average unit cost, however, outpaced the average unit revenue.

Decreases in both the average weight and advertising content of Periodicals mailings also affected FY 2016 Periodicals revenue. Periodicals prices are tied, in part, to the weight of the piece, and minor weight changes have a greater effect on the price paid by the mailers than on the cost incurred by the Postal Service. As the Postal Service explains, minor weight increases do not significantly affect cost within the weight range of typical mailpieces (3 to 16 ounces) or the productivity of mail processing equipment.[48] Minor weight changes can, however, have significant effects on revenue. Average weight for Outside County Periodicals decreased from 6.09 ounces per piece in FY 2015 to 6.04 ounces per piece in FY 2016. Library Reference PRC–LR–ACR2016/5. Furthermore, advertising pounds, which pay higher prices, decreased from 39.1 percent of total Outside County Periodicals pounds in FY 2015 to 38.4 percent in FY 2016. *Id.*

[47] *See* Docket No. R2013-11, Order No. 1926, Order Granting Exigent Price Increase, December 24, 2013, at 193.

[48] FY 2015 ACR at 46 (identifying the following equipment: the Automated Flats Sorting Machine 100 (AFSM 100), FSS, Automation Parcel and Bundle Sorter (APBS), or Automated Package Processing System (APPS)).

See Chapter 2, *supra*, for a discussion of Periodicals worksharing incentives and for a discussion of the importance of sending efficient pricing signals to mailers.

c. Commission Analysis of Outside County Periodicals Unit Cost

The Periodicals class is comprised of two products: In-County[49] and Outside County. In FY 2016, Outside County constituted 90.4 percent of Periodicals volume and 95.7 percent of Periodicals attributable cost. Library Reference PRC–LR–ACR2016/5. Because Outside County pieces incur most of the costs for the Periodicals class, operational initiatives focused on Outside County Periodicals have greater potential for cost savings for the Periodicals class. Table III-3 shows that Outside County Periodicals total unit cost increased by 0.50 cents from FY 2015 to FY 2016.

Table III-3
Change in Outside County Periodicals Unit Attributable Costs, FY 2008–FY 2016[50] (Cents)

Fiscal Year	Mail Processing	Delivery	Transportation	Other	Total
2008	12.23	8.06	3.52	10.12	33.93
2009	12.94	9.29	3.18	10.89	36.30
2010	12.02	9.68	3.59	11.09	36.38
2011	12.07	9.50	3.41	11.51	36.49
2012	12.41	9.57	3.90	11.87	37.74
2013	11.69	9.38	3.89	11.39	36.35
2014	12.25	9.63	3.83	11.82	37.53
2015	11.89	10.29	4.31	11.72	38.21
2016	12.08	10.44	4.68	11.52	38.71

Source: Library Reference PRC–LR–ACR2016/5.

In FY 2016, the unit costs for mail processing, delivery, and transportation increased while there was a slight reduction in other unit cost. The trends for transportation and mail processing unit costs, however, show that the Postal Service has not realized cost savings from increased mailer preparation (worksharing), via dropshipping and presortation.

Since FY 2008, mailers have increasingly dropshipped Outside County Periodicals. In FY 2008, 58.6 percent of Outside County Periodicals mail was dropshipped at the DSCF. In FY 2016, 72.2 percent of Outside County Periodicals mail was dropshipped at the DSCF or the

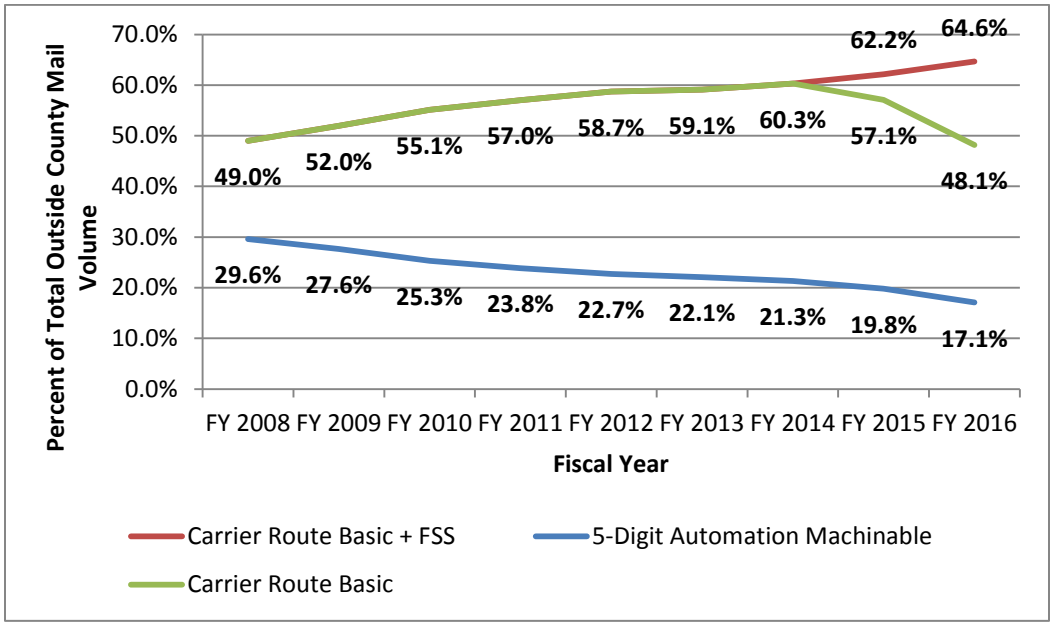
[49] The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

[50] The unit cost figures from Library Reference USPS–FY16–43 include piggybacks. The figures in this table do not include piggybacks. *Compare* Library Reference USPS–FY16–43, December 29, 2016 *with* Library Reference PRC–LR–ACR2016/5. A majority of the other costs are piggybacked onto mail processing, delivery, and transportation.

DFSS facility.[51] Entry of Outside County Periodicals closer to the end destination should lead to an overall decrease in the transportation unit cost. However, since FY 2008, transportation unit cost for Outside County Periodicals has increased.

Since FY 2008, mailer presortation of Outside County Periodicals has increased substantially. As Figure III-1 illustrates, 49.0 percent of mail volume was presorted to the Carrier Route level in FY 2008, whereas 64.6 percent of mail volume was presorted to the Carrier Route or FSS level in FY 2016.[52]

Figure III-1
Change in Outside County Periodicals Mail Mix, FY 2008–FY 2016



Source: Library Reference PRC–LR–ACR2016/5.

Mail processing unit costs are much lower for mailpieces presorted to the Carrier Route level than to the 5-Digit level. The Postal Service does not report mail processing costs for Carrier Route presorted Periodicals separately from other presorted Periodicals, such as 5-Digit and 3-Digit, because they are not separate products. However, Carrier Route and Standard Mail Flats (such as 5-Digit and 3-Digit) are separate products and therefore, the CRA isolates the mail processing cost for this level of presortation in Standard Mail. Standard Mail Flats and Carrier Route pieces are processed on the same machines as

[51] With the implementation of Docket No. R2015-4 prices, some mailpieces that were previously dropshipped at a DSCF are now dropshipped at a DFSS. Hence, the DSCF and DFSS dropshipped pieces are totaled to demonstrate the degree to which mailers dropshipped Outside County Periodicals mailings in FY 2016.

[52] With the implementation of Docket No. R2015-4 prices, some mailpieces that were previously Carrier Route are now required to be prepared at the FSS level. Hence, the Carrier Route and FSS pieces are totaled to demonstrate the degree to which mailers prepared Outside County Periodicals mailings in FY 2016.

Periodicals, often at the same time. The product-level Standard Mail information from the CRA may provide insight into the potential for cost differences within the Periodicals class.

Since FY 2008, mail processing unit costs for flat-shaped mail have increased.[53] Declining mail processing productivity contributed considerably to this increase. Table III-4 details changes in productivity for selected flats processing operations since FY 2008.

Table III-4
Change in Productivity for Selected Flats Processing Operations, FY 2008–FY 2016

Operation	Productivity Change
Automated Flats Sorting Machine 100 (AFSM 100) Incoming Secondary	-22%
Small Parcel Bundle Sorter (SPBS)/Automated Parcel Bundle Sorter (APBS) Incoming	-23%
Automated Package Processing System (APPS) Incoming	-45%
Flats Sequencing System (FSS)[54]	-8%

Source: Library Reference PRC–LR–ACR2016/5.

In FY 2010 and FY 2011, the Postal Service projected improved flats mail processing performance;[55] however, the Postal Service has yet to achieve such productivity increases. Flats productivity has decreased since FY 2008. Although the changing Outside County Periodicals mail mix will likely result in less processing on the AFSM 100, SPBS/APBS, and APPS, Periodicals will continue to have cost coverage issues if the Postal Service does not address declining productivity.

Periodicals have persistently failed to cover cost. The Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.[56]

In Chapter 6, the Commission explains its concerns with the Postal Service's inability to quantify the cost savings from its initiatives to reduce the costs of flats. The Commission describes the information provided by the Postal Service and indicates it will open a strategic rulemaking to explore how the Postal Service should measure, track, and report on initiatives

[53] The piggybacked mail processing unit cost for Standard Mail Flats has increased from 22.89 cents in FY 2008 to 25.74 cents in FY 2016. *Compare* Docket No. ACR2008, Library Reference USPS–FY08–26, December 29, 2008, Excel file "shp08prc.xls," tab "Flats (4)," cell BP25 *with* Library Reference USPS–FY16–26, December 29, 2016, Excel file "shp16prc.xls," tab "Costs (All Shapes) W Final RF," cell O73.

[54] The FSS machine productivity is measured from its introduction in FY 2011.

[55] *See, e.g.*, Docket No. N2012-1, Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS–T–4), December 5, 2011, at 29-30 (projecting an increase in AFSM 100 productivity of 15 percent); Docket No. R2010-4, Responses of the United States Postal Service to Questions from the Bench at the Hearing for Mr. Neri, August 19, 2010, at 7 ("Expectations are for flats workhours to decline another 11 percent in FY 2010."); United States Postal Service Office of the Inspector General Report, Flats Sequencing System: Program Status and Projected Cash Flow, July 27, 2010, at 10 (Report Number DA-AR-10-007) (projecting that the lower bound or worst case scenario for the FSS would be a return on investment of 14.25 percent without transitional employees and 26.9 percent with transitional employees).

[56] *See* FY 2009 ACD at 75; FY 2010 ACD at 94; FY 2011 ACD at 105-106; FY 2012 ACD at 95-97; FY 2013 ACD at 44-45; FY 2014 ACD at 40-41; FY 2015 ACD at 50-51.

related to reducing the costs of flats. All of the recommendations pertaining to reducing flats costs in Chapter 6 apply to Periodicals.

2. Standard Mail Flats

a. Introduction

In FY 2016, Standard Mail Flats had a cost coverage of 79.4 percent.[57] As shown in Table III-5, cost coverage for Standard Mail Flats has steadily declined since FY 2013, when the cost coverage was 85.1 percent. In FY 2016, the Postal Service reports the lowest cost coverage for Standard Mail Flats since FY 2008.

Table III-5
Standard Mail Flats Cost Coverage and Contribution, FY 2008–FY 2016

Fiscal Year	Cost Coverage	Contribution (millions)
FY 2008	94.4%	-$217.8
FY 2009	82.1%	-$615.6
FY 2010	81.8%	-$577.0
FY 2011	79.5%	-$643.2
FY 2012	80.9%	-$527.9
FY 2013	85.1%	-$375.9
FY 2014	83.2%	-$411.0
FY 2015	80.3%	-$520.0
FY 2016	79.4%	-$618.1
Total		-$4,506.6

Source: Library Reference PRC–LR–ACR2016/4.

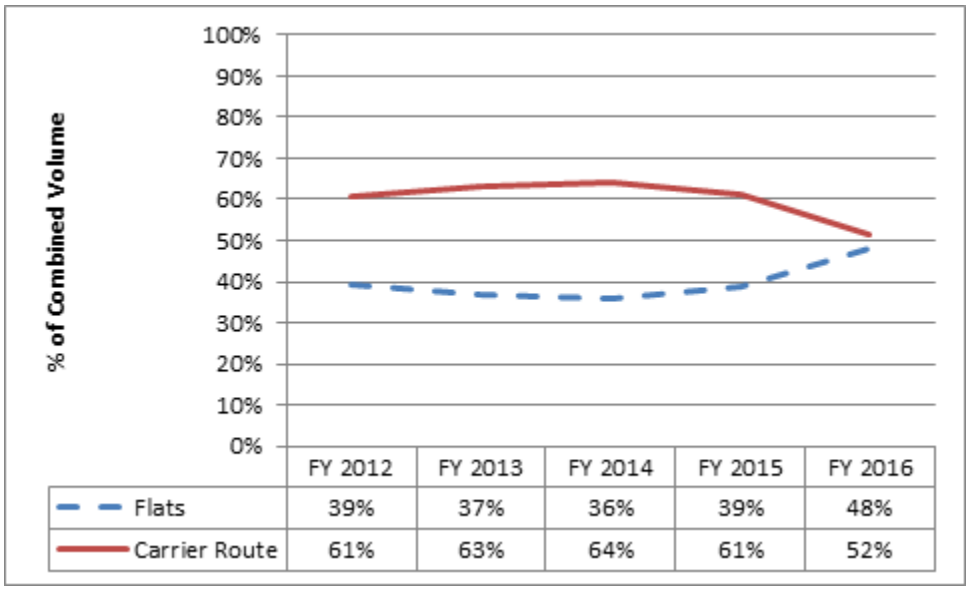
The Postal Service ascribes the decrease in cost coverage to a significant decline in revenue per piece. FY 2016 ACR at 25. In FY 2016, two factors contributed to the reduction in unit revenue: the elimination of the exigent surcharge;[58] and the migration of Carrier Route into the FSS rate categories within the Flats product.[59] FY 2016 ACR at 25. Figure III-2 illustrates this migration to lower price categories by showing that prior to FY 2016, Standard Mail Flats represented less than 40 percent of combined Carrier Route and Standard Mail Flats volume, but in FY 2016, Standard Mail Flats represented nearly 50 percent of the combined volume.

[57] The Commission's cost coverage calculation differs from the Postal Service's because the Commission includes fees in the revenue for each product and the Postal Service does not.

[58] The exigent surcharge was removed on April 10, 2016. *See* Docket No. R2013-11, Order No. 3186, Order on Removal of the Exigent Surcharge and Related Changes to the Mail Classification Schedule, March 29, 2016, at 5.

[59] In FY 2016, there was a migration of Carrier Route Flats to the Standard Mail Flats product due to the implementation of FSS-specific prices. The existence of these prices contributed to more volume, a decreased unit cost per piece, and a decreased unit revenue per piece in FY 2016. In FY 2017, the Postal Service proposed, and the Commission approved, the elimination of FSS prices. Therefore, the volume, unit cost, and unit revenue data for FY 2016 reflect a different mail mix than previous and future volume, cost, and revenue data.

Figure III-2
Standard Mail Flats and Carrier Route Volume, FY 2012–FY 2016



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Flats	39%	37%	36%	39%	48%
Carrier Route	61%	63%	64%	61%	52%

Source: Library Reference PRC–LR–ACR2016/4.

The Postal Service reports that the unit contribution for Standard Mail Flats improved from -9.9 cents in FY 2015 to -9.5 cents in FY 2016. FY 2016 ACR at 38. However, the Postal Service also reports that total negative contribution increased, which it states is due to volume growth. *Id.* at 36-38.

In its review of the financial performance of Standard Mail Flats for FY 2016, the Commission must consider whether the Postal Service complied with its FY 2010 ACD directive regarding Standard Mail Flats. Below, the Commission discusses the directive, as well as comments received concerning the financial performance of Standard Mail Flats for FY 2016. In Chapter 6 of this Report, the Commission discusses the status of the reporting required by Chapter 6 of the FY 2015 ACD and further action regarding Standard Mail Flats.

b. FY 2010 ACD Directive for Standard Mail Flats

In the FY 2010 ACD, the Commission determined that Standard Mail Flats prices in effect in FY 2010 did not comply with 39 U.S.C. § 101(d) and directed the Postal Service to increase the product's cost coverage through a combination of above-average price adjustments, consistent with the price cap requirements, and cost reductions, until such time that revenue exceeded attributable cost. FY 2010 ACD at 106. In addition, the Commission directed the Postal Service to provide the following information in each of its subsequent ACRs:

- A description of operational changes designed to reduce flats costs in the previous fiscal year and an estimation of the financial effect of such changes

- A description of all costing methodology or measurement improvements made in the previous fiscal year and the estimated financial effects of such changes
- A statement summarizing the historical and current fiscal year subsidy of the Flats product, and the estimated timeline for phasing out this subsidy

Id. at 107.

The Postal Service appealed the Commission's FY 2010 ACD findings and directive.[60] The court rejected the Postal Service's contention that the Commission acted outside of the scope of its statutory authority by considering the general standards of 39 U.S.C. § 101(d) in an ACD "at least in extreme circumstances." *Id*. at 1108. The court remanded the case to the Commission "for a definition of the circumstances that trigger [section] 101(d)'s failsafe protection, and for an explanation of why the particular remedy imposed here is appropriate to ameliorate that extremity…." *Id*. at 1109. In response, the Commission issued Order No. 1427, clarifying that its analysis of the circumstances that would trigger 39 U.S.C. § 101(d) depended on the totality of circumstances.[61]

In its FY 2012, FY 2013, and FY 2014 ACDs, the Commission found that the Postal Service made progress towards addressing the issues raised in the FY 2010 ACD, and concluded that no additional remedial actions beyond those prescribed in the FY 2010 directive were required. *See* FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 47.

In FY 2015, the Commission found that sufficient progress was no longer being made and required that the Postal Service develop a plan to measure, track, and report on cost and service issues related to flat-shaped products. FY 2015 ACD at 181. The response to that directive is discussed in more detail in Chapter 6 of this Report.

c. Response to FY 2010 ACD Directive

In its FY 2016 ACR, the Postal Service reports that it plans to increase Standard Mail Flats prices by at least consumer price index multiplied by 1.05 in the next general Market Dominant price change. FY 2016 ACR at 26.

The Postal Service provides some of the information required by the Commission's FY 2010 ACD directive: a description of operational changes designed to reduce Standard Mail Flats costs; a description of all costing methodology changes made in FY 2016 that affect Standard Mail Flats costs; and the historical and current fiscal year subsidy of the Standard Mail Flats product. *Id.* at 27-38.

(1) Operational Changes Designed to Reduce Flats Cost

The Postal Service describes six ongoing operational steps taken during FY 2016 designed to make processing Standard Mail Flats more efficient: FSS Scorecard; Bundle Operation;

[60] *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105 (D.C. Cir. 2012).

[61] Docket No. ACR2010-R, Order on Remand, August 9, 2012, at 4 (Order No. 1427).

Service Performance Diagnostics Tool; Lean Mail Processing; Reduce Bundle Breakage; and Standard Mail Outgoing Mixed States. *Id.* at 27-34.

The Postal Service maintains that these initiatives are expected to improve efficiencies and productivities, as well as reduce overall Standard Mail Flats cost. *Id*. at 27. However, the Postal Service is unable to quantify any specific cost reductions associated with these operational changes. *Id*. at 28.

(2) Costing Methodology Changes in FY 2016

There were no costing methodology changes that affected Standard Mail Flats costs in FY 2016. *Id.* at 34. However, the Postal Service does highlight the migration of Carrier Route mail to the Flats product, which will likely return to Carrier Route in FY 2017 when the FSS prices are eliminated. *Id*. at 35-36.

(3) Historical and Current Fiscal Year Subsidies

The Postal Service provides the historical and current fiscal year subsidy of the Standard Mail Flats product. *Id*. at 37. However, it does not provide a timeline for phasing out the subsidy and asserts that it is difficult to predict when the shortfall for the product will be phased out. *Id*. It also states that it is unlikely that the shortfall will be eliminated prior to the present review of the regulatory system. *Id.* The Postal Service asserts "[t]he prospects for eliminating the shortfall thereafter will depend not only on pricing and cost saving initiatives, but also on any changes made to applicable regulations by the Commission." *Id.* The Postal Service notes that the FY 2016 Standard Mail Flats shortfall is less than what it was when the shortfall peaked in FY 2011. *Id.*

d. Comments on Standard Mail Flats

The Commission received comments from the American Catalog Mailers Association (ACMA),[62] Valpak Direct Marketing Systems, Inc. and the Valpak Franchise Association, Inc. (Valpak),[63] the Association for Postal Commerce (PostCom),[64] and the Public Representative[65] regarding the financial performance of Standard Mail Flats in FY 2016. The Postal Service and PostCom filed reply comments related to Standard Mail Flats.[66] The comments generally address Standard Mail pricing, Standard Mail Flats cost, and compliance with the Commission's Standard Mail Flats FY 2010 ACD directive.

(1) Standard Mail Flats Pricing

Valpak states that the Commission's remedial orders have not resolved or reduced the intra-class subsidy that exists within the Standard Mail class. Valpak Comments at 8. Valpak contends that a significant price increase is required for the product because of the

[62] Initial Comments of the American Catalog Mailers Association, February 2, 2017 (ACMA Comments).

[63] Valpak Direct Marketing Systems, Inc. and the Valpak Franchise Association, Inc. Initial Comments on the United States Postal Service FY 2015 Annual Compliance Report, February 2, 2017 (Valpak Comments).

[64] Initial Comments of the Association for Postal Commerce, February 2, 2017 (PostCom Comments).

[65] PR Comments.

[66] Postal Service Reply Comments; PostCom Reply Comments.

declining cost coverage for Standard Mail Flats, contrary to the Commission's FY 2010 Directive. *See id.* at 15.

The Postal Service and PostCom respond to Valpak's argument in favor of a significant price increase for Standard Mail Flats. PostCom argues that Valpak's request is premature because the Commission's effort to identify and resolve flats costs problems is still ongoing. PostCom Reply Comments at 3. PostCom also contends that the Docket No. R2017-1 price adjustment will improve the efficiency and handling of flats. *Id.* PostCom asserts that efficiency could be further improved if the Postal Service better leverages efforts of the mail industry by sending appropriate price signals. *Id.* Finally, PostCom argues that a significant price increase for Standard Mail Flats would "contravene the core pricing objectives." *Id.* at 4.

Also in response to Valpak, the Postal Service asserts that the decline in the cost coverage of Standard Mail Flats was most likely caused by the removal of the exigent surcharge. Postal Service Reply Comments at 9. The Postal Service contends that without the removal of the exigent surcharge, it is possible that Standard Mail Flats would have a cost coverage greater than the FY 2010 level. *Id.* The Postal Service requests that the Commission reject Valpak's recommendation for Standard Mail Flats price increases. *Id.* at 12.

ACMA requests consideration of several pricing changes, including a Periodicals-style pricing structure for Standard Mail Flats. ACMA Comments at 16-17. However, ACMA expects that the new prices and classifications approved in Docket No. R2017-1 will likely improve the cost coverage of Standard Mail Flats, and states that it would be unfair to proceed with significant price increases for catalogs and flats. *Id.* at 17-18. The Postal Service agrees that there should not be additional price increases for Standard Mail Flats. Postal Service Reply Comments at 12.

ACMA states that if the commercial portions of Carrier Route and Standard Mail Flats were combined, the resulting cost coverage would have been 105.1 percent in FY 2016, down from 108.9 percent in FY 2015. ACMA Comments at 3-4. ACMA argues that looking at a combination of the commercial portions of Standard Mail Flats and Carrier Route is appropriate because Standard Mail Flats is a residual category to Carrier Route and that nonprofit prices are considerably lower than commercial prices, which negatively impacts the reported product cost coverage. *Id.* at 4.

(2) Standard Mail Flats Cost

Valpak notes that Standard Mail Flats' losses continued to increase in FY 2016 and the product's cost coverage is heading in the wrong direction. Valpak Comments at 1-2. It also asserts that Standard Mail Flats unit cost is higher and its cost coverage is lower due to the migration of Carrier Route into Standard Mail Flats. *Id.* at 5. Valpak further contends that cost cutting has not worked and has led to total losses from Standard Mail Flats of $4.5 billion since FY 2007. *Id.* at 3-4. Valpak explains that Standard Mail Flats will need to be subsidized as long as forecasts can be made because the Postal Service has admitted that

the shortfall will not be eliminated prior to the statutory review of the Market Dominant rate system. *Id.* at 4-5.

In response to Valpak, the Postal Service argues that the Valpak analysis omitted the fact that the unit cost of Standard Mail Flats decreased and that unit contribution increased. Postal Service Reply Comments at 9. The Postal Service concludes that if the exigent surcharge would not have been removed in FY 2016, the unit cost and unit contribution improvements could have led to the FY 2016 cost coverage exceeding the FY 2010 cost coverage. *Id.*

ACMA points to some successes in the Postal Service unit cost results, including an increase in Carrier Route's commercial cost coverage of 6.4 percentage points, which it partly ascribes to a 15.7 percent decline in unit mail processing costs. ACMA Comments at 6. However, ACMA still expresses concerns about the reliability of cost data. *Id*. at 7-12. For example, it notes the additional street time associated with Standard Mail Flats, Carrier Route, and High Density Flats (with additional street times of 5.8 seconds, 3.4 seconds, and 2.6 seconds, respectively).[67] ACMA concludes that carriers are not able to tell the difference between these types of mail, therefore there should be no difference in street time. *Id.* at 10.

The Postal Service responds to ACMA by asserting that its analysis "is not sound." Postal Service Reply Comments at 32. The Postal Service explains that ACMA uses mail processing data from the Standard Mail Flats models,[68] which use fixed costs in its calculations for FY 2007-FY 2016, and excludes fixed costs in its analysis prior to FY 2007. Postal Service Reply Comments at 33. The Postal Service also contends that ACMA's street time analysis is not accurate and states that even if the results were accurate, the results would not necessarily be unreasonable. *Id.* at 35. The Postal Service explains ACMA's analysis shows that a larger percentage of Standard Mail Flats is processed on the FSS, which the econometric model estimates has the highest flat-shaped marginal time, leading to additional street time for Standard Mail Flats. *Id.* at 36.

PostCom expresses concern about the Postal Service's inability to determine the impact operational decisions on costs. PostCom Comments at 4. PostCom discusses the failure of efficiencies to result in cost savings for flats. *Id*. at 3-4. It notes that "Standard Mail [F]lats costs grew at 15.7 percent when volume increased by only 10 percent." *Id.* at 3.

(3) Compliance with the Commission's Standard Mail Flats FY 2010 ACD Directive

The Public Representative states that he "cannot conclude that the Postal Service fully followed the Commission's directive regarding cost reduction for Standard Mail Flats." PR Comments at 34. He notes a decreasing cost coverage for the product as well as the

[67] *Id.* at 9-10. ACMA also provides examples associated with mail processing costs and marginal casing time. *Id.* at 7-12.

[68] Library Reference USPS–FY16–11, December 29, 2016. This was filed in previous ACRs as Library Reference USPS–FY##–11.

inability of the Postal Service to provide an estimate of the financial impacts of operational changes in support of his conclusion. PR Comments at 33-34.

Valpak asserts that cost cutting measures are not the remedy to underwater Standard Mail Flats. Valpak Comments at 14. Valpak argues that "the cost reduction portion of [the FY 2010 ACD] remedy has been nonexistent — or entirely ineffective." *Id.* at 15. Valpak goes on to state that the Docket No. R2017-1 prices "will do nothing towards complying with the remedial order to improve cost coverage." *See id.*

In response to Valpak, the Postal Service details the above-average price increases given to Standard Mail Flats from Docket No. R2013-10 through Docket No. R2017-1, as well as the lesser price increases for High Density and Saturation Letters. Postal Service Reply Comments at 10.

(4) Other Issues

ACMA contends that First-Class and Standard Mail commercial flats are likely overpriced because they are already at, or above, the "stand-alone" constraint.[69] ACMA asserts that, but for barriers to entry, a private delivery company would deliver commercial flat pieces because the Postal Service's prices are already above stand-alone cost. *Id.* at 12.

In response to ACMA's analysis, the Postal Service states that ACMA has not provided a "meaningful empirical estimate of stand-alone costs" that prove ACMA's assertion. Postal Service Reply Comments at 38.

e. Commission Analysis

The cost coverage for Standard Mail Flats was 79.4 percent in FY 2016, down from 80.2 percent in FY 2015. The FY 2016 cost coverage is now the lowest recorded cost coverage for Standard Mail Flats. As shown in Table III-6, the decrease in unit cost and the decline in unit revenue resulted in a unit contribution of -9.7 cents in FY 2016, a 0.2 cent improvement from FY 2015.

[69] ACMA Comments at 13. "Stand-alone" constraint is a term used by ACMA to refer to the constraint that the stand-alone costs of a competitor's service would arguably place on Postal Service prices thereby protecting mailers from overpricing and the subsidization of other mail products. *See* ACMA Comments at 12-13. To support its position, ACMA cites the testimony of Mr. William J. Baumol on behalf of the Postal Service in Docket No. R87-1. *Id.* at 12 n.9.

Table III-6
Standard Mail Flats Unit Contribution, FY 2008–FY 2016

Fiscal Year	Unit Revenue (cents)	Unit Attributable Cost (cents)	Unit Contribution (cents)
FY 2008	36.7	38.9	-2.2
FY 2009	36.9	44.8	-7.9
FY 2010	36.6	44.8	-8.2
FY 2011	36.8	46.3	-9.5
FY 2012	37.6	46.5	-8.9
FY 2013	38.4	45.2	-6.8
FY 2014	40.4	48.5	-8.1
FY 2015	40.2	50.1	-9.9
FY 2016	37.5	47.3	-9.7

Source: Library Reference PRC–LR–ACR2016/4.

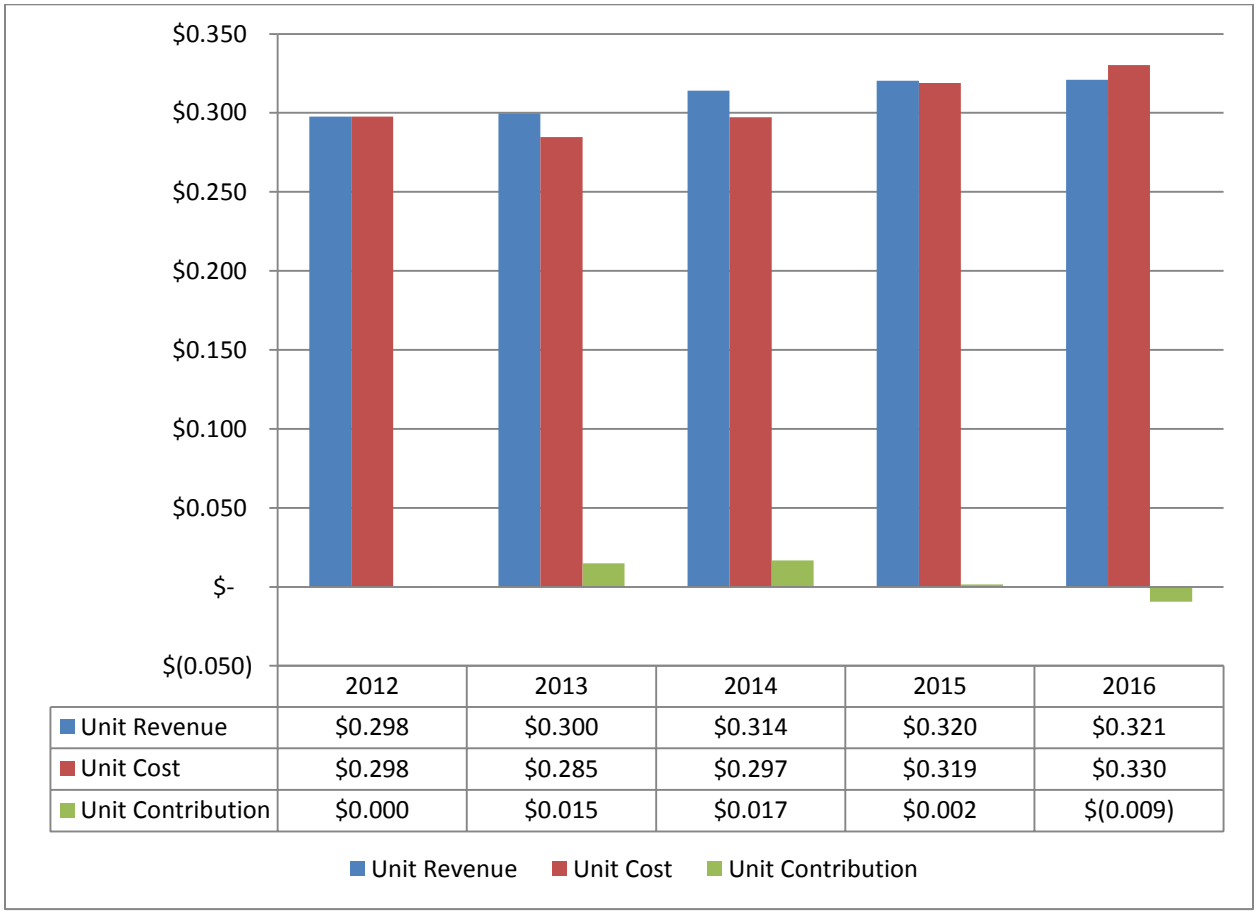
There were several underlying events that impacted both the unit revenue and unit cost in FY 2016. First, the removal of the exigent surcharge reduced unit revenue. Second, the migration of Carrier Route mail to the Standard Mail Flats product likely reduced both unit revenue and unit attributable cost because former Carrier Route pieces were required to migrate to the lowest price categories, which are also the least costly for the Postal Service to process. Third, in Order No. 3506, the Commission found that attributable costs should include volume-variable costs, product-specific costs, and those inframarginal costs included within each product's incremental costs. Order No. 3506 at 61-62. This change in cost methodology increases the unit attributable cost of the Standard Mail Flats product by 0.2 cent.[70]

The migration that occurred between Carrier Route and Standard Mail Flats results in imperfect comparisons of FY 2016 data to other fiscal years for both Flats and Carrier Route. One way to normalize the data to better observe unit cost, unit revenue, and unit contribution trends is to combine revenue, cost, and volume data for Standard Mail Flats and Carrier Route.[71] Figure III-3 illustrates a better comparison of cost, revenue, contribution, and volume changes over time because the influence of the migration between Flats and Carrier Route is eliminated when the data from the two products are combined.

[70] This change increased the unit cost of Flats from 47.1 cents to 47.3 cents. *Compare* Library Reference USPS–FY16–LR1 *with* Library Reference PRC–LR–ACR2016/1.

[71] The Postal Service and commenters have asserted that these products share the same characteristics and the data could be combined for analysis. *See, e.g.,* ACMA Comments at 4; Docket No. ACR2010, United States Postal Service FY 2010 Annual Compliance Report, December 29, 2010, at 31 n.10.

Figure III-3
Combined Standard Mail Flats and Carrier Route Unit Revenue, Unit Cost, and Unit Contribution, FY 2012–FY 2016



	2012	2013	2014	2015	2016
Unit Revenue	$0.298	$0.300	$0.314	$0.320	$0.321
Unit Cost	$0.298	$0.285	$0.297	$0.319	$0.330
Unit Contribution	$0.000	$0.015	$0.017	$0.002	$(0.009)

As shown in Figure III-3, the combined unit contribution from Standard Mail Flats and Carrier Route was negative for the first time in FY 2016. Since FY 2012, the combined unit revenue has increased almost 8 percent, while the combined unit cost has increased 11 percent. This analysis indicates that the Postal Service has been unsuccessful in its efforts to reduce cost and increase revenue in a way that improves cost coverage.

During FY 2016, the Postal Service continued existing operational initiatives to make the processing of flats more efficient. However, no new operational initiatives or operational changes were identified by the Postal Service. The Postal Service was also unable to estimate cost savings from any of its current or past operational initiatives. Cost savings programs or initiatives generally target one or more specific activities to produce cost savings. As the Commission has stated in previous ACDs, the Postal Service's cost saving initiatives should have specific and measurable targets by which the benefits of the program can be evaluated. *See* FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 48; FY 2015 ACD at 64.

The Postal Service reports on metrics related to some operational initiatives. FY 2016 ACD at 27-34. There was no positive change in any metric and the Postal Service provides no explanation or plans to improve any initiative in FY 2017. The Postal Service also reports that some multi-year initiatives were completed in FY 2016,[72] but does not provide any information on quantifiable benefits received from the initiatives.

There was no Market Dominant price adjustment proposed or implemented during FY 2016. However, prices were reduced as a result of the removal of the exigent surcharge. The cumulative shortfall in contribution for Standard Mail Flats from FY 2008 through FY 2016 has grown to $4.5 billion.

The Commission finds that in FY 2016 no progress was made toward addressing the issues it raised in the FY 2010 ACD. The Postal Service must continue responding to the requirements of the FY 2010 ACD directive by proposing above-average price increases for Standard Mail Flats, striving to reduce Standard Mail Flats cost, and providing the required documentation of those efforts in future Annual Compliance Reports.

In Chapter 6, the Commission explains its concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flats. The Commission describes the information provided by the Postal Service and future proceedings that will require the Postal Service to measure, track, and report on initiatives related to reducing the costs of flats.

3. Standard Mail Parcels

In FY 2016, Standard Mail Parcels had a cost coverage of 64.6 percent,[73] down 8.2 percentage points from FY 2015. In FY 2016, the volume of Standard Mail Parcels decreased by 25.9 percent. Unit revenue increased by 11.5 percent and unit attributable cost increased by 25.7 percent compared with FY 2015. This resulted in a 27.1 cent decrease in unit contribution from FY 2015 to FY 2016.

The Postal Service explains that these changes are partly due to "a slight increase in labor costs combined with a substantial decrease in parcel volume." FY 2016 ACR at 24. The Postal Service also notes the removal of the exigent surcharge. *Id.* at 24-25. The Postal Service intends to improve the product's cost coverage by continuing to propose above-average price increases. *Id.*

Table III-7 displays the unit revenue, unit attributable cost, unit contribution, cost coverage, and volume for Standard Mail Parcels from FY 2012 to FY 2016. It shows that

[72] For example, in FY 2014, the Postal Service began expanding the capacity of APBS machines by adding bins. FY 2016 ACR at 30. In FY 2015, the Postal Service added 3,520 more bins to the APBS, and in FY 2016, the Postal Service completed the expansion by adding 2,144 bins. *Id.* The Postal Service asserts that this initiative will result in the reduction of manual handling for packages and "improve finalization of bundles at many locations, as elimination of the second sortation makes the machine available for bundle processing." *Id*. However, the Postal Service does not provide any data to support these assertions.

[73] The Commission's cost coverage calculation differs from the Postal Service's because the Commission includes fees in the revenue for each product and the Postal Service does not.

unit revenue and unit attributable cost increased significantly from FY 2015 to FY 2016, and have steadily been rising since FY 2012.

Table III-7
Standard Mail Parcels Financial Comparison, FY 2012–FY 2016

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2012 to FY 2016 Change	FY 2015 to FY 2016 Change
Unit Revenue	$0.952	$1.034	$1.094	$1.086	$1.201	26.2%	10.6%
Unit Attributable Cost	$1.113	$1.524	$1.557	$1.480	$1.860	67.1%	25.7%
Unit Contribution	-$0.161	-$0.489	-$0.464	-$0.393	-$0.659	-308.6%	-67.5%
Volume	303,558,642	71,966,232	65,845,949	60,420,263	44,766,854	-85.3%	-25.9%

Source: Library Reference PRC–LR–ACR2016/4.

Table III-8 displays the distribution of commercial and nonprofit volumes for Standard Mail Parcels from FY 2012 and FY 2016. The proportion of nonprofit mail is 5.4 times greater in FY 2016 than FY 2012.

Table III-8
Standard Mail Parcels Commercial to Nonprofit Volume Distributions, FY 2012 and FY 2016

	FY 2012	FY 2012 Distribution	FY 2016	FY 2016 Distribution
Commercial Volume	285,925,057	94.2%	30,610,720	68.4%
Nonprofit Volume	17,633,585	5.8%	14,156,134	31.6%
Total Volume	**303,558,642**	**100.0%**	**44,766,854**	**100.0%**

Source: Library Reference PRC–LR–ACR2016/4.

Table III-9 displays the unit costs for commercial and nonprofit Standard Mail Parcels. It shows unit costs of nonprofit mail are much higher than commercial mail ($2.40 compared to $1.61). Therefore, a higher proportion of nonprofit pieces leads to higher costs and lower revenues for the Standard Mail Parcels product.

Table III-9
Standard Mail Parcels Commercial to Nonprofit FY 2016 Unit Cost Comparison

	FY 2016 Volume	FY 2016 Attributable Cost	FY 2016 Unit Attributable Cost
Commercial Parcels	30,610,720	49,330,597	$1.61
Nonprofit Parcels	14,156,134	33,941,882	$2.40
Parcels	**44,766,854**	**83,272,479**	**$1.86**

Source: Library Reference PRC–LR–ACR2016/4.

In FY 2012, the Commission approved the reclassification of some Standard Mail Parcels to the competitive product list.[74] Together, these tables illustrate the effect of reclassification on the financial performance of Standard Mail Parcels since FY 2012.

To improve Standard Mail Parcels' cost coverage, the Postal Service states that it will continue proposing above-average price increases. FY 2016 ACR at 25. Most recently, in Docket No. R2017-1, the Commission approved a price increase for Standard Mail Parcels of 1.583 percent, 0.683 percentage points higher than the average price increase for Standard Mail of 0.900 percent. *See* Order No. 3610 at 29.

The Public Representative expresses concern about the cost coverage for Standard Mail Parcels and its compliance with 39 U.S.C. § 3622(c)(2). PR Comments at 30. In addition to implementing above-average price increases, he recommends that the Commission require the Postal Service to improve the productivity of Standard Mail Parcels. *Id.* at 31.

The Commission finds that FY 2016 revenue for Standard Mail Parcels was not sufficient to cover attributable cost. The Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate; however, unit cost increases are overwhelming unit revenue increases. In addition to above-average price increases, the Postal Service should explore and implement opportunities to further reduce the unit cost of Standard Mail Parcels and report on those opportunities and results in the FY 2017 Annual Compliance Report.

4. Stamp Fulfillment Services

The Stamp Fulfillment Services (SFS) product provides for the fulfillment of stamp orders placed by mail, phone, fax, or online to the Stamp Fulfillment Services Center in Kansas City, Missouri. It was added to the *Mail Classification Schedule* as a Market Dominant product in FY 2010. Cost has exceeded revenue and, consequently, cost coverage has been

[74] On March 2, 2011, the Commission conditionally approved the Postal Service's request to transfer commercial Standard Mail Parcels to the competitive product list. *See* Docket No. MC2010-36, Order No. 689, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011. However, the Commission required a price adjustment as a condition of transfer. *See* Docket No. CP2012-2, Order No. 1062, Order Approving Changes in Rates of General Applicability for Competitive Products, December 21, 2011. Because the new rates took effect on January 22, 2012, the data does not fully reflect the reclassification until FY 2013. *Id.* at 1.

below 100 percent each year since its introduction. However, cost coverage has improved substantially since FY 2012, showing increases each year. *See* Table III-10.

Table III-10
Stamp Fulfillment Services Cost Coverage, FY 2010–FY 2016

Fiscal Year	Revenue	Attributable Cost	Cost Coverage
FY 2010	$3,069,349	$5,778,908	53.1%
FY 2011	$3,126,445	$5,238,523	59.7%
FY 2012	$3,298,493	$5,566,808	59.3%
FY 2013	$4,088,070	$5,059,104	80.8%
FY 2014	$3,501,067	$4,253,758	82.3%
FY 2015	$3,910,286	$4,595,697	85.1%
FY 2016	$3,711,969	$4,251,737	87.3%

Source: Library Reference PRC—LR—ACR2016/7.

Continued progress has been made toward improving the cost coverage of SFS. In FY 2016, the Postal Service reported the highest cost coverage for SFS since its inception. The Postal Service continues to agree with the FY 2012 ACD, which stated that SFS "promotes the objectives of reducing costs and increasing efficiency." FY 2016 ACR at 63 (quoting FY 2012 ACD at 142).

The Commission finds that FY 2016 revenue for SFS was not sufficient to cover attributable cost. However, the financial performance of SFS does not entirely capture the value that the Services Center adds to the Postal Service and to other Postal Service products. Although SFS does not cover its attributable cost, product cost coverage is improving yearly, better promoting the Services Center objective of reducing cost and increasing efficiency. See 39 U.S.C. § 3622(b)(1).

5. Money Orders

The Money Orders product provides the customer with an instrument for payment of a specified sum of money, with a maximum value of $1,000. In FY 2016, Money Orders had a cost coverage of 91.1 percent, down from 152.9 percent in FY 2015. *See* Table III-11.

Table III-11
Money Orders Cost Coverage, FY 2012–FY 2016

Fiscal Year	Revenue	Attributable Cost	Cost Coverage
FY 2012	$166,260,913	$110,473,570	150.5%
FY 2013	$156,128,020	$103,265,927	151.2%
FY 2014	$165,260,986	$99,651,163	165.8%
FY 2015	$160,745,131	$105,107,920	152.9%
FY 2016	$156,370,690	$171,685,978	91.1%

Source: Library Reference PRC—LR—ACR2016/7.

As the Postal Service notes in its response to CHIR No. 11,[75] the decrease in cost coverage for Money Orders in FY 2016 is the result of a costing change, discussed in Chapter 1. In Order No. 3506, the Commission determined that attributable cost should be calculated using incremental cost rather than volume-variable cost. Order No. 3506 at 123-125. Without this change the cost coverage for Money Orders would have been 134.0 percent in FY 2016. February 3, 2017 Response to CHIR No. 11, question 11.b.

The Postal Service must investigate the accuracy of the incremental costing method with respect to mail processing costs attributed to Money Orders. In future Market Dominant price adjustments, the Postal Service shall improve cost coverage through above-average price increases for this product until such time that cost coverage reaches 100 percent of attributable costs.

6. Collect on Delivery

The Collect on Delivery (COD) product is an Ancillary Service that is offered to Priority Mail Express, First-Class Mail, First-Class Package Service, Priority Mail, Package Services, Parcel Select (excluding Parcel Select Lightweight), and Standard Post mailers. It allows these mailers to send an article for which the mailer has not received full or partial payment (of $1,000 or less) and have the Postal Service collect that payment, the cost of postage and fees, and anticipated or past due charges from the addressee when the article is delivered. FY 2016 is the first year since FY 2010 that cost has exceeded revenue, resulting in cost coverage below 100 percent. *See* Table III-12.

Table III-12
Collect on Delivery Cost Coverage, FY 2008–FY 2016

Fiscal Year	Revenue	Attributable Cost	Cost Coverage
FY 2008	$8,135,548	$6,834,863	119.0%
FY 2009	$7,564,147	$6,596,176	114.7%
FY 2010	$6,522,005	$8,245,738	79.1%
FY 2011	$6,677,514	$4,373,217	152.7%
FY 2012	$5,926,666	$3,603,916	164.5%
FY 2013	$4,431,648	$3,700,909	119.7%
FY 2014	$3,597,863	$2,673,242	134.6%
FY 2015	$3,115,822	$3,026,231	103.0%
FY 2016	$2,029,090	$4,940,856	41.1%

Source: Library Reference PRC—LR—ACR2016/7.

[75] Responses of the United States Postal Service to Questions 1-12 of Chairman's Information Request No. 11, February 3, 2017, question 11.c. (February 3, 2017 Response to CHIR No. 11).

The Postal Service states that "COD costs have varied greatly because the small number of transactions has resulted in limited observations during sampling for costing purposes." FY 2016 ACR at 62. Table III-12 highlights the volatility of COD cost. The Postal Service provides a positive outlook for future cost coverage, stating that "a combination of this price increase [from Docket No. R2017-1] and different sampling results next year could result in a cost coverage exceeding 100 percent in FY 2017." FY 2016 ACR at 62. The Commission's review of COD revealed that the majority of the cost increase was within the Mail Processing and Window Service Cost categories of Segment 3 (Clerks and Mailhandlers).

The Postal Service states that the apparent increases in these costs are "due to statistical variation related to the small sample size for COD."[76] The Postal Service points to the confidence intervals associated with the COD costs and concludes that "the change in the costs themselves is not statistically significant." Response to CHIR No. 12, question 10.d.

The Commission finds that FY 2016 revenue for COD was not sufficient to cover attributable cost. The Commission recognizes the difficulty of generating accurate costs for products with low volume and the statistical variation in small sample sizes. The Postal Service shall report in the FY 2017 ACR on the number of In-Office Cost System (IOCS) tallies for the COD product and include the confidence interval for the cost coverage.

7. Stamped Envelopes

The Stamped Envelopes product is an Ancillary Service that consists of both Plain and Personalized Stamped Envelopes with imprinted or impressed First-Class Mail postage. Its cost coverage has historically been above 100 percent, but cost coverage for FY 2016 was 92.3 percent. *See* Table III-13.

Table III-13
Stamped Envelopes Cost Coverage, FY 2012–FY 2016

Fiscal Year	Revenue	Attributable Cost	Cost Coverage
FY 2012	$16,584,487	$6,388,716	259.6%
FY 2013	$10,909,600	$6,476,230	168.5%
FY 2014	$9,927,505	$7,841,380	126.6%
FY 2015	$11,232,788	$7,267,095	154.6%
FY 2016	$9,082,751	$9,841,064	92.3%

Source: Library Reference PRC—LR—ACR2016/7.

The Postal Service ascribes the decrease in cost coverage to the process for calculating the product revenue. FY 2016 ACR at 64. The Postal Service notes that the CRA Stamped Envelopes revenue "does not include revenue from Personalized Stamped Envelopes

[76] Responses of the United States Postal Service to Questions 1-10 of Chairman's Information Request No. 12, February 6, 2017, question 10.c. (Response to CHIR No. 12).

premium option and shipping fees." *Id.* The Postal Service states that when those revenues are included, the Stamped Envelopes revenue increases to $13.1 million, a cost coverage of 137.0 percent. *Id.* The Postal Service has indicated that premium options and shipping fees were also not included in the product revenue for Stamped Envelopes in prior years. This makes the Postal Service's explanation for the decrease problematic.

The Commission finds that FY 2016 revenue for Stamped Envelopes was not sufficient to cover attributable cost. If the Postal Service deems it appropriate to include premium options and shipping fees with Stamped Envelopes, it should realign its revenue and cost calculations for Stamped Envelopes. The Postal Service must improve the product's cost coverage through realignment or above-average price increases in future Market Dominant price adjustments until such time that cost coverage reaches 100 percent of attributable costs.

8. Market Dominant International Mail

Market Dominant international mail is comprised of seven products: Inbound Letter Post, Outbound Single-Piece First-Class Mail International, International Ancillary Services, International Reply Coupon Service, International Business Reply Mail Service, Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, and Inbound Market Dominant Exprès Service Agreement 1.

In FY 2016, the Inbound Letter Post Market Dominant product did not cover its attributable cost. Three agreements within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product did not cover their attributable costs. Additionally, Inbound Registered Mail (within the International Ancillary Services product) failed to cover its attributable cost.

a. International Cost and Revenue Analysis

The Postal Service filed the ICRA with the FY 2016 ACR.[77] The ICRA is the basis of the Commission's analysis of international mail volume, weight, cost, and revenue data. Its accuracy is paramount to the Commission's compliance determination.

This year, the ICRA that the Postal Service originally filed with the Commission contained several methodological and computational errors. The first issue with the ICRA was the calculation of separate unit costs for target system and transition system countries.[78] As part of the current accepted methodology, the Postal Service develops separate unit costs for inbound air and surface mailpieces for target system countries and for transition system countries. The Postal Service then applies target system-specific or transition

[77] Library Reference USPS–FY16–NP2, December 29, 2016. The Postal Service later amended the ICRA on January 19, 2017 and February 3, 2017. Library Reference USPS–FY16–NP2, January 19, 2017 (January 19, 2017 ICRA); Library Reference USPS–FY16–NP2 (REVISED), February 3, 2017 (February 3, 2017 ICRA).

[78] Target system countries are mainly industrialized and newly industrialized countries as classified by the Universal Postal Union (UPU) for purposes of payments for the delivery of letter post among UPU members. Transition system countries are mainly developing countries. Inbound air and surface mailpieces refer to the following products: Inbound Letter Post, Inbound Parcel Post (at UPU Rates), Inbound Air Parcel Post (at non-UPU Rates), and Inbound Express Mail Service (EMS).

system-specific unit costs to the volume for each country within each system.[79] At the beginning of Calendar Year (CY) 2016, 19 countries, including China, moved from the transition system to the target system.[80] Under the accepted costing methodology, the most accurate way to develop system-specific unit costs would be to include CY 2015 Quarter 4 volumes from these 19 countries in the development of transition system-specific unit costs and include CY 2016 Quarters 1-3 volumes from these countries in the development of target system-specific unit costs. However, the Postal Service included all FY 2016 volume from these 19 countries in the development of target system-specific unit costs.

When asked to explain the rationale for this change, the Postal Service presented a new methodology that aggregates costs and volumes from both systems to create a single unit cost for each type of inbound mail. Response to CHIR No. 5, question 3. The Postal Service justifies this methodology on the grounds that the number of IOCS tallies available to disaggregate target system and transition system costs is insufficient for purposes of statistical reliability.[81] The Postal Service states that this new methodology improves the reliability of the cost estimates compared to the accepted methodology. Response to CHIR No. 12, question 1.

Although the new methodology does appear to improve the accuracy of the cost estimates, the Commission did not previously approve this new methodology. The Postal Service knew which countries would join the target system in CY 2016, since this issue was decided at the 2012 UPU Congress.[82] Accordingly, the Postal Service had ample time to develop an alternative methodology and propose a methodological change prior to the filing of the FY 2016 ACR. Although the Commission will use this methodology for assessing compliance in this ACD, the methodology must be reviewed by the Commission through a docketed proceeding before it can be used in future ACDs.

The second issue with the ICRA was the inaccurate calculation of domestic costs, which affected all international products.[83] Although the overall magnitude of the cost impact was small, once the calculation was corrected, the result was that previously noncompensatory products were compensatory, substantially altering the compliance determination.[84]

---

[79] Inbound unit costs are split into air letter post, surface letter post, air parcel post, surface parcel post, and EMS, which is exclusively air, for target system and transition system countries.

[80] Response of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 5, January 19, 2017, question 1 (Response to CHIR No. 5).

[81] *Id*. The IOCS is a sampling system used to develop in-office costs for products. For more details, *see* Library Reference USPS–FY16–37, December 29, 2016.

[82] UPU Congress Resolution C 77/2012 was updated with subsequent amendments made at the October 2013 session of the Council of Administration. Universal Postal Union, Compendium of Congress decisions from 1947 (Paris) to 2012 (Doha), Resolution C 77/Doha 2012, Classification of countries and territories for terminal dues and Quality of Service Fund purposes, at 180-192 (available at: *http://www.upu.int/uploads/tx_sbdownloader/actCompendiumDecisionsCongressEn.pdf*).

[83] Notice of the United States Postal Service of Filing of a Revised Version of USPS-FY16-NP5 and a Further Revised Version of USPS-FY16-NP2 -- ERRATA, February 3, 2017, at 1 (February 3, 2017, Errata).

[84] The Postal Service Reply Comments did not acknowledge that the revised ICRA showed that several products initially identified as noncompensatory did cover costs after the revisions to the ICRA.

An additional issue in the ICRA was the calculation of incremental costs. In Docket No. RM2016-2, the Commission expanded the scope of cost attribution to include a product's inframarginal cost that is calculated as part of the product's incremental cost, as well as volume-variable and product-specific cost based on the methodology approved in Docket No. RM2010-4. Order No. 3506 at 61-62, 124; *see also id.* at 13-14. This methodology, however, does not include calculations for international incremental costs because, at the time, the cost pools for international mail could not be disaggregated between Market Dominant and Competitive products. Both UPS and the Public Representative recommend improvements in the incremental cost model. UPS Comments at 14; PR Comments at 53.

The Postal Service used a methodology for the ICRA that was not approved by the Commission. If the Postal Service intends to use this methodology in its FY 2017 ACR, it should file the proposed methodology in a rulemaking proceeding.

Additionally, such filing should include a discussion of the following:

- *The Postal Service's ability to disaggregate the international mail cost pools between Market Dominant and Competitive products for the incremental cost calculation*
- *The accuracy of and potential improvement to the costing system for International Mail, specifically addressing the following points:*
  - *The availability of International Service Center (ISC)-level Management Operating Data System data*
  - *Machine productivity at ISC versus non-ISC facilities*
  - *The proportion of sacked versus non-sacked mail arriving at ISCs*
  - *The proportion of properly labeled versus improperly labeled mail arriving at ISCs*
  - *The number of IOCS tallies for International Mail products*

b. Inbound Letter Post

Inbound Letter Post consists of international mail that originates in foreign countries and is delivered in the United States.[85] Foreign postal operators reimburse the Postal Service for delivering Inbound Letter Post items at prices, called terminal dues, which are set by the UPU.[86]

In FY 2016, revenue for Inbound Letter Post did not cover attributable cost. Cost coverage decreased from 71.9 percent in FY 2015 to 66.4 percent in FY 2016. FY 2015 ACR at 8; FY 2016 ACR at 12; Library Reference PRC–LR–ACR2016/NP2. Negative contribution increased from $97.9 million in FY 2015 to $134.5 million in FY 2016, in large part due to a

[85] *Mail Classification Schedule*, Section 1130.1a. "Letter Post" refers to international mail that is not classified as Parcel Post or express mail (EMS and Global Express Guaranteed). It consists of mail items similar to domestic First-Class Mail, Periodicals, Standard Mail, BPM Flats/Parcels, and Media Mail/Library Mail, weighing up to 4.4 pounds (2 kilograms).

[86] The UPU is a United Nations technical agency comprising 192 member countries, including the United States. Member countries negotiate international agreements governing the exchange of international mail, including applicable rates for the delivery of international mail. Terminal dues are also referred to as default UPU default rates, because they apply in the absence of an agreement between or among postal operators establishing other rates.

23 percent increase in volume. FY 2015 ACR at 8; FY 2016 ACR at 12; Library Reference PRC–LR–ACR2016/NP2.

The Postal Service explains that the "failure of Inbound Letter Post from [t]ransition [c]ountries to cover its attributable costs stems from the product's unique pricing regime." FY 2016 ACR at 13. According to the Postal Service, the terminal dues formula for Inbound Letter Post from transition countries is based on a flat rate per kilogram, instead of on actual costs. *Id*. The terminal dues formula for Inbound Letter Post from target system countries is based on a percentage of the one-ounce retail Single-Piece First-Class Mail Letter price and the six-ounce First-Class Mail Flat price, which better reflects actual costs.[87] Thus, the Postal Service maintains that it does not "independently determine the prices [paid by foreign postal operators] for delivering foreign origin mail" in the United States. *Id*. The Postal Service also notes that NSAs for inbound letters did cover their costs in FY 2016. January 25, 2017 Errata at 2.

The Postal Service states that based on outcomes of the 2016 UPU Congress, the Postal Service expects significant increases in Inbound Letter Post terminal dues revenues based on the new Convention cycle, which goes into effect in January 2018. In the meantime, the Postal Service indicates that it will benefit from scheduled increases in terminal dues for Inbound Letter Post mail under the gradual increases established in the existing UPU Convention. FY 2016 ACR at 13-14.

Only the Public Representative commented on Inbound Letter Post. Given the unique pricing regime of Inbound Letter Post, he could not conclude that Inbound Letter Post was out of compliance in FY 2016 with the provisions of chapter 36 of Title 39. PR Comments at 28.

The Commission is concerned that the pricing regime for the Inbound Letter Post product, based upon the current UPU formula, continues to result in noncompensatory terminal dues. As a result, domestic mailers are subsidizing the entry of Inbound Letter Post by foreign mailers who use the same postal infrastructure but bear none of the burden of contributing to its institutional costs. Because UPU terminal dues rates are not equivalent to domestic postage rates in the destination country, the Commission considers them discriminatory. Copenhagen Economics quantified the impact of noncompensatory terminal dues in a 2015 report, and will be updating this report in FY 2017 to reflect the terminal dues rates adopted by the 2016 UPU Congress that will take effect in CY 2018.[88]

---

[87] In its initial FY 2016 ACR, the Postal Service stated that Inbound Letter Post from target system countries covered its attributable cost in FY 2016, while Inbound Letter Post from transition system countries did not. Subsequently, based on a revised ICRA, the Postal Service indicated that Inbound Letter Post from target system countries did not cover its costs. January 25, 2017 Errata, Attachment at 13.

[88] *See* Copenhagen Economics, Quantification of financial transfers caused by Universal Postal Union terminal dues, Final Report, November 3, 2015 (available at*:* *https://www.prc.gov/sites/default/files/papers/Quantification%20of%20financial%20transfers%20caused%20by%20Universal%20Postal%20Union%20terminal%20dues_final%20report.pdf*).

The Commission finds that FY 2016 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission's directive in section III.8.a. above with respect to the ICRA is intended to address costing issues with Inbound Letter Post.

In addition, the Commission recommends that the Postal Service continue to pursue compensatory terminal dues in the UPU and to pursue bilateral agreements that contain Inbound Letter Post rates that are more compensatory than UPU terminal dues.

c. Quality of Service Link to UPU Terminal Dues

The Postal Service did not maximize revenue for Inbound Letter Post in FY 2016. This is because under the UPU Quality Link Measurement System, terminal dues can be adjusted downward if service performance does not achieve the UPU-established annual quality of service performance target. In FY 2016, the Postal Service did not achieve this target. January 25, 2017 Response to CHIR No. 3, question 10.

In FY 2016, the Postal Service improved its service performance over FY 2015 for Inbound Letter Post under the UPU Quality Link Measurement System, and consequently reduced the amount of forfeited revenue compared to FY 2015. Nonetheless, as the Postal Service failed to meet the UPU quality of service target in FY 2016, it again forfeited revenue for the Inbound Letter Post product.

As the Postal Service did not achieve the UPU's quality of service target in FY 2015, in the FY 2015 ACD the Commission directed the Postal Service to report within 90 days on further progress in its plans to improve on-time service performance scores for Inbound Letter Post. FY 2015 ACD at 72. Specifically, the Commission directed the Postal Service to address its progress in improving sacks processing, in negotiating at the UPU for adjustments to the sacked mail service performance standard, and in implementing the Lean Six Sigma Black Belt project. *Id.*

In its Response to the Commission's Request for Additional Information, the Postal Service identified significant improvements in on-time service performance for Inbound Letter Post over the same period in the previous year.[89] The Postal Service attributed these improvements to a new process for sack handling at the JFK ISC and a change in the critical entry time (CET) for letters and flats at all five ISCs, which the UPU's Postal Operations Council approved in October 2015. June 27, 2016 Response to Commission Request, question 1. The Postal Service stated that it pursued a change in CET at the UPU in lieu of adjustments to the sacked mail performance standard due to the complexities introduced into the performance measurement system arising from the need to differentiate standards for test pieces depending on receptacle type. *Id*. The Postal Service also indicated that it had suspended the Lean Six Sigma Black Belt project, but highlighted several "quick wins" implemented during the process to improve service performance. *Id*.

[89] Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, question 1 (June 27, 2016 Response to Commission Request).

The Postal Service states that changing the CET for letters and flats and implementing new processes for sacked letters were the main drivers in improved service performance.[90] The Postal Service also asserts that it is performing weekly "failure analyses" of performance data. Response to CHIR No. 8, question 5.

The Commission concludes that the Postal Service improved service performance for Inbound Letter Post in FY 2016. However, the Postal Service again failed to meet the UPU's quality of service target. Accordingly, the Postal Service forfeited revenue, thereby exacerbating the product's negative contribution.

The Commission directs the Postal Service to provide a report on Inbound Letter Post service performance as part of the FY 2017 ACR. This report shall include monthly service performance reports for Inbound Letter Post, aggregations of weekly failure reports, as well as an analysis of the failures and steps being taken to improve service performance.

d. Market Dominant International Products Consisting of NSAs

As an alternative to default UPU rates, the Postal Service may enter into bilateral NSAs with foreign postal operators that include negotiated rates for some or all of their Inbound Letter Post items. *Mail Classification Schedule*, Sections 1602.3 and 1602.4. These negotiated rates are designed to improve the overall cost coverage for Letter Post items compared with the cost coverage at default UPU rates.

The Postal Service reports financial results for two inbound international products that consist of NSAs: Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 and Inbound Market Dominant Exprès Service Agreement 1. Both are included on the market dominant product list.

During FY 2016, the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product was comprised of six bilateral agreements with foreign postal operators: the Australian Postal Corporation (Australia Post), Canada Post Corporation (Canada Post), China Post Group, Hongkong Post, Korea Post, and Royal PostNL.[91] For FY 2016, the Postal Service reports that these NSAs, collectively, maintained a cost coverage well above 100 percent and provided a substantial positive contribution. January 25, 2017 Errata at 2.

Although revenue exceeded attributable cost for the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product as a whole, the Postal Service

[90] Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 8, February 6, 2017, question 5 (Response to CHIR No. 8).

[91] The Royal PostNL agreement is with the postal operator for the Netherlands.

reports that revenue for NSAs with Canada Post, Royal PostNL, and Australia Post did not cover attributable cost.[92]

The statutory test for compliance of Market Dominant NSAs is found in 39 U.S.C. §§ 3622(c)(10)(A)(i) and (ii), and requires that the Commission determine whether such NSAs improve the net financial position of the Postal Service or enhance operational performance. The Commission compares the cost coverage for each NSA at negotiated rates with the cost coverage at UPU terminal dues to make the determination of net financial benefit.

The Postal Service provides financial results for each NSA based upon default UPU rates. January 13, 2017 Response to CHIR No. 3, question 17*;* Response to CHIR No. 12, question 3. The financial results show that cost coverage at the negotiated rates for all six agreements, including the three that did not cover costs, exceeded cost coverage at UPU default rates. Response to CHIR No. 12, question 3. These results confirm that the NSAs improved the Postal Service's net financial position. *Id.*

The FY 2016 financial results for the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product appear to validate the Postal Service's strategy, discussed in previous ACRs, of negotiating bilateral NSAs with some of the larger foreign postal operators that exchange Letter Post items with the Postal Service.[93] Over time, continued pursuit of this strategy should improve cost coverage for Letter Post mail as a whole.

Inbound Letter Post at UPU terminal dues tendered as Exprès mail and displaying the common logo of the Exprès service is authorized under Inbound Market Dominant Exprès Service Agreement 1. The Postal Service tenders Exprès mail pursuant to the Exprès Service Agreement, a multilateral agreement with the designated postal operators of 24 UPU member countries. For FY 2016, Inbound Letter Post entered pursuant to the Inbound Market Dominant Exprès Service Agreement 1 product improved the net financial position of the Postal Service when compared to the UPU default terminal dues rates.

The Commission finds that the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 and Inbound Market Dominant Exprès Service Agreement 1 products satisfy 39 U.S.C. § 3622. The Commission directs the Postal Service, in future ACR filings, to provide financial documentation to demonstrate that noncompensatory bilateral agreements improve the net financial position of the Postal Service over UPU default terminal dues rates.

---

[92] Responses of the United States Postal Service to Questions 1-2, 4-9, 11-13, 15-19, 23, 28, and 31-33 of Chairman's Information Request No. 3, January 13, 2017, question 17 (January 13, 2017 Response to CHIR No. 3); January 19, 2017 ICRA; February 3, 2017 ICRA.

[93] Docket No. ACR2012, United States Postal Service FY 2012 Annual Compliance Report, December 28, 2012, at 17 (FY 2012 ACR).

e. International Ancillary Services

International Ancillary Services consists of International Certificate of Mailing, International Registered Mail, International Return Receipt, and Customs Clearance and Delivery Fee. *Mail Classification Schedule*, Section 1510. Although International Ancillary Services as a whole covered its cost, one component, International Registered Mail, did not.[94]

The Postal Service states that the loss on International Registered Mail is due to costing changes approved in Docket No. RM2016-10, which reassigned delivery costs from Inbound Letter Post to International Registered Mail. FY 2016 ACR at 62. The Postal Service notes that additional payments for registered items, as set forth in the Universal Postal Convention, are subject to a graduated increase in CY 2017 and will increase significantly in CY 2018. *Id.*

In addition, the Postal Service points out that many foreign postal operators participate in the Inbound Market Dominant Registered Service Agreement 1 multilateral agreement, and this creates a separate source of contribution for inbound registered mail. *Id*. at 63.

The Public Representative was the only commenter to address International Registered Mail. He suggests close monitoring of the impact of the anticipated measures on the cost coverage for Inbound Registered Mail. PR Comments at 44.

The Commission finds that International Ancillary Services covered its cost as a whole, but that Inbound Registered Mail failed to cover its cost. The Commission urges the Postal Service to promote greater participation by foreign postal operators in the Inbound Market Dominant Registered Service Agreement 1, which provides more compensatory prices for Inbound Registered Mail from participating foreign postal operators.

9. Media Mail/Library Mail

In FY 2016, Media Mail/Library Mail had a cost coverage of 75.2 percent, a 1.1 percent decrease compared with FY 2015.[95] Unit contribution decreased 3.3 cents per piece from FY 2015 to FY 2016. *Id.* FY 2016 was the tenth consecutive year that Media Mail/Library Mail did not generate sufficient revenues to cover attributable costs. Docket No. R2017-1 included an above-average price increase for Media Mail/Library Mail. Order No. 3610 at 50-51. The Postal Service states that it intends to continue to improve the cost coverage of Media Mail/Library Mail through above-average price increases. FY 2016 ACR at 55. Table III-14 shows the history of price increases for Media Mail/Library Mail under the PAEA.

---

[94] In the FY 2016 ACR, the Postal Service stated that International Ancillary Services did not cover cost. FY 2016 ACR at 61. In the revised ICRAs subsequently filed on January 19, 2017, and February 3, 2017, the Postal Service showed that International Ancillary Services did cover cost, even though Inbound Registered Mail failed to cover cost. *See* January 19, 2017 ICRA; February 3, 2017 ICRA.

[95] *See* Library Reference PRC–LR–ACR2016/1, Excel file "Summary_LR1.xlsx."

Table III-14
Media Mail/Library Mail
Price Adjustment vs. Price Adjustment Authority

Docket No.	Media Mail/Library Mail Price Adjustment	Price Adjustment Authority (Price Cap)
R2008-1	4.538%	2.900%
R2009-2	7.468%	3.800%
R2011-2	1.964%	1.741%
R2012-3	2.581%	2.133%
R2013-1	3.469%	2.570%
R2013-10	2.061%	1.696%
R2015-4	2.197%	1.966%

Source: Library Reference PRC–LR–ACR2016/6.

The Public Representative notes that Media Mail/Library Mail traditionally has not covered its attributable cost, and notes the decrease in the product's cost coverage in FY 2016 compared with FY 2015. PR Comments at 39-40. He supports the Postal Service's intent to continue improving the cost coverage over time through above-average price increases, but does not make any recommendation for specific remedies. *Id.* at 40.

Media Mail/Library Mail did not cover its attributable cost or make a contribution to institutional costs in FY 2016. While these results are not consistent with cost coverage requirements in 39 U.S.C. § 3622(c)(2), the Commission must also consider the 9 objectives and 14 factors in their totality, such as the pricing factor outlined in 39 U.S.C. § 3622(c)(11). This factor, which is especially relevant to Media Mail/Library Mail, requires the Commission to consider the educational, cultural, scientific, or informational value to the recipient of the mail matter.

The Commission finds that FY 2016 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail.

C. Domestic Market Dominant NSAs

Domestic Market Dominant NSAs must comply with 39 U.S.C. § 3622(c)(10). That section requires that such agreements either "improve the net financial position of the Postal Service" or "enhance the performance of mail preparation, processing, transportation, or other functions" and that they "not cause unreasonable harm to the marketplace." 39 U.S.C. § 3622(c)(10).

After approving a Market Dominant NSA, the Commission evaluates it for compliance with 39 U.S.C. § 3622(c)(10). The Commission reviews the NSA's performance during "contract years," 12-month periods measured from the time the contract was implemented. The

Commission reviews the contract year that ended during the fiscal year covered by the ACD.

For domestic Market Dominant NSAs, the current accepted analytical principle for estimating volume changes due to the Postal Service's pricing incentive programs uses price elasticity to estimate the new volume generated.[96] This principle provides for consideration of "the financial impact of price incentives to increase mail volume or to shift mail volume between products should be based on the Postal Service's best estimate of the price elasticity of the discounted product." Order No. 738 at 3.

In FY 2016, one domestic Market Dominant NSA was in effect: the PHI Acquisitions, Inc. (PHI) NSA.[97] The Commission evaluates the PHI NSA based on its performance during Contract Year 2 (July 1, 2015 through June 30, 2016), which ended in FY 2016.

PHI qualified for $2,215,000 in discounts in Contract Year 2.[98] Using the elasticity-based accepted analytical principle, the Postal Service estimates that the PHI NSA resulted in a net contribution of negative $1,047,000. February 3, 2017 Response to CHIR No. 11, question 1.b.ii. Although Contract Year 2 shows a negative impact to overall contribution, the Postal Service does not anticipate that the PHI NSA will cause a negative impact to the net overall contribution over its total term. FY 2016 ACR at 65. The Postal Service concludes that the PHI NSA complies with 39 U.S.C. § 3622(c)(10)(A) and the Commission's rules. *Id.* at 66.

After the PHI NSA was approved, Carrier Route flats destinating in FSS Zones were reclassified as Standard Mail Flats in June 2015 due to price structure changes approved in Docket No. R2015-4.[99] Because the contract was initiated before the Postal Service implemented FSS pricing, customer-specific FSS data were not available at the time of filing of the NSA. January 13, 2017 Response to CHIR No. 3, question 28. Part of Contract Year 1 and all of Contract Year 2 include Standard Mail Flats due to this reclassification, which increased the average unit cost across the new set of price categories. FY 2016 ACR at 65. The average unit cost of PHI mail increased by over 15 percent from Contract Year 1 to Contract 2 due to the shift into Standard Mail Flats FSS rate categories. January 25, 2017 Response to CHIR No. 3, question 30.a. As a result of Docket No. R2017-1, FSS rate categories were removed effective January 22, 2017. Order No. 3610 at 16, 56. Thus, in the middle of Contract Year 3, Standard Mail Flats in FSS Zones will be reclassified as Carrier Route flats.

---

[96] Docket No. RM2010-9, Order Terminating Proceeding, May 27, 2011, at 1 (Order No. 738) (quoting Docket No. RM2008-4, Order No. 104, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008, at 9).

[97] FY 2016 ACR at 64. International Market Dominant NSAs are discussed in section B.8.d., *supra*.

[98] The discounts encourage PHI to increase volume, and thus contribution from PHI increased by $1.168 million. However, the increase in contribution, minus the discounts, generated a net contribution of negative $1.047 million.

[99] January 25, 2017 Response to CHIR No. 3, question 29; *see also* Order No. 2472 at 19. For further discussion on this change, *see* section B.2.a., *supra*.

The PHI NSA contains a termination clause that provides that, among other things, the Postal Service may terminate the contract with 30 days' written notice "as a consequence of…the determination by the [Postal Service] at the end of any Agreement Year, based on published [Postal Service] cost data, that the agreement failed to produce positive contribution to [Postal Service] fixed costs from the total incremental NSA volume in that year…."[100]

Although the PHI NSA resulted in a net contribution of negative $1,047,000 in Contract Year 2, the Postal Service has neither terminated nor amended the PHI NSA. *See* January 13, 2017 Response to CHIR No. 3, question 31. The Postal Service has, however, requested PHI to provide volume and mail mix forecasts for the remainder of the contract. *Id.* In addition, the Postal Service states that it intends to collect data over the next several months and review the customer volume impacts of the FSS classification change due to Order No. 3610. *Id.* The Postal Service states it will assess whether an amendment would be appropriate after review of the information. *Id.*

Contract Year 3, Quarters 1 and 2 are complete. Although the Postal Service states it is unable to provide the net financial contribution for Contract Year 3, volumes were down in the completed quarters and no rebate was paid. Response to CHIR No. 8, question 8.

The PHI NSA is a 5-year NSA approved by the Commission in Docket Nos. MC2014-21 and R2014-6. In Contract Year 1, the PHI NSA made a net financial contribution of $112,000. In Contract Year 2, the PHI NSA made a net financial contribution of negative $1,047,000. To date, the PHI NSA made a net financial contribution of negative $935,000. Since no rebates were paid in Quarters 1 and 2 of Contract Year 3 when FSS prices were still in effect, the net financial contribution of the PHI NSA for Contract Year 3 will likely be an improvement over Contract Year 2.

The Commission is concerned that the Postal Service's actions regarding the PHI NSA indicate a lack of institutional oversight. Had the Postal Service been actively monitoring the PHI NSA, it may have chosen to terminate the contract or negotiate an amendment to the contract. The fact that the Postal Service plans only now, in Contract Year 3, to seek additional data from PHI and to review the customer volume impacts of the FSS classification change is troubling. The Commission reminds the Postal Service that it is responsible for negotiating and overseeing NSAs and ensuring that any Market Dominant NSA it enters into continues to improve the net financial position of the Postal Service. *See* 39 U.S.C. § 3622(c)(10)(A).

In addition to the Postal Service's lack of proactive oversight, the Postal Service's actions have impeded the Commission's oversight of the PHI NSA. The Postal Service's data reports on the PHI NSA are due to the Commission "no later than 60 days after each anniversary

[100] Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add PHI Acquisitions, Inc. Negotiated Service Agreement to the Market-Dominant Product List, March 5, 2014, Attachment B at 12.

date of implementation of the PHI NSA."[101] However, the Contract Year 1 data report was filed on September 24, 2015, 26 days after the August 29, 2015 deadline.[102] Likewise, the Contract Year 2 data report was filed on November 29, 2016, 92 days after the August 29, 2016 deadline.[103] The Commission expects that future data reports will be filed timely.

The Postal Service's lack of oversight of the PHI NSA is also mirrored by the recent concerning trend with respect to the Postal Service's oversight of Competitive NSAs. Recent Postal Service actions indicating a lack of oversight of Competitive NSAs include: failure to file notices of termination;[104] failure to file notices of non-published rates contracts;[105] and failure to file timely motions for temporary relief.[106]

The Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 2. However, continuation of the contract may help offset the negative contribution from Contract Year 2. The Postal Service shall report on its forecast for the remainder of the PHI NSA within 90 days of the issuance of this ACD. The report shall include an updated estimate of PHI volume and any amendments to the contract.

D. Nonpostal Services

In FY 2016, Market Dominant nonpostal services[107] generated $57 million in revenue and incurred $12 million in expenses, which resulted in a net revenue of $45 million. FY 2016 ACR at 92. This figure represents a 21 percent decrease compared to FY 2015. *Compare* FY 2016 ACR at 92 *with* FY 2015 ACR at 71.

---

[101] Docket Nos. MC2014-21 and R2014-6, Order No. 2097, Order Adding PHI Acquisitions, Inc. Negotiated Service Agreement to the Market Dominant Product List, June 19, 2014, at 32, 38.

[102] Docket Nos. MC2014-21 and R2014-6, PHI Acquisitions Negotiated Service Agreement Data Collection Report (July 1, 2014 – June 30, 2015, September 24, 2015. *See also* Docket Nos. MC2014-21 and R2014-6, Motion for Late Acceptance of Data Collection Report of PHI Acquisitions, Inc. Negotiated Service Agreement, September 24, 2015.

[103] Docket Nos. MC2014-21 and R2014-6, Data Collection Report on PHI Acquisition, Inc.'s Negotiated Service Agreement with USPS, November 29, 2016. *See also* Docket Nos. MC2014-21 and R2014-6, Motion for Late Acceptance of Data Collection Report of PHI Acquisitions, Inc. Negotiated Service Agreement, November 29, 2016.

[104] *See* FY 2016 ACR at 86; Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 6, January 23, 2017, question 7.a (Responses to CHIR No. 6); Docket No. MC2014-8 *et al*., Order No. 3770, Order Requiring Notice of Termination and Certification, February 2, 2017, at 3.

[105] *See* Docket No. CP2011-51, Order No. 3714, Order Requiring Additional Information, December 29, 2016, at 2; Docket No. CP2011-51, Order No. 3735, Order Requiring Certification, January 9, 2017; Docket No. CP2011-51, Order No. 3760, Order Granting Motions for Late Acceptance and Requiring Quarterly Certifications, January 26, 2017.

[106] *See, e.g.,* Docket No. CP2016-15, Order No. 3635, Order Authorizing Extension of Priority Mail Negotiated Service Agreement and Denying Motion for Late Acceptance, November 23, 2016, at 2.

[107] The two Market Dominant services are Alliances with the Private Sector to Defray Cost of Key Postal Functions and Philatelic Sales. Docket No. MC2010-24, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11, 2012, at 4 (Order No. 1575).

E. Other Issues

1. Metered Letter Prices

Several commenters address the price differential between Stamped and Metered Letters. The Greeting Card Association (GCA) asserts that the price differential, which was expanded in Docket No. R2017-1, has not succeeded in its promotional purpose, and that any purported cost savings or volume retention is unproven.[108] It states that the failure of the price differential to achieve its promotional purpose violates the objectives designed to assure the Postal Service has "adequate revenue" pursuant to 39 U.S.C. § 3622(b)(5) and to establish and maintain a "just and reasonable schedule of rates" pursuant to 39 U.S.C. § 3622(b)(8). GCA Comments at 5-6. GCA urges the Commission to make a finding of non-compliance and direct the Postal Service to discontinue or minimize the differential in order to "shrink the revenue sacrifice it entails." *Id.* at 6. As an alternative, GCA recommends that the Commission initiate a public inquiry docket to investigate the effectiveness of the price differential. *Id.* at 6-7.

Stamps.com Inc. (Stamps.com), Pitney Bowes Inc. (Pitney Bowes), and the Postal Service all defend the price differential. Stamps.com states that GCA's threshold assertion that the meter rate is "promotional," thus requiring it to meet certain criteria, is inaccurate.[109] Instead, it states that the metered rate is "a legitimate rate, based on important mail characteristics" and plays a "beneficial role in helping to provide a low-cost postal mailstream." Stamps.com Reply Comments at 2-3, 6.

Pitney Bowes points out that the Commission has previously affirmed the Postal Service's pricing flexibility within a class, and asserts that GCA's comments do not raise any new points that override the Commission's previous findings.[110] It further states that these rates do not violate sections 3622(b)(5) and (b)(8) due to both the lack of revenue loss associated with the Metered Mail price and the structure of Market Dominant rates as subject to the price cap. Pitney Bowes Reply Comments at 1-2.

The Postal Service notes that the Commission affirmed its pricing flexibility as a rational justification for this price differential in Docket No. R2017-1, in which GCA raised the same arguments. Postal Service Reply Comments at 2-3. The Postal Service also contends that this issue is outside the scope of the current ACR proceeding as the Commission is directed by 39 U.S.C. § 3653 to review rates and fees in effect during the previous year. *Id.* at 3.

The Commission has previously noted that one objective of the PAEA is to allow the Postal Service pricing flexibility, subject to the inflation-based cap and that this flexibility can be

---

[108] Initial Comments of the Greeting Card Association, February 2, 2017, at 1-4 (GCA Comments); *see also* Docket No. R2017-1, United States Postal Service Notice of Market Dominant Price Adjustment, October 12, 2016, at 15-17.

[109] Reply Comments of Stamps.com Inc., February 13, 2017, at 3 (Stamps.com Reply Comments).

[110] Reply Comments of Pitney Bowes Inc., February 13, 2017, at 1 (Pitney Bowes Reply Comments).

used to apply non-uniform price adjustments within a class.[111] *It appears that with respect to metered letter prices, the Postal Service's approach is consistent with the objectives of the PAEA. However, the Commission continues to encourage the Postal Service to balance its own needs with those of its customers.*

2. First-Class Mail Product Cost Coverage Disparity

As in previous ACR proceedings, Pitney Bowes, the Major Mailers Association, National Association of Presort Mailers, and National Postal Policy Council (First-Class Business Mailers) express concern about the high cost coverage of First-Class Presorted Letters/Postcards. These commenters contend that the relative cost coverage and unit contribution of First-Class Presorted Letters/Postcards are too high when compared with Single-Piece Letters/Postcards, and have resulted in a lack of cost savings as well as a decline in First-Class mail volumes.[112] Pitney Bowes notes that the price adjustments in the Docket No. R2017-1 reduced this disparity by "rebalanc[ing] the cost coverage and unit contributions among First-Class Mail products…." Pitney Bowes Comments at 5. Both Frontiers of Freedom and the American Consumer Institute Center for Citizen Research (ACI) assert that the recent price increase for Single-Piece Letters/Postcards was unnecessary.[113]

The Postal Service justifies these cost coverage disparities by asserting that they are caused by the change in unit costs over time. Postal Service Reply Comments at 3-4. It notes that the unit revenue for Single-Piece Letters/Postcards rose at the same rate as Presorted Letters/Postcards, while the unit cost for Presorted Letters/Postcards increased much less than the unit cost for Single-Piece Letters/Postcards. *Id.* at 4-5. The Postal Service asserts that it has been more successful in controlling costs for Presorted Letters/Postcards than Single Piece Letters/Postcards, leading to the disparity in cost coverage. *Id.* at 5.

The Commission has previously noted that one objective of the PAEA is to allow the Postal Service pricing flexibility, subject to the inflation-based cap and that this flexibility can be used to apply non-uniform price adjustments within a class.[114] *With respect to First-Class Mail cost coverage disparities, the Commission continues to encourage the Postal Service to balance its own needs with those of its customers.*

3. Discount for Automation 5-Digit Letters

The passthrough for Automation 5-Digit Letters in the Presort Letters/Cards product was 67.6 percent in FY 2016. The First-Class Business Mailers contend that the passthrough of avoided cost for Automation 5-Digit Letters penalizes users because it is too low and sends

---

[111] *See* FY 2012 ACD at 82; FY 2013 at 70; FY 2014 ACD at 68; FY 2015 ACD at 76; *see also* 39 U.S.C. § 3622(b)(8).

[112] Pitney Bowes Comments at 5; Comments of the Major Mailers Association, National Association of Presort Mailers, and the National Postal Policy Council, February 2, 2017, at 13-17 (First-Class Business Mailers Comments).

[113] Reply Comments by Frontiers of Freedom, February 13, 2017, at 2 (Frontiers of Freedom Reply Comments); Comments of the American Consumer Institute Center for Citizen Research, February 13, 2017, at 1-2 (ACI Reply Comments).

[114] *See supra*, at page 5 n.2.

inefficient pricing signals. MMA Comments at 10-11. Pitney Bowes acknowledges that this passthrough improved in the past fiscal year as well as through the adjustments in Docket No. R2017-1. It urges the Commission to require the Postal Service to set passthroughs at, or as close as practicable to, 100 percent of the cost avoided. Pitney Bowes Comments at 4. Not doing so "has a short-term negative effect on the productive efficiency of the postal sector and a longer-term negative effect of slowing or reversing the shift in value added from the Postal Service to the private sector." Pitney Bowes Comments at 4.

The Postal Service notes that this passthrough increased from 67.6 percent in FY 2016 to 88 percent on January 22, 2017, when prices approved in Docket No. R2017-1 took effect.[115]

The worksharing requirements of Title 39 impose a ceiling but not a floor on passthroughs. See 39 U.S.C. § 3622(e)(2). The Commission notes that passthroughs below 100 percent send inefficient price signals to mailers. Therefore, it encourages the Postal Service to continue to adjust discounts to bring passthroughs closer to 100 percent. The Commission, however, recognizes that the PAEA gives the Postal Service pricing flexibility and encourages it to balance its own needs with those of its customers.

[115] Postal Service Reply Comments at 6; *see generally* Order No. 3610.

CHAPTER 4: COMPETITIVE PRODUCTS

A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2016 were not in compliance with 39 U.S.C. § 3633, which:

- Prohibits subsidization of Competitive products by Market Dominant products: 39 U.S.C. § 3633(a)(1)
- Requires that each Competitive product cover its attributable cost: 39 U.S.C. § 3633(a)(2)
- Requires that, collectively, Competitive products cover an appropriate share of the Postal Service's institutional costs: 39 U.S.C. § 3633(a)(3)

The principal FY 2016 findings for Competitive products are:

- Revenues, as a whole, exceeded incremental costs. Competitive products were not subsidized by Market Dominant products during FY 2016, thereby satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for 16 Competitive products did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2). The Competitive products that did not cover attributable costs are: the non-NSA portion of Parcel Return Service, 13 domestic NSAs, Inbound Air Parcel Post (at non-UPU Rates), and International Money Transfer Service—Inbound (IMTS—Inbound).[116]
- Collectively, Competitive products satisfied the requirement that they provide a minimum contribution of 5.5 percent of institutional costs. *See* 39 C.F.R. § 3015.7(c). As a result, Competitive products satisfied 39 U.S.C. § 3633(a)(3) during FY 2016.

[116] In the FY 2016 ACR, the Postal Service originally included International Money Transfer Service—Outbound, Outbound International Insurance, and one bilateral agreement with a foreign postal operator in its list of Competitive products that failed to cover attributable costs. FY 2016 ACR at 85. However, due to revisions made to the ICRA, these products' revenues covered their attributable costs. *See* January 19, 2017 ICRA; and February 3, 2017 ICRA. As discussed in Chapter 3, section B.8.a., the Commission encourages the Postal Service to file timely errata to the ACR to reflect changes in its financial workpapers.

B. Cross-Subsidy Provision: 39 U.S.C. § 3633(a)(1)

In Docket No. RM2010-4, the Postal Service proposed using an incremental cost[117] model to test whether Market Dominant products subsidize Competitive products.[118] Under this model, the Postal Service estimates incremental costs for Competitive domestic products at the cost component level and adds these estimated costs to determine the system-level incremental costs.[119]

The Postal Service considered the incremental cost model to be an improvement over the then-current method of aggregating the attributable costs of Competitive products as a group. *See* Order No. 399 at 2; *see also* RM2010-4 Petition, Proposal Twenty-two at 1. Under its proposed methodology, the Postal Service aggregated three cost categories: incremental costs for Competitive domestic products, attributable costs for Competitive international products,[120] and Competitive group-specific costs. FY 2016 ACR at 83-84. The Commission approved this hybrid incremental cost methodology. Order No. 399 at 3-5, 14.

In its order approving the methodology, the Commission noted that if the marginal costs of products decline with volume, incremental costs will be greater than attributable costs. *Id.* at 3-4. Postal Service operations exhibit such declining marginal cost curves, especially in delivery. Because incremental costs are greater than attributable costs, using incremental costs raises the Competitive product cost floor when testing for cross-subsidies. Therefore, the incremental cost model provides a more rigorous test for determining compliance with 39 U.S.C. § 3633(a)(1) than the attributable cost coverage requirement of 39 U.S.C. § 3633(a)(2).

In FY 2016, the hybrid incremental costs of Competitive products were $12.8 billion and the total revenues of Competitive products were $18.5 billion. FY 2016 ACR at 84. Accordingly, in FY 2016, revenues from Competitive products exceeded the hybrid incremental costs.[121]

The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2016.

---

[117] In a multi-product firm, incremental costs are costs that result from providing a specific product, and can be traced to that specific product. Incremental costs may include the change in common fixed costs that results from providing a product as a whole.

[118] Docket No. RM2010-4, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Twenty-two – Twenty-five), October 23, 2009 (RM2010-4 Petition).

[119] Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two through Twenty-Five), January 27, 2010, at 2 (Order No. 399).

[120] Order No. 399 established that international Competitive mail would use attributable costs instead of incremental costs because the latter are not available for international products. Order No. 399 at 3.

[121] The Public Representative also concludes that revenues from Competitive products exceed the FY 2016 hybrid incremental costs. PR Comments at 52. However, he also expresses concern regarding the accuracy of the current cross-subsidy test as it includes only volume-variable cost and product-specific for international Competitive products. *Id.* at 52-53.

C. Product Cost Coverage Provision: 39 U.S.C. § 3633(a)(2)

39 U.S.C. § 3633(a)(2) requires the revenue for each Competitive product to cover its attributable cost. Below, the Commission discusses the FY 2016 financial performance for five separate Competitive product groupings:

- Competitive domestic products with rates of general applicability
- Competitive domestic products consisting of NSAs[122]
- Competitive international products with rates of general applicability
- Competitive international products consisting of NSAs
- Competitive nonpostal services

1. Competitive Domestic Products with Rates of General Applicability

In FY 2016, there were 12 Competitive domestic products with rates of general applicability: Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services[123]; Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

The cost coverage for Parcel Return Service dropped below 100 percent in FY 2016. FY 2016 ACR at 85. The Postal Service states that increases in the number of Parcel Return Service NSAs resulted in a decrease in non-NSA volume. Non-NSA Parcel Return Service volume made up just under 7 percent of total Parcel Return Service volume in FY 2015 and about 1.3 percent of total Parcel Return Service volume in FY 2016. *Id*. The Postal Service states the low Parcel Return Service volume resulted in volatile and unstable cost estimates. *Id.* at 86. The Postal Service is investigating this. *Id.*

In FY 2016, every Competitive domestic product with rates of general applicability, except Parcel Return Service, covered its attributable cost and thereby satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2). The Commission directs the Postal Service to report within 90 days on the results of its investigation into the Parcel Return Service cost estimates in FY 2016. The Postal Service must discuss the corrective actions that it has taken and plans to take to improve cost coverage.

---

[122] As discussed in Chapter 3, an NSA is a written contract between the Postal Service and a mailer, to be in effect for a defined period, which provides for customer-specific rates or fees and/or terms of service in accordance with the terms and conditions of the contract. *See* 39 C.F.R. § 3001.5(r).

[123] The Competitive Ancillary Services product consists of the following services: Adult Signature and Package Intercept Service. *See Mail Classification Schedule*, Section 2645.

2. Competitive Domestic Products Consisting of NSAs

As shown in Table IV-1, in FY 2016, there were 568 Competitive domestic products consisting of NSAs.

Table IV-1
Competitive Domestic NSA Products in Effect During FY 2016

Competitive Domestic NSA Product Groupings	Number of Products[a]
First-Class Package Service Contracts	47
Parcel Return Service Contracts	7
Parcel Select & Parcel Return Service Contracts	2
Parcel Select Contracts	11
Priority Mail—Non-Published Rates[b] Contracts	206
Priority Mail & First-Class Package Service Contracts	31
Priority Mail Contracts	199
Priority Mail Express & Priority Mail Contracts	25
Priority Mail Express Contracts	30
Priority Mail Express, Priority Mail & First-Class Package Service Contracts	9
Priority Mail & Parcel Select Contracts	1
Total	**568**

[a] With the exception of NSAs entered into under the Priority Mail—Non-Published Rates (NPR) product, each Competitive domestic NSA is a separate product.

[b] The Priority Mail—NPR product allows the Postal Service to enter into Priority Mail NSAs without filing the agreements with the Commission for pre-implementation review.

Source: Library Reference USPS–FY16–NP27, December 29, 2016; Notice of the United States Postal Service of Filing of Revised Version of USPS–FY16–NP27 -- Errata, January 11, 2017.

a. Attributable Cost Coverage

39 U.S.C. § 3633(a)(2) requires each Competitive domestic NSA product to cover its attributable cost. The Commission finds that all but 13 Competitive domestic NSAs covered their attributable costs and complied with this statutory requirement. The Competitive domestic NSAs that did not cover their attributable costs were Priority Mail Contract 70, Priority Mail Contract 108, Priority Mail Contract 109, Priority Mail Contract 128, Priority Mail Contract 135, Priority Mail Contract 150, Priority Mail Contract 160, Priority Mail Contract 166, Priority Mail Contract 169, Priority Mail Contract 183, Priority Mail Contract 214, Priority Mail Contract 228, and Parcel Return Service Contract 10.[124]

The Postal Service states that failure to cover costs was largely due to significant differences between projected and actual mailer profiles, including mailpieces being heavier or lighter than projected, traveling further than projected, or mailing fewer mailpieces than projected. FY 2016 ACR at 86-87. The Public Representative suggests that

[124] FY 2016 ACR at 86-87; Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 6, January 23, 2017, question 7 (Responses to CHIR No. 6).

when evaluating the cost coverage of a potential NSA, the Postal Service should perform additional sensitivity analysis. PR Comments at 57. He states that additional sensitivity analysis will ensure that a NSA will cover its cost despite differences between the projected and actual mail profile. *Id.*

The Postal Service states that five of these contracts expired or were terminated in FY 2016 (Priority Mail Contract 70, Priority Mail Contract 108, Priority Mail Contract 109, Priority Mail Contract 128, and Priority Mail Contract 135). FY 2016 ACR at 86; Responses to CHIR No. 6, question 7.a. The Postal Service reports that it negotiated a price increase for two contracts (Priority Mail Contract 166 and Priority Mail Contract 169). FY 2016 ACR at 86; Responses to CHIR No. 6, question 7.b.

In its ACR, the Postal Service states that it is renegotiating four contracts (Priority Mail Contract 150, Priority Mail Contract 183, Priority Mail Contract 228, and Parcel Return Service Contract 10) and will terminate the contracts if necessary. FY 2016 ACR at 86-87. In responses to CHIRs, the Postal Service further reports that it plans to terminate Priority Mail Contract 183 and Priority Mail Contract 228.[125] Additionally, the Postal Service reports that it is re-evaluating Priority Mail Contract 150 and will either amend or terminate it based on its findings. Responses to CHIR No. 13, question 12.a. The Postal Service reports that it is renegotiating the pricing for Parcel Return Service Contract 10. *Id.*

The Postal Service states in its ACR, that it is evaluating two contracts (Priority Mail Contract 160, and Priority Mail Contract 214) at the end of FY 2017, Quarter 1, and will take the appropriate corrective action. FY 2016 ACR at 86-87. The Postal Service further reports that it stopped delivering packages under Priority Mail Contract 214 on February 7, 2017, and plans to terminate the agreement. Responses to CHIR No. 13, question 12.b. The Postal Service also reports that it is preparing an amendment to adjust the pricing for Priority Mail Contract 160. *Id.*

The Commission finds that Priority Mail Contract 70, Priority Mail Contract 108, Priority Mail Contract 109, Priority Mail Contract 128, Priority Mail Contract 135, Priority Mail Contract 150, Priority Mail Contract 160, Priority Mail Contract 166, Priority Mail Contract 169, Priority Mail Contract 183, Priority Mail Contract 214, Priority Mail Contract 228, and Parcel Return Service Contract 10 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2016. The Commission directs the Postal Service to report within 30 days on the result of the Postal Service's renegotiation efforts and evaluations relating to Priority Mail Contract 150, Priority Mail Contract 160, and Parcel Return Service Contract 10. The Postal Service shall discuss the corrective actions taken or the actions the Postal Service plans to take to improve cost coverage.

The Commission reminds the Postal Service of its obligation to file notices of termination for NSAs that terminate prior to their scheduled expiration date in each respective docket. Should

[125] Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 13, February 10, 2017, question 12.a (Responses to CHIR No. 13).

the Postal Service not terminate any of the contracts it reported it planned to terminate, the Postal Service shall discuss the reasons the contract was not terminated and the corrective actions taken or the actions the Postal Service plans to take to improve cost coverage in the filing relating to Priority Mail Contract 150, Priority Mail Contract 160, and Parcel Return Service Contract 10.

b. Incomplete Negotiated Service Agreement Financial Data

Commission regulations require the Postal Service to file data that allow the Commission to evaluate each Competitive domestic NSA for compliance with 39 U.S.C. § 3633(a)(2). *See* 39 C.F.R. § 3050.21(g)(2). Pursuant to a Commission directive in the FY 2015 ACD,[126] the Postal Service identified 134 NSAs that had no mailpieces shipped under the respective contracts and provided brief explanations for the lack of volume.[127] Included were explanations that there were no mailings under the contract in FY 2016, the partner paid published rates, and the Postal Service filed a superseding contract. *Id.*

The Commission is required to review each NSA product to determine compliance with 39 U.S.C. § 3633(a)(2). Therefore, for those Competitive domestic NSAs that are not active or are paying published rates, the Postal Service should file a notice of termination so that any such contracts are removed from the competitive product list.[128] Furthermore, the Commission directs the Postal Service to identify each NSA product that had no mailpieces shipped under the contract when it files future ACRs.

3. Competitive International Products with Rates of General Applicability

Ten Competitive international mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; Inbound Parcel Post (at UPU rates); Outbound Single-Piece First-Class Package International Service; International Surface Airlift; International Priority Airmail; International Direct Sacks—M-Bags; IMTS—Outbound; and IMTS—Inbound[129].

The Commission finds that all but the IMTS—Inbound product satisfied 39 U.S.C. § 3633(a)(2). Revenue for the IMTS—Inbound product was less than attributable cost in FY 2016. The Postal Service notes that there were challenges in determining the cost for this product in FY 2016. FY 2016 ACR at 88. The Postal Service observes that "it is difficult to obtain enough IOCS tallies through sampling to reliably estimate attributable costs for

[126] FY 2015 ACD at 83.

[127] Library Reference USPS–FY16–NP39, February 17, 2017, Excel file "NSAsWNoVolume_FY16.Rev.17.Feb.2017.xlsx."

[128] *See, e.g.*, Docket No. CP2014-29, Notice of the United States Postal Service of Termination of Global Reseller Expedited Package Contracts 1 Negotiated Service Agreement, September 30, 2014.

[129] IMTS—Inbound consists of a series of bilateral and multilateral agreements with foreign postal operators.

IMTS, resulting in relatively volatile unit costs."[130] The Postal Service reports that only five IOCS tallies were recorded for both the IMTS—Inbound and IMTS—Outbound products combined. January 13, 2017 Response to CHIR No. 3, question 15. The Postal Service's data systems produced a 95 percent confidence interval range of 34 percent below and 155 percent above the reported FY 2016 cost coverage. *Id.*

In the FY 2015 ACD, the Commission directed the Postal Service to report on the obstacles to exiting or renegotiating the agreements that comprise IMTS—Inbound.[131] The Postal Service reported that terminating or renegotiating these agreements requires a delegation of authority from the Department of State under the Circular 175 process.[132] The Postal Service also observed that it is very difficult to estimate cost coverage for this product because many of the money orders are not cashed at Postal Service locations. *Id.* Additionally, the cost of maintaining accounting records for inbound money orders cashed can sometimes exceed the revenue gained from reconciliation with the foreign country. *Id.*

The Commission finds that IMTS—Inbound was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2016. The Commission recommends the Postal Service request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product.

4. Competitive International Products Consisting of NSAs

Competitive international mail also includes products with rates and fees not of general applicability that are established pursuant to one or more NSAs. These agreements often require a minimum volume and/or revenue commitment by mailers or foreign postal operators in exchange for reduced rates from the Postal Service.

At the request of the Postal Service, and to address administrative concerns involving product reporting and classification on the competitive product list, the Commission permitted the grouping of functionally equivalent international NSAs. Such grouping of functionally equivalent NSAs was permitted with the express understanding that each NSA within a product must cover its attributable cost.[133] Such functionally equivalent international NSAs are also collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

---

[130] *Id*. (footnote omitted). The IOCS collects data on the proportion of time spent by an employee performing various functions on different mail products or services. These proportions of time are used to estimate the costs of such products or services (*e.g.*, the time city carriers spend in a delivery office sorting mail). "Tally takers" collect the time data, so "tallies" are used as the source of the data.

[131] FY 2015 ACD at 85.

[132] *See* Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, question 2.

[133] *See*, *e.g.*, Docket Nos. CP2011-34, CP2011-35, CP2011-36, CP2011-37, CP2011-38, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

The Postal Service reports volume, revenue, and cost data on each Competitive international NSA. For FY 2016, such data is provided for 447 international NSAs, of which 427 include negotiated rates for outbound mail and 20 include negotiated rates for inbound mail.[134] The financial results for Competitive outbound and inbound international products consisting of NSAs are discussed below.

a. Competitive Outbound International Products Consisting of Negotiated Service Agreements

Competitive outbound international products with negotiated rates are classified on the competitive product list. Table IV-2 shows the FY 2016 category for each of these products for which the Postal Service reported FY 2016 financial results.[135]

Table IV-2
Competitive Outbound International Products by Category (FY 2016)[136]

Category	Name
Global Expedited Package Services (GEPS) Contracts	GEPS 3 GEPS 5 GEPS 6
Global Expedited Package Services—NPR	GEPS—NPR 4.2 GEPS—NPR 5 GEPS—NPR 6 GEPS—NPR 7 GEPS—NPR 8 GEPS—NPR 9 GEPS—NPR 10
Global Plus Contracts	Global Plus 1C Global Plus 1D Global Plus 2C Global Plus 3
Global Reseller Expedited Package Contracts	Global Reseller Expedited Package Service (GREPS) 1 GREPS 2 GREPS 4
Priority Mail International – Regional Rate Boxes	PMI RRB 1

Source: Library Reference PRC–LR–ACR2016/NP2.

The Postal Service also reports financial results for each outbound international NSA within these products.[137] For FY 2016, these results show that all but 2 of the 427

[134] February 3, 2017, ICRA, Excel file "NSA Summary (Unified)."

[135] The Postal Service does not report FY 2016 financial results for the following Competitive outbound international products: Global Direct Contracts 1, Global Bulk Economy Contracts, GREPS 3, GEPS—NPR 2, GEPS—NPR 3, GEPS—NPR 4, and Priority Mail International Regional Rate Boxes—NPR. These products had no activity in FY 2016 and in many instances have been superseded by products of a similar nature. The Postal Service should file notice requesting removal of products that will not be used in the future from the competitive product list.

[136] This table presents the outbound international products by product category. In some cases, the product name is the same name as the product category.

[137] For while the Commission evaluates cost coverage on a product basis, it also notes that reporting on agreements within products provides necessary transparency.

outbound international NSAs generated sufficient revenues to cover their attributable costs.[138] However, although two NSAs did not cover their attributable costs, these NSAs were grouped with functionally equivalent NSAs to form one product. The relevant products, as a whole, covered their attributable costs. The Postal Service has also taken remedial action on one NSA, and is considering remedial action on the other NSA. Response to CHIR No. 12, questions 6, 7.

The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product. The Commission recommends that the Postal Service take remedial action on the NSA for which revenue did not cover its attributable cost.

b. Competitive Inbound International Products Consisting of NSAs

As with Competitive outbound international products, Competitive inbound international products with negotiated rates are classified on the competitive product list. Table IV-3 shows the Competitive inbound international products for which the Postal Service reported FY 2016 financial results.[139]

Table IV-3
Competitive Inbound International Products by Category (FY 2016)[140]

Category	Name
International Business Reply Service Competitive Contracts	International Business Reply Service Competitive Contracts 3
Inbound EMS	Inbound EMS 2
Inbound Air Parcel Post (at non-UPU rates)	Royal Mail Group Inbound Air Parcel Post Agreement
Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1	Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1

Source: Library Reference PRC–LR–ACR2016/NP2.

The Postal Service also reports financial results for each NSA within the Competitive inbound international products. Of the 20 NSAs, 9 were included in the International Business Reply Service Competitive Contracts 3 product, 2 in the Inbound EMS 2 product, one in the Inbound Air Parcel Post (at non-UPU rates) product, and 8 in the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product. Negotiated rates for 19 of the 20 NSAs generated sufficient revenues to cover their

[138] Library Reference PRC–LR–ACR2016/NP2.

[139] The Postal Service does not report FY 2016 financial results for four Competitive Inbound International products: International Business Reply Service Competitive Contract 1, Inbound Direct Entry Contracts with Customers, Inbound Direct Entry Contracts with Foreign Postal Administrations, and Inbound Direct Entry Contacts with Foreign Postal Administrations 1. These products had no activity in FY 2016 and in many instances have been superseded by products of a similar nature. The Postal Service should file notice requesting removal of products that will not be used in the future from the competitive product list.

[140] As with Competitive outbound international products, in some instances the Competitive inbound international product has the same name as the product category.

attributable costs in FY 2016. With the exception of Inbound Air Parcel Post (at non-UPU rates), the Commission concludes that Competitive Inbound International products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenues exceeded attributable costs for each.

c. Inbound Air Parcel Post (at non-UPU rates)

For Inbound Air Parcel Post (at non-UPU rates), the Postal Service separately reports financial results for parcels from Royal Mail and collectively from several other European postal operators that are parties to the Agreement for the Delivery of Day-Certain Cross-Border Parcels (E-Parcel Group (EPG) Agreement). Inbound air parcels from Royal Mail are entered pursuant to the Royal Mail Group Inbound Air Parcel Post Agreement, which is classified as a product on the competitive product list.[141] Bilateral agreements for the entry of inbound air parcels from postal operators in the EPG-member countries of Belgium, Denmark, Finland, Slovakia, Slovenia, Sweden, and Switzerland were executed prior to the PAEA.[142] Therefore, they are not included on the competitive product list because the rates for inbound air parcels tendered by EPG-member countries have not changed. *Id.*

For FY 2016, the Postal Service reports that revenue for Inbound Air Parcel Post (at non-UPU rates) did not cover attributable cost. FY 2016 ACR at 87. Revenue for inbound air parcels entered pursuant to the bilateral agreement with Royal Mail exceeded cost. Therefore, the loss is due to the financial results for inbound air parcels from EPG-member countries. The Postal Service exited this agreement according to its terms on June 30, 2016. *Id.*

The Public Representative observes that from FY 2012 through FY 2015, the Inbound Air Parcel Post (at non-UPU rates) product failed to cover its cost, and therefore, did not comply with 39 U.S.C. §§ 407(a)(2) and 3633(a)(2). *See* PR Comments at 55. He notes that the only remaining agreement in this product is with Royal Mail, which covered cost in FY 2016. *Id*. In its reply comments, the Postal Service states that it expects this product's cost coverage to improve in FY 2017. Postal Service Reply Comments at 15-16.

The Commission concludes that the entry of inbound air parcels from EPG-member countries was inconsistent with 39 U.S.C. § 407(a)(2). However, because the Postal Service has exited this agreement, no remedial action is necessary.

d. Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1

The Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product consists of nine bilateral NSAs with foreign postal operators for the entry of Inbound EMS, inbound air parcel post, and inbound surface parcel post. For FY 2016, the Postal Service reports that revenues for all but the China Post NSA covered their

[141] *See* Docket Nos. MC2009-24 and CP2009-28, Order No. 218, Order Concerning Royal Mail Inbound Air Parcel Post Negotiated Service Agreement, May 29, 2009, at 10, 12.

[142] Docket No. ACR2013, United States Postal Service FY 2013 *Annual Compliance Report*, December 27, 2013, at 49.

attributable costs. FY 2016 ACR at 89. The Postal Service states that it intends to replace the China Post NSA with a new agreement with rates that provide adequate cost coverage. *Id.* The Public Representative acknowledges that the cost coverage for this agreement was just slightly below 100 percent, and anticipates that a rate change will allow the agreement to cover its cost. PR Comments at 56. In its reply comments, the Postal Service states that a successor agreement has been executed and that it plans to file the rates in that agreement with the Commission in the near future. Postal Service Reply Comments at 16.

The Commission concludes that Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for the product.

5. Competitive Nonpostal Services

In FY 2016, Competitive nonpostal services[143] generated $131 million in revenue and incurred $33 million in expenses, which resulted in a net revenue of $98 million.[144] This was an 11 percent increase compared to FY 2015.

D. Appropriate Contribution Provision: 39 U.S.C. § 3633(a)(3)

39 U.S.C. § 3633(a)(3) requires the Commission to ensure that all Competitive products collectively cover an appropriate share of the Postal Service's institutional costs. In implementing this section, the Commission determined that if Competitive products contribute at least 5.5 percent toward the Postal Service's total institutional costs, then, as a whole, they will cover an appropriate share of the Postal Service's total institutional costs. *See* 39 C.F.R. § 3015.7(c).[145]

In FY 2016, the Postal Service reports that total institutional costs were $36.363 billion. FY 2016 ACR at 89. To comply with 39 U.S.C. § 3633(a)(3) for FY 2016, Competitive products must have contributed at least $2.0 billion toward the Postal Service's institutional costs. *Id.* In FY 2016, the total Competitive products contribution was $5.997 billion (16.5 percent), which exceeds the minimum contribution requirement. *Id.* at 90. The Public Representative concludes that the Postal Service complied with 39 U.S.C. § 3633(a)(3) in FY 2016. PR Comments at 57.

---

[143] The nine Competitive products are: (1) Advertising; (2) Licensing of Intellectual Property Other Than Officially Licensed Retail Products; (3) Mail Services Promotion; (4) Officially Licensed Retail Products (OLRP); (5) Passport Photo Service; (6) Photocopying Service; (7) Rental, Leasing, Licensing or Other Non-Sale Disposition of Tangible Property; (8) Training Facilities and Related Services; and (9) USPS Electronic Postmark Service (EPM) Program. Docket No. MC2010-24, Order No. 1575, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11. 2012, at 4. The Postal Service did not report volume for Advertising or EPM in FY 2016. *See* Docket No. ACR2015, Library Reference USPS–FY15–NP27, Preface. The Postal Service should file notice requesting removal of products that will not be used in the future from the competitive product list.

[144] Library Reference USPS–FY16–NP27, Preface.

[145] In Order No. 1449, the Commission reaffirmed that the appropriate share of institutional costs to be borne by Competitive products is 5.5 percent, subject to future revision, if necessary. *See* Docket No. RM2012-3, Order Reviewing Competitive Products' Appropriate Share Contribution to Institutional Costs, August 23, 2012, at 24-25 (Order No. 1449).

The Commission finds that in FY 2016 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs.

CHAPTER 5: SERVICE PERFORMANCE

A. Service Performance Results

1. Introduction

Each year, the Postal Service must report[146] on each Market Dominant product's "level of service (described in terms of speed of delivery and reliability)." 39 U.S.C. § 3652(a)(2)(B)(i). Speed of delivery is evaluated based on the mailpiece reaching its destination within a given service standard. FY 2015 ACD at 94. Service standards are "[s]tated delivery performance goals for each mail class and product that are usually measured by days for the period of time taken by [the Postal Service] to handle the mail from end-to-end (that is, from the point of entry into the mailstream to delivery to the final destination)."[147] Reliability refers to consistency of delivery.

To evaluate annual service performance for each Market Dominant product, the Commission compares the percentage of mailpieces that achieve the service standard against targets established by the Postal Service.[148]

The products listed in Table V-1 met or exceeded their annual service performance targets for FY 2016.

Table V-1
Market Dominant Products That Met Annual Service Performance Targets, FY 2016

Class	Product
Standard Mail	• High Density and Saturation Letters • Parcels
Package Services	• Bound Printed Matter Parcels • Media Mail/Library Mail
Special Services	• Ancillary Services • International Ancillary Services • Money Orders • Stamp Fulfillment Services

[146] "For each product that does not meet a service standard, [the Postal Service's report must include] an explanation of why the service standard is not met, and a plan describing the steps that have or will be taken to ensure that the product meets or exceeds the service standard in the future." 39 C.F.R. § 3055.2(h); see also 39 U.S.C. § 3652(d), (e).

[147] Publication 32, Glossary of Postal Terms, July 2013. "Established service standards also include destination entry standards for mail entered by the mailer at or near a postal destination facility. A separate set of standards is established for noncontiguous states such as Alaska and Hawaii and territories such as American Samoa and Guam." *Id.*

[148] FY 2015 ACD at 94. On an annual basis, the Commission compares a product's on-time delivery with the delivery target established by the Postal Service. For Special Services, the Commission evaluates performance data from metrics developed by the Postal Service applicable to each product. *Id.* at 94 n.173. The Commission could develop its own target metrics to evaluate compliance if appropriate. In this ACD, as in past years, the Commission uses the Postal Service's targets because they are a reasonable basis for assessing performance.

The products listed in Table V-2 did not meet their targets for FY 2016.

Table V-2
Market Dominant Products That Failed to Meet Annual Service Performance Targets, FY 2016

Class	Product
First-Class Mail	• Single-Piece Letters/Postcards (2-Day; 3-5-Day) • Presorted Letters/Postcards (Overnight; 2-Day; 3-5-Day) • Flats (Overnight; 2-Day; 3-5-Day) • Parcels (Overnight; 2-Day; 3-5-Day) • Outbound Single-Piece First-Class Mail International Letters (Combined) • Inbound Single-Piece First-Class Mail International Letters (Combined)
Standard Mail	• High Density and Saturation Flats/Parcels • Carrier Route • Letters • Flats • Every Door Direct Mail–Retail
Periodicals	• In-County • Outside County
Package Services	• Bound Printed Matter Flats
Special Services	• Post Office Box Service

In this chapter, after a summary of the systems the Postal Service uses to measure service performance, the Commission discusses the Postal Service's responses to the FY 2015 ACD directives related to First-Class Mail Single-Piece Letters/Postcards. The Commission then analyzes the Postal Service's FY 2016 service performance results.

2. Measurement Systems

The Postal Service uses a variety of measurement systems to measure service performance for Market Dominant products. The Postal Service began reporting service performance results for most Market Dominant products beginning in the third quarter of FY 2011.

Table V-3 identifies each system used to measure those products reported in the Postal Service's *Annual Service Performance Report*. In Table V-3, and the discussion that follows, the Commission uses the following acronyms and abbreviations: *EXFC* for "External First-Class Measurement," *iMAPS* for "Intelligent Mail Accuracy and Performance System," *IMb* for "Intelligent Mail barcode," *IMMS* for "International Mail Measurement System," *PTS* for

"Product Tracking System," *PTR* for "Product Tracking and Reporting System," and *SASP* for "Seamless Acceptance and Service Performance."

Table V-3
Service Performance Measurement Systems

Product	Single-Piece			Presorted		
	Letters	Flats	Parcels	Letters	Flats	Parcels
First-Class Mail	EXFC	EXFC	PTR*	iMAPS	iMAPS	PTR*
Periodicals				iMAPS	iMAPS	
Standard Mail	SASP	SASP		iMAPS	iMAPS	PTR*
Package Services		PTR*	PTR*		iMAPS	PTR*
International Mail	IMMS	IMMS				
Special Services	Custom designed internally based measurement systems					

Source: Docket No. PI2008-1, Service Performance Measurement, November 2007, at 6.

*The Postal Service asserted in the FY 2016 ACR that it has changed the measurement system for parcels from PTS to PTR. *See infra* V.A.2.c.

a. External First-Class Measurement System (EXFC)

EXFC is a sampling system managed by an independent contractor. Delivery performance is measured from the street collection box to the delivery mailbox.[149] When evaluating delivery performance, test mailers record the time they place First-Class Mail in the collection box. The pieces are deposited before the last collection-time for the collection box. Those test mailpieces are sent to a nationwide panel of receivers who record when each is delivered. Actual transit time is then compared against First-Class Mail service standards. EXFC provides quarterly service performance measurement scores at the area and district levels.

b. Intelligent Mail Accuracy and Performance System (iMAPS)

iMAPS provides an end-to-end service performance measurement by using documented mail arrival time at a designated postal facility to start a measurement clock and an IMb scan by an external, third-party reporter to stop the clock. The measurement involves two distinct steps. The Postal Service obtains processing times based on IMb scans reported through the SASP system described below. Throughout FY 2016, SASP captured data from all Full-Service Intelligent Mail.[150] This is combined with a last mile factor that is developed through scans by third-party reporters upon receipt of the mail. Service performance is

[149] Docket No. ACR2009, *Annual Compliance Determination,* March 29, 2010, at 49 (FY 2009 ACD).

[150] Library Reference USPS–FY16–29 at 2. *See also infra* V.A.2.f.

measured by comparing the overall transit time to the service standards to determine the percentage of mail delivered on-time.

c. Product Tracking System (PTS) and Product Tracking and Reporting System (PTR)

In prior ACRs, the Postal Service asserted that it measured service performance for parcels using PTS, an internal measurement system that measured transit time from the time of mailing until the time of delivery.[151] In its FY 2016 ACR, the Postal Service stated for the first time that it measured service performance for parcels using PTR, a system which, like PTS, "measures transit time from the time of mailing until the time of delivery for parcels for which a customer requested USPS Tracking Service." *See* Library Reference USPS–FY16–29. In response to Chairman's Information Requests concerning this apparent change in measuring systems, the Postal Service explains that PTR replaced PTS in 2013, and "[a]ny references to the effect that the Postal Service used…[PTS] in FY 2015 or FY 2016 were erroneous." January 13, 2017 Responses to CHIR No. 3, question 33. According to the Postal Service, "PTS was not used in FY 2015 or FY 2016." *Id.* At the same time, the Postal Service asserts that PTS and PTR are highly similar, both being internal measurement systems based on over-the-counter and delivery confirmation scans of retail products, as well as barcode scans of parcels which utilize the Postal Service's tracking service.[152]

The Commission's rules provide that: "[t]he Postal Service shall file notice with the Commission describing all changes to measurement systems…30 days prior to planned implementation," and "[t]he Commission may initiate a proceeding at any time to consider such changes if it appears that the changes might have a material impact on the accuracy, reliability, or utility of the reported measurement…." 39 C.F.R. § 3055.5. The rules also require the ACR to describe "…any changes to the measurement system or data reporting methodology implemented within the reported fiscal year[.]" *Id.* § 3055.2(e)(4). The Postal Service did not file 30 days advance notice with the Commission of its intent to switch from PTS to PTR. Furthermore, the Postal Service states that PTR became the system of record for parcel service performance data in August 2013, following extensive parallel validation with PTS. The Postal Service explains that PTS was not used at all in FY 2015, but the Postal Service nevertheless continued to report that it measured parcel service performance using only PTS for FYs 2013, 2014, and 2015. No description of PTR was included in those ACRs; instead, the description was provided only after being prompted by CHIRs in Docket No. ACR2016.

Given the substantial similarity between PTS and PTR, the Commission will accept the Postal Service's change in measurement systems in this particular instance. However, the

---

[151] *See* Docket No. ACR2012, Library Reference USPS–FY12–29, December 28, 2012, at 2-3; Docket No. ACR2013, Library Reference USPS–FY13–29, December 27, 2013, at 2-3; Docket No. ACR2014, Library Reference USPS–FY14–29, December 29, 2014, at 2-3; Docket No. ACR2015, Library Reference USPS–FY15–29, December 29, 2015, at 2-3.

[152] Responses of the United States Postal Service to Questions 2-4 and 7-13 of Chairman's Information Request No. 16, February 17, 2017, question 3 (February 17, 2017 Responses to CHIR No. 16).

Postal Service is cautioned that in the future it must file notice in advance before it implements any measurement system changes. In response to a CHIR, the Postal Service assures the Commission that "[t]he Postal Service Enterprise Analytics organization is aware of the requirement and commits to coordinate with the Postal Service Law Department to ensure timely notification of material changes." February 17, 2017 Responses to CHIR No. 16, question 4. The Commission expects that the necessary coordination and reporting will be made in future ACRs. When Commission approval is required for changing reporting systems, such changes must be approved in advance of implementation.

PTR is an internal measurement system based on over-the-counter and delivery confirmation scans. *Id.*, question 3. The system uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock). *See id.*

d. Seamless Acceptance and Service Performance (SASP)

SASP uses data provided by commercial mailers with Full-Service Intelligent Mail, such as acceptance time, payment, and verification, to enable the Postal Service to monitor service delivery and overall performance.[153] Information collected also helps to determine address accuracy, verify the quality of mail preparation, and track individual pieces as they move through the mail system.

e. International Mail Measurement System (IMMS)

Based on a system similar to EXFC, IMMS measures the domestic leg of transit time for international mail. Library Reference USPS–FY16–29 at 3. It measures the time between the domestic collection point and the outbound international service center for outbound letters and between the inbound international service center and the domestic delivery point for inbound letters.

f. Intelligent Mail Barcode (IMb)

In Quarter 3 of FY 2011, the Postal Service began using IMbs to measure service performance for Standard Mail, Periodicals, Bound Printed Matter (BPM) Flats, and some First-Class Mail products. The Postal Service currently offers two barcode options for mailers: Basic and Full-Service. The Basic option allows mailers to utilize IMbs for their mailpieces without the added benefit of accounting for each unique piece.[154]

The Full-Service feature allows the mailer to identify unique mailpieces throughout the mailstream, receive start-the-clock notifications, discounts, and automated address corrections. *Id.* Only the Full-Service feature provides data needed to measure service performance. Mailers are required to prepare mail with IMbs and submit electronic mailing information listing IMbs used. Mail is verified to ensure it meets mail preparation criteria.

---

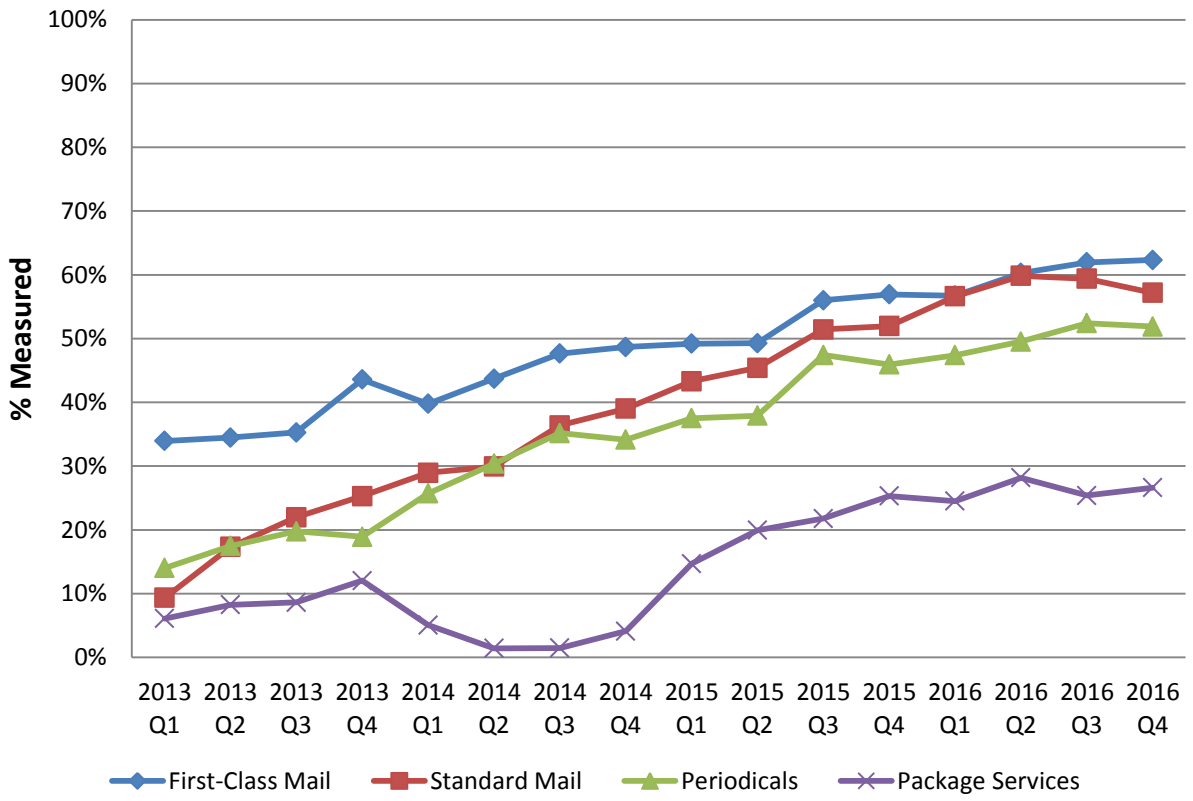
[153] United States Postal Service, Guide to Seamless Acceptance, Volume 2.1., June 2015; *https://ribbs.usps.gov/intelligentmail_guides/documents/tech_guides/GuidetoSeamlessAcceptance.pdf.* Accessed on January 30, 2017.

[154] United States Postal Service, Overview to Intelligent Mail Basic Service; *https://ribbs.usps.gov/intelligentmail_guides/documents/tech_guides/OverviewIntelligentMailBasicService.pdf.* Accessed on January 30, 2017.

Mail that does not meet mail preparation requirements is excluded from service performance measurement. *Id.*

Since FY 2013, the percentage of mailpieces measured by IMb increased. Figure V-1 illustrates this trend, showing the percent of First-Class Mail, Standard Mail, Periodicals, and Package Services[155] volume measured by IMb since 2013.

Figure V-1
Percent of Market Dominant Mail Measured by Full-Service IMb, FY 2013–FY 2016



Source: *See* USPS *Quarterly Service Performance Reports* FYs 2013-2016, First-Class Mail Quarters 1-4, Standard Mail Quarters 1-4, Periodicals Quarters 1-4, Package Services Quarters 1-4; *Revenue, Pieces & Weight by Classes of Mail and Special Services Report* FYs 2013-FY 2016, Quarters 1-4; *http://www.prc.gov/documents/quarterly-performance.*

District level measurement. Service performance is measured by the Postal Service at the district level. These data are aggregated to the area level and then aggregated again to report nationwide service performance results.[156] In order to be representative of the nation as a whole, a product's nationwide service performance results should include data from all districts. Prior concerns expressed by the Commission with regard to the lack of

[155] BPM Flats is the only Package Service product measured using IMb. The remaining products are measured using PTS/PTR. FY 2015 ACD at 98, n.179.

[156] *See* USPS *Quarterly Service Performance Reports* Quarters 1-4 of FY 2016; *https://www.prc.gov/dockets/quarterly-performance.*

reporting data from certain districts[157] appear to have been addressed, with the vast majority of districts now reporting statistically meaningful results for all products and service standard levels.

Pieces excluded from measurement. The Commission will continue to monitor the issue of mailpieces excluded from measurement. *See, e.g.*, FY 2015 ACD at 99-102. During FY 2016, the Commission issued an order enhancing the reporting of service performance measurement data.[158] Among other things, this order required the Postal Service to begin providing regular, detailed information concerning mailpieces included and excluded from measurement, as well as the reasons mailpieces are excluded from measurement. Order No. 3490 at 28-35.

In general, the more mail that is measured, the more representative, accurate, and reliable such measurements will be. Table V-4 contains Postal Service data regarding the percentage of mail in measurement, the percentage of mail entered as Full-Service IMb and included in measurement, and the percentage of mail entered as Full-Service IMb and excluded from measurement.[159] Table V-4 also shows that the percentage of mail in measurement increased for all measured products. Accordingly, this increase corresponds to a decrease in the percentage of Full-Service IMb mail excluded from measurement.

[157] *See, e.g.*, FY 2015 ACD at 98-99.

[158] *See* Docket No. PI2016-1, Order Enhancing Service Performance Reporting Requirements and Closing Docket, August 26, 2016 (Order No. 3490).

[159] The formula for the percentage of mail in measurement is mail that is measured / total mail. The formula for the percentage of mail processed as Full-Service IMb prices and included in measurement is Full-Service IMb mail measured / total Full-Service IMb mail. The formula for the percentage of mail entered at Full-Service IMb mail and excluded from measurement is Full-Service IMb mail excluded from measurement / total Full-Service IMb mail.

Table V-4
Percentage of Mail in Measurement and Excluded from Measurement, FY 2015 and FY 2016

Product	Percentage of mail in measurement		Percentage of mail entered at Full-Service IMb prices and included in measurement		Percentage of mail entered at Full-Service IMb prices but excluded from measurement	
First-Class Mail	**FY 2015**	**FY 2016**	**FY 2015**	**FY 2016**	**FY 2015**	**FY 2016**
Presorted Letters/Postcards	52.7%	62.5%	60.2%	70.2%	39.8%	29.8%
Flats	12.8%	54.1%	54.2%	72.4%	45.8%	27.6%
Standard Mail						
High Density and Saturation Letters	58.8%	68.8%	Data Not Provided			
High Density and Saturation Flats/Parcels	21.9%	36.6%				
Carrier Route	53.8%	69.6%				
Letters	56.0%	69.1%				
Flats	45.0%	59.0%				
Every Door Direct Mail–Retail	28.0%	63.2%				
Parcels	30.4%	44.5%				
Total Standard Mail	50.3%	63.8%	65.2%	76.7%	34.8%	23.3%
Periodicals						
In-County	Data Not Provided	7.4%	Data Not Provided			
Outside County	46.7%	57.0%				
Total Periodicals	42.7%	52.4%	61.6%	68.1%	38.4%	31.9%
Package Services						
Bound Printed Matters Flats	10.1%	11.4%	38.2%	43.5%	61.8%	56.5%

Source: FY 2015 ACD at 100; Responses to CHIR No. 26, question 1.

Overall, there are four reasons most frequently cited by the Postal Service for why and how mailpieces are excluded from measurement.[160] First, "No Start-the-Clock" occurs when the Postal Service lacks a container unload scan or is unable to identify the Facility Access and Shipment Tracking (FAST) appointment associated to the container. *Id.* Without an initial scan or an identified FAST appointment, the Postal Service cannot decipher when the measuring process should begin and excludes these mailpieces from measurement. *See* FY 2015 ACD at 101.

Second, "Long Haul" occurs when a mailpiece verified at a Detached Mail Unit (DMU) was then transported by the Postal Service to a mail processing facility in a different district than the DMU. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service considers this an operational failure because it loses visibility of the mailpiece volume. *See* FY 2015 ACD at 101-102.

Third, "No Piece Scan" occurs when no automation scan was reported for the mailpiece. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2015 ACD at 101.

Fourth, "Invalid Entry Point for Discount Claimed" occurs when the discount Entry Point claimed by the mailer in electric documentation (eDoc) is invalid for the entry point and destination of the mailpiece. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service excludes this mail from measurement due to invalid data. *See* FY 2015 ACD at 101.

For each class of mail, the Commission calculated the top three reasons that a mailpiece was excluded from measurement. Table V-5 displays these top three reasons as well as the corresponding percentages, disaggregated by fiscal quarter in FY 2016.

[160] *See* Docket No. PI2016-1, Responses of the United States Postal Service to Questions 1 Through 5 of Chairman's Information Request No. 1, May 3, 2016, question 4, Excel file "attach.usps.resp.chir1.q4.xlsx," tab "4. Exclusion Reason Breakdown" (Docket No. PI2016-1 Responses to CHIR No. 1).

Table V-5
Reasons for Mailpieces Excluded from Measurement, FY 2016

	FY 2016 Q1	FY 2016 Q2	FY 2016 Q3	FY 2016 Q4
First-Class Mail				
No Start-the-Clock	45.57%	46.41%	40.11%	42.88%
Long Haul	24.21%	24.57%	28.91%	28.90%
No Piece Scan	10.54%	9.52%	10.48%	10.06%
Standard Mail				
No Start-the-Clock	38.82%	55.13%	44.24%	45.79%
No Piece Scan	31.69%	22.27%	31.53%	30.80%
Invalid Entry Point for Discount Claimed	11.48%	7.59%	7.44%	7.55%
Periodicals				
No Piece Scan	54.49%	50.11%	65.22%	62.96%
No Start-the-Clock	13.54%	28.53%	12.07%	15.21%
Invalid Entry Point for Discount Claimed	8.04%	5.74%	3.35%	3.73%
Package Services				
No Piece Scan	65.89%	49.79%	68.03%	72.59%
No Start-the-Clock	11.04%	34.29%	8.45%	8.60%
Invalid Entry Point for Discount Claimed	18.29%	10.98%	19.67%	15.23%

Source: Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 23, March 3, 2017, question 1 (Responses to CHIR No. 23).

g. Proposed Changes to Measurement Systems

In March 2015, the Postal Service proposed a series of changes from an external to internal measurement system.[161] Specifically, for First-Class Mail Single-Piece Letters/Postcards and First-Class Mail Flats, the Postal Service has proposed replacing EXFC with a system which measures service performance in three segments: first mile (based on scans of sample mailpieces from randomly-selected collection points); processing duration (based on the time from the first processing scan to the last processing scan); and last mile (based on scans of sample mailpieces from randomly-selected delivery points). Measurement Plan at 11-12, 17-18. For Outbound Single-Piece First-Class Mail International flat-shaped

[161] *See* Docket No. PI2015-1, United States Postal Service, Service Performance Measurement, Revised March 24, 2015 (Measurement Plan).

mailpieces, the Postal Service has proposed replacing EXFC with the IMMS system that the Postal Service already uses for Outbound Single-Piece First-Class Mail International letters. *Id.* at 11-12, 34.

Finally, for Periodicals, Standard Mail letters and flat-shaped mailpieces, and BPM Flats, the Postal Service proposed replacing the external reporting currently used for the "last mile" segment of these products' service performance measure with scans of sample mailpieces from randomly-selected delivery points. *Id.* at 11-12, 41, 49, 52. These proposed changes are currently being evaluated by the Commission in Docket No. PI2015-1.[162]

3. Analysis of FY 2015 Commission Directives and Postal Service Response (First-Class Mail Single-Piece Letters/Postcards)

In the FY 2015 ACD, the Commission described the evolution of First-Class Mail service performance results, issues, and improvement efforts. The Commission noted in its FY 2015 ACD that "[f]or the first time since the Postal Service began reporting service performance of all Market Dominant mail products, [in FY 2015] no First-Class Mail product met or exceeded its service performance targets." FY 2015 ACD at 131. The Commission observed that the Postal Service was "unable to quantify the link between the issues it identifies [related to FY 2015 service performance results] and the recent rapid and severe service performance degradation, especially with respect to products with a 3-5 Day service standard." *Id.* at 136.

Specifically, the Commission noted that the Postal Service's use of its root diagnostic tools as the primary method for identifying problematic processing facilities and rectifying operational issues was not linked to identifiable Postal Service actions to improve service performance. *Id.* Noting that for several years the Postal Service reported efforts to target its worst performing facilities without success, the Commission questioned "why the same strategy would produce an improvement at any other facility." *Id.* Also, because no districts met service performance targets for 3-5-Day First-Class Mail Single-Piece Letters/Postcards in FY 2015, the Commission observed that "the Postal Service's targeted efforts to find and fix certain facilities with abnormally deficient results are ineffective because the problem spans [across] all districts." *Id.* at 137. The Commission expressed concern "that the Postal Service [had] not provided new plans, platforms, tools, or metrics that tackle and sufficiently address such a widespread problem." *Id.*

The Commission determined that First-Class Mail Single-Piece Letters/Postcards was not in compliance for FY 2015. *Id.* Accordingly, the Commission issued four directives related to First-Class Mail Single-Piece Letters/Postcards. *Id.* at 138. Two directives required the Postal Service to improve service in FY 2016 and "detail specific efforts targeted to improve

[162] As recently as February 17, 2017, the Postal Service filed its revised audit plan, which will be the subject of discussion at a technical conference on April 19, 2017. Docket No. PI2015-1, Order No. 3813, Order Scheduling Technical Conference to Review the Audit Plan, March 2, 2017.

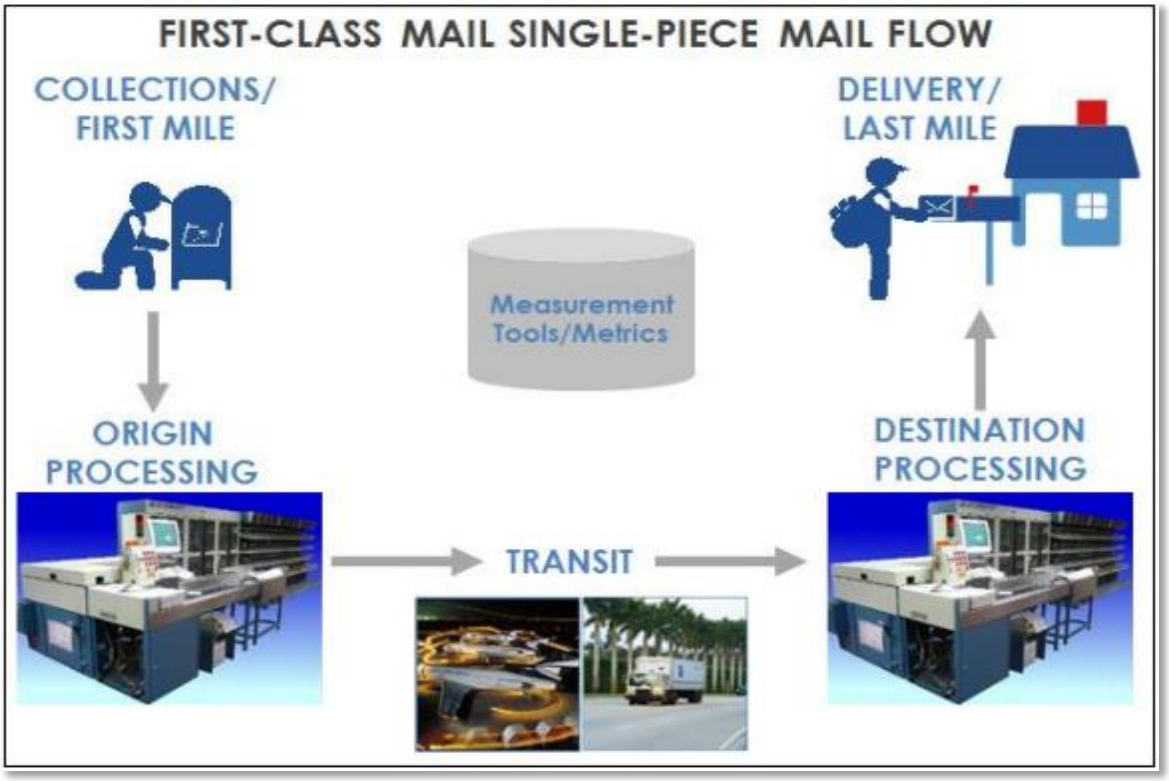
service performance" in the FY 2016 ACR. *Id.* The other two directives required the Postal Service to provide "a detailed, comprehensive plan to improve service performance for First-Class Mail Single-Piece Letters/Postcards" and seven sets of particular "data, disaggregated by district level and service standard" in conjunction with its plan within 90 days of issuance of the FY 2015 ACD. *Id.*

The Postal Service's 90-day response described five processing phases that illustrate the general flow of how a First-Class Mail Single-Piece Letter or Postcard travels through the mailstream.[163] First, the Collections/First Mile phase refers to the pickup from the collection box, initial transport of mailpieces, and cancellation processing at the origin facility. Second, the origin processing phase refers to the initial sortation of mail and subsequent assignment to ground or air transport. Third, the transit phase refers to when Single-Piece Letters/Postcards are transported via ground or air transport to destination processing facilities. Fourth, the destination processing phase refers to the sortation for final delivery. Fifth, the Delivery/Last Mile phase refers to the final phase where the mail is delivered by carriers.

[163] Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, Service Improvement Plan at 2 (Service Response).

Figure V-2 shows the Postal Service's visual explanation of the five processing phases.

Figure V-2
First-Class Mail Single-Piece Mail Flow



Source: Service Response at 3.

The Postal Service also described several measurement systems and the resulting databases and substantive reports, and explained the type of information contained in and resulting from those databases and reports. In a few instances, the Postal Service described how those databases and reports would be used by the Postal Service as part of its service performance improvement plan. *See* Service Response at 17. Because the balance of the Service Response did not discuss how the Postal Service would use the databases or reports to form a "detailed, comprehensive plan to improve service performance for First-Class Mail Single-Piece Letters/Postcards," CHIR No. 22 was issued.[164] Specifically, CHIR No. 22 asked the Postal Service to identify the thresholds for determining service performance failure(s) and the corrective actions taken in response to falling below a performance threshold. *See id.* The Postal Service's response provided additional information regarding its use of particular databases and reports.[165]

[164] FY 2015 ACD at 138; Docket No. ACR2015, Chairman's Information Request No. 22, November 1, 2016 (Docket No. ACR2015, CHIR No. 22).

[165] Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 22, November 15, 2016, question 1 (Docket No. ACR2015, Responses to CHIR No. 22).

In many cases, the Postal Service reported using the data solely for informational purposes–that is, to keep local management attuned to trends and, if applicable, to apply site-specific solutions–rather than collecting and using the data in a manner to consistently track service performance failures and corrective actions. *See, e.g.*, Docket No. ACR2015, Responses to CHIR No. 22, questions 4-5.

In response to the Commission directive to "detail specific efforts targeted to improve service performance" in the FY 2016 ACR, the Postal Service stated that the databases and reports described in the Service Response were in use during FY 2016 and would continue to be used in FY 2017.[166] To evaluate the Postal Service's use of databases and reports, several Chairman's Information Requests were issued.[167] Many questions sought updates of specific data reported in the Service Response for the third and fourth quarters of FY 2016. *See, e.g.*, CHIR No. 1, question 4. Several questions sought data to explore if particular areas, districts, or facilities presented significant challenges to improving service performance. *See, e.g.*, *id*., question 7. Moreover, data was sought to assess the significance of the challenges to service performance at particular processing phases. *See, e.g.*, *id.*, question 8.

The CHIR responses elaborate on the Postal Service's use of various databases and reports related to all of the five phases: Collections/First Mile, Origin Processing, Transit, Destination Processing, and Delivery/Last Mile. The Postal Service uses a 24-hour clock to measure processing actions throughout its networks. The Postal Service uses this 24-hour clock to set targets for the time that processing actions need to be completed. For eight processing actions occurring across all five phases, the Postal Service sets a national goal to clear a certain percentage of its volume in that particular operation by a particular time. *See* Docket No. ACR2015, Responses to CHIR No. 22, questions 2.b.i, 2.b.v. As a result, each national goal has both a percentage of applicable mail and a timing component.

Notably, the Postal Service reports metrics using data based on the 24-hour processing clock to monitor performance in connection with these eight processing actions. *Id.* Table V-6 provides the processing phase, corresponding processing action(s), and a description of the processing action(s). It also contains the target clearance time and the national percentage goal, which combined make up the 24-hour processing clock metrics.

[166] Library Reference USPS–FY16–29, December 29, 2016, at 9.

[167] Chairman's Information Request No. 1, January 3, 2017, questions 1-21 (CHIR No.1); Chairman's Information Request No. 4, January 11, 2017, questions 1-6 (CHIR No. 4); Chairman's Information Request No. 13 and Notice of Filing Under Seal, February 3, 2017, questions 1, 3, and 15 (CHIR No. 13); Chairman's Information Request No. 16 and Notice of Filing Under Seal, February 10, 2017, question 2 (CHIR No. 16).

Table V-6
24-Hour Processing Clock Metrics

Phase	Processing Action	Description of Processing Action	Percentage Goal	24-hour Target Clearance Time (hours)
Collections/First Mile	Cancelled	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards with cancelled postage by the designated clearance time	80	20:00
Origin Processing	Outgoing Primary Cleared	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received a primary sortation by the designated clearance time.	95	24:00
	Outgoing Secondary Cleared	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received a secondary sortation by the designated clearance time.	95	00:30
	Assignment to Commercial/FedEx	Measures the percentage of mail assigned to the air network by the designated clearance time. This metric may include First-Class Mail Single-Piece Letters/Postcards, Presorted Letters/Postcards, Parcels, and Flats. It may also include Priority Mail and First-Class Package Service competitive products.	95	02:30
Transit	On-time Trips	Measures the on-time percentage of outbound trips from a mail processing facility between the designated times.	88	00:00-07:00
Destination Processing	Managed Mail Program (MMP) Cleared	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received a primary sortation by the designated clearance time.	95	15:00 on the day before delivery
	Delivery Point Sequence (DPS) second pass Cleared	Measures the percentage of First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards that have received DPS sortation by the designated clearance time. It may also include Standard Mail Letters.	95	05:00 on the day of delivery
Delivery/Last Mile	Carriers Returned	Measures the percentage of delivery unit carriers that return to the office by the designated time.	87	17:00 on the day of delivery

Source: Responses of the United States Postal Service to Questions 1-5 and 7-21 of Chairman's Information Request No. 1, January 10, 2017, question 5 (January 10, 2017 Responses to CHIR No. 1).

The Postal Service explains that for each national goal, the Postal Service sets "upper and lower control limits…calculated based on average performance and standard deviations" to account for "[s]light variation in performance." Docket No. ACR2015, Responses to CHIR No. 22, question 2.b.i. The Postal Service adds that "[g]oals are established nationally; however Area[s] and Districts may establish more stringent goals to achieve higher levels of performance." *Id.*, question 2.b.iii. When a facility's performance degrades below the lower control limit, the District Manager, Plant Manager, or both, are responsible for ensuring that the facility implements corrective actions and that the Area Manager of Operations Support receives action plans and results. *See id.*, questions 2.b.i and 2.b.v.

Moreover, the Postal Service states that the volume arrival profile (VAP) tool provides a snapshot view of the 24-hour clock metrics that specifically identifies whether each area or district met each national goal. *Id.*, question 4.d.i.

In addition, the Postal Service highlights four of the eight processing action goals as being of specific concern: outgoing primary cleared, assignment to commercial/FedEx, on-time trips, and MMP cleared.[168] The Postal Service indicates that in FY 2017 it plans to develop "weekly performance exception reports at the individual plant level that identify the average amount of mail processed after the respective 24-Hour Clock target clearance time." *Id.*, question 2.b.

Below, the Commission subdivides its discussion by the five phases of the general mail flow for First-Class Mail Single-Piece Letters/Postcards as described by the Postal Service. For each phase, the Commission summarizes the Postal Service's explanations, which were provided in the Service Response and responses to Chairman's Information Requests. To frame the discussion of each phase, the Commission uses a diagram that focuses on points during that phase that represent opportunities for measurement, data collection, and corresponding corrective actions when needed.[169] When applicable, the Commission overlays the 24-hour clock metric and national goal on this diagram to illustrate the use of the 24-hour clock metrics at each phase. The Commission discusses the general processing flow during each phase, the use of the 24-hour clock and other metrics that have performance thresholds, and the visibility gained through other applicable reports and databases. For each phase, the Commission also provides analysis.

The data provided by the Postal Service offers information related to the general processing flow. The data measures the failures relative to various interim processing actions that occur within the five phases. Generally, the data applies to a particular subset of First-Class Mail Single-Piece Letters/Postcards—those mailpieces measured by EXFC—and is disaggregated by district.

The data presented by the Postal Service offers insight into specific interim processing actions within the five phases. The data lacks interconnections to pinpoint the origination or significance of failures within a particular phase. Further, a failure within a particular phase may not be directly linked to national service performance results. The five phases do not have uniform and concrete start and end points; instead the general processing flow is fluid, reactive, and varies based on local conditions. Because each of the five phases flows into the next, there are a number of opportunities for failures to occur. And, even though the number of failures at a particular phase (or interim processing action) may be low, the cumulative effect may have the potential for significant downstream delays. Despite these

[168] Responses of the United States Postal Service to Questions 1-3, 4.a, 4.c, and 5-8 of Chairman's Information Request No. 10, February 7, 2017, question 2.a. (February 7, 2017 Responses to CHIR No. 10).

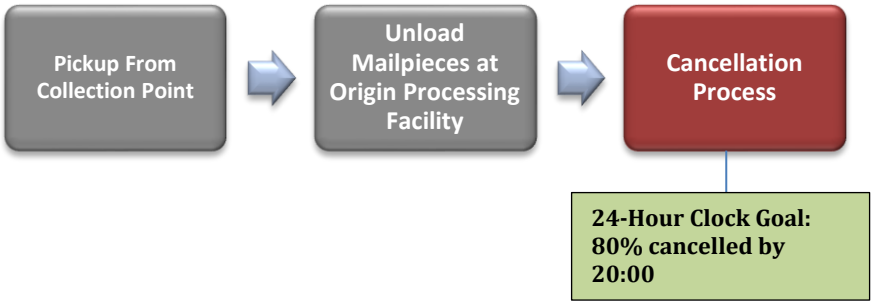
[169] The diagrams are not an exhaustive description of the processing actions that occur. The arrows connecting the measurement points illustrate intra-phase transportation such as from a collection point to a postal facility, mail movement inside a postal facility, or between postal facilities. Opportunities to add visibility into these aspects of each phase also exists.

limitations, the Postal Service's division of the general processing flow into the five phases provides a useful framework for analysis. Isolating the origination of a failure at a particular phase (or interim processing action) and assessing the significance of a failure to the national service performance results, although challenging, remains important.

Based on this analysis and the Commission's findings concerning service performance in FY 2016, the Commission directs the Postal Service to provide updated data and information, particularly related to the 24-hour clock metrics and other metrics used at specific processing phases. This directive is discussed in section V.A.4.a., *infra*.

a. Collections/First Mile

Collections/First Mile refers to the phase of processing First-Class Mail Single-Piece Letters/Postcards from the pickup at the collection box through the cancellation process. *See* Service Response at 2. During this phase, the Postal Service collects the mailpiece from a collection box or other collection point, transports it to the origin processing facility, unloads the mailpiece, and moves it to a facer-canceller machine to receive a cancellation mark.[170] The diagram below illustrates three opportunities for measurement during the processing of the Collections/First Mile phase along with the applicable 24-hour clock metric. The Collections/First Mile processing action that is measured against the 24-hour clock metric is the cancellation process. The Postal Service has a national goal to cancel 80 percent of volume by 20:00. January 10, 2017 Responses to CHIR No. 1, question 5.



In the remainder of the discussion concerning this phase, the Commission first describes the Postal Service's efforts to leverage data to mitigate poor service performance during the Collections/First Mile phase. Second, the Commission provides phase-specific analysis.

(1) Collections/First Mile: Measurement and Visibility

Corresponding to the first measurable point on the diagram, the Postal Service reports using the Collection Point Management System (CPMS) to monitor the "time of day any collection box/point [is] collected." Service Response at 3. The CPMS data are generated by "an employee's scan of the barcode located inside a collection box" when the employee empties the box. *Id.*

[170] *See* Service Response at 2. "A cancellation mark, or postmark, is applied to prevent the reuse of the indicia and to provide a date which is recognized as a valid time determinate. The cancellation mark consists of the city, state, and date to identify when and where a mailpiece was processed." January 10, 2017 Responses to CHIR No. 1, question 3.

In FY 2015, the Commission directed the Postal Service to quantify the percent of pieces that missed collection box pickups. FY 2015 ACD at 138. The Postal Service responded that it does not collect data to "specifically distinguish collection box pickup failures from other sources of collection mail delay." Service Response at 5. Instead, the Postal Service notes that daily reports from the CPMS allow district level postal managers to identify and respond to collection issues before service failures occur.[171] The Postal Service states that district and area level oversight of local CPMS reports are used to assess the discrepancies between the actual time a collection box/point was scanned and the posted or scheduled pickup time. Service Response at 3. Generally, the Postal Service characterizes collection delays as having "a minimal adverse impact on overall service." *Id.* at 5.

The Postal Service does not specify any data or reports specific to the transportation and unloading of the mail at the origin processing facility.

The Postal Service uses daily and weekly reports to gain visibility into the entire Collections/First Mile phase and explains that these reports may trigger a "zero bundle review," which is the primary mechanism to monitor, evaluate, and correct service performance failures during this phase. *See* Docket No. ACR2015, Responses to CHIR No. 22, question 1.b.i. Specifically, the Postal Service reports using the zero bundle review to address "every instance where preliminary data predict an External First-Class (EXFC) measurement system bundle failure."[172] The Postal Service claims that this review thoroughly investigates and analyzes "the affected mail flow from collection to cancellation [mark] and includes data reports, photographs, training records, all-clear reports, and statements from personnel responsible for affected operations." Docket No. ACR2015, Responses to CHIR No. 22, question 1.b.ii. The Postal Service explains that adverse findings from the zero bundle review require appropriate remedial action, specific to the identified root cause, at the local (facility) level. *See id.*

The Postal Service measures failures at the end of the Collections/First Mile phase and provides the percentage of EXFC First-Class Mail Letters/Postcards with overall collection delays, disaggregated by District and service standard. Service Response, Appendix A.; January 10, 2017 Responses to CHIR No. 1, question 4. The 24-hour clock metric also applies at the end of this phase—the Postal Service sets a national goal to cancel 80 percent of First-Class Mail Single-Piece Letters/Postcards volume by 20:00. January 10, 2017 Responses to CHIR No. 1, question 5. The Postal Service uses facility-specific processing information to generate the percentage of volume cancelled by 20:00 at each facility for every operating day.

---

[171] *Id.* at 4. The Postal Service also states that "information [from the Informed Visibility (IV) system, currently under development,] combined with referential operational data will help identify systemic issues that impact mail flow from collection points to mail processing." *Id.* IV may be used for operational assessments. The use of IV for service performance reporting is at issue in pending Docket No. PI2015-1.

[172] *See id.* EXFC measures delivery performance of First-Class Mail Letters and Flats from the street collection box to the delivery mailbox. *See* V.A.2.a., *supra*. Test droppers send samples of Single-Piece Letters/Postcards to external test receivers. *See id.*

(2) Commission Analysis

The Postal Service does not have comprehensive, national level data specific to each of the operational actions in the Collections/First Mile phase. The Postal Service does not routinely aggregate late pickups at collection points at the national level. *See* Service Response at 5. It also does not track, on an ongoing national basis, the transportation and unloading of the mail at origin processing facilities. To assess the effects of delays during the Collections/First Mile phase on overall service performance,[173] the Commission reviews the data provided by the Postal Service related to collection delays. The Postal Service provided facility level data under seal for the 24-hour clock metric applicable to the cancellation operation. *See* January 10, 2017 Responses to CHIR No. 1, question 5.c.

The Postal Service routinely monitors collection delays for EXFC First-Class Mail Single-Piece Letters/Postcards at the district level. Based on the data provided by the Postal Service, the Commission determined the ten districts with the largest percentage of collection delays for EXFC First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard in FY 2016. Table V-7 ranks those 10 districts by the reported percentage of collection delays in FY 2016.

Table V-7
Ten Districts with the Highest Total Percentages of Reported Collection Delays for 3-5-Day EXFC First-Class Mail Single-Piece Letters/Postcards, FY 2016

District	FY 2016
Appalachian	3.71%
Capital	3.56%
Houston	2.94%
Baltimore	2.12%
Atlanta	2.09%
Chicago	2.08%
Honolulu	2.06%
Triboro	1.82%
Northern Virginia	1.69%
Kentuckiana	1.45%

Source: Service Response, Appendix A; January 10, 2017 Responses to CHIR No. 1, question 4.

Overall, Table V-7 shows that collections delays were reported as occurring at less than four percent of any district's total 3-5 Day EXFC First-Class Mail Single-Piece Letters/Postcards during FY 2016.

[173] These delays are referred to as collection delays and include delays that occur in all three of the operational activities within this phase.

The Postal Service reports that its primary mechanism to monitor, evaluate, and correct service performance failures that occur during the Collections/First Mile phase is the zero bundle review. The zero bundle review occurs when "preliminary data from IBM predict a bundle failure." Service Response at 4. The zero bundle review is triggered when a test piece's initial processing scan is recorded later than expected. The review can only be triggered by EXFC First-Class Mail Single-Piece Letters/Postcards that have tracking barcodes.

In FY 2016, 0.30 percent of 2-Day and 0.29 percent of 3-5-Day First-Class Mail Single-Piece Letters/Postcards measured by EXFC received a zero bundle review. *See* January 10, 2017 Responses to CHIR No. 1, question 1.b. The percentage of zero bundle reviews did not materially change from FY 2015 to FY 2016.

The data provided by the Postal Service suggests that zero bundle reviews rarely occur, even in districts with the most reported collection delays. The Postal Service's district level data reveal that zero bundle reviews were performed on less than two percent of any district's total EXFC measured 3-5-Day First-Class Mail Single-Piece Letters/Postcards bundles. January 10, 2017 Responses to CHIR No. 1, question 1.c.

To consider the effect of delays during this phase and overall service performance results, Table V-8 ranks the three worst performing districts by the total percentage of collection delays reported in FY 2016. Table V-8 also provides comparative FY 2015 data and applicable service performance results for 3-5-Day EXFC First-Class Mail Single-Piece Letters/Postcards reported in FY 2016 and FY 2015.

Table V-8
Three Districts with the Highest Total Percentages of Reported Collection Delays for 3-5-Day EXFC First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016

Districts	Percentage of Collection Delays		Service Performance Results	
	FY 2015	FY 2016	FY 2015	FY 2016
Appalachian	0.45%	3.71%	84.10%	86.80%
Capital	0.50%	3.56%	78.20%	80.70%
Houston	1.63%	2.94%	64.50%	79.60%

Source: Service Response, Appendix A; January 10, 2017 Responses to CHIR No. 1, question 4. FY 2016, Performance, Quarter 4, Excel file "SPFC LC 164 Scores Report.xlsx", tab "SPLC YTD", E18, E11, E62; FY 2015, Performance, Quarter 4, Excel file "SPFC LC 154 Scores Report.xlsx", tab "SPLC YTD", E18, E11, E62; *https://www.prc.gov/dockets/quarterly-performance.*

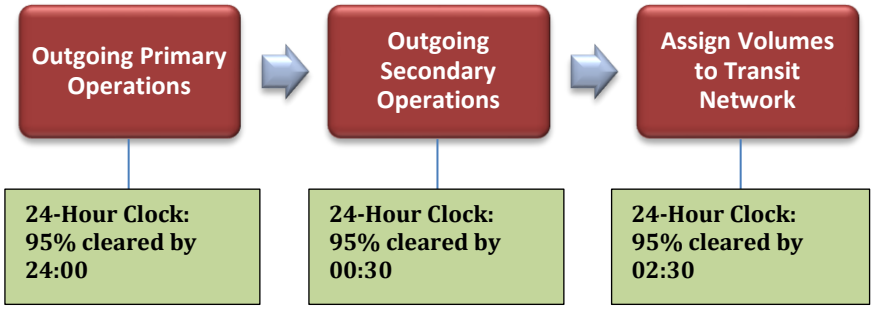
Table V-8 shows that although collection delays for 3-5-Day EXFC First-Class Mail Single-Piece Letters/Postcards reported in FY 2016 increased in those districts, overall service performance results also improved.

The Commission's preliminary assessment of the worst performing districts' collection delay data lends support for the Postal Service's assertion that collection delays do not have a significant impact on overall service performance results. This may be due to the Postal Service's ability to speed up its later processing activities to minimize the effect of Collections/First Mile delays. *See* V.A.3.b.2., *infra*. The Collections/First Mile phase is the first of five phases, and it may be difficult to draw a clear line between service issues that occur in the first phase and nationwide service performance results. However, monitoring, evaluating, and correcting issues that occur in the first phase is an important step in improving overall service performance.

Based on this analysis and the Commission's findings concerning service performance in FY 2016, the Commission directs the Postal Service to provide updated data and information related to zero bundle reviews and collection delays. This directive is discussed in section V.A.4.a., *infra*.

b. Origin Processing

Origin processing refers to the phase that includes the first processing operations after a First-Class Mail Single-Piece Letter or Postcard receives a cancellation mark. *See* Service Response at 2. The subsequent processing actions include an origin primary sortation (as well as a secondary sortation, if necessary) and then assignment to transit, if necessary. *See id.* The diagram below illustrates that all three opportunities for measurement during the origin processing phase are measured against the 24-hour clock metric and have corresponding national goals.



The Postal Service also describes using several facility-specific reports to provide additional visibility and promote local action.

In the remainder of the discussion concerning this phase, the Commission first describes the Postal Service's explanation of its efforts to leverage data to mitigate poor service performance during the origin processing phase. Second, the Commission provides phase-specific analysis of these efforts.

(1) Origin Processing: Measurement and Visibility

Three of the 24-hour clock processing metrics apply to the origin processing phase: outgoing primary cleared, outgoing secondary cleared, and assignment to the transit network. January 10, 2017 Responses to CHIR No. 1, question 5. To measure the first processing action, primary sortation, the Postal Service gathers data on the number and percentage of First-Class Mail Single-Piece Letters/Postcards and First-Class Mail Presorted Letters/Postcards that require a primary sortation and receive one by midnight. *See id.* To measure the next processing action, the Postal Service gathers data on the number and percentage of First-Class Mail Single-Piece Letters/Postcards and First-Class Mail Presorted Letters/Postcards that require a secondary sort and receive one by 00:30. *See id.* The Postal Service measures the third processing action by collecting data on the volume of First-Class Mail Single-Piece Letters/Postcards, Presorted Letters/Postcards, Parcels, and Flats assigned to the transit network by 02:30.[174]

The Postal Service also describes using various facility-specific reports to provide additional origin processing information that allows for local action. To add transparency to outgoing primary and secondary operations, the Postal Service reports using data from the Mail History and Tracking System (MHTS) to generate and distribute "Outgoing Primary/Secondary Clearance" reports. *See* Service Response at 5-6. The Postal Service states that these reports contain the facility's processing information such as volume, throughput, number of machines used, and last run time. *Id.* at 6. The Postal Service also highlights the "Outgoing Machine Utilization vs. RPG" report, which measures "actual letter automation machine utilization compared to the planned utilization from the Run Plan Generator (RPG)."[175]

The Postal Service reports implementing the Tray Consolidation Initiative during Quarter 1 FY 2016 throughout its entire network of letter mail processing plants to assist in timely assignment of mail to air or ground transit.[176] The Postal Service explains that the data from this initiative, which aims to increase tray densities, are aggregated to generate the "Facility Tray Weight Daily Performance" reports. Service Response at 8. The Postal Service states that these reports are "primarily informational" and provide local managers with weekly data and trends allowing for local action as needed. *Id.*

Specific processing plants that fail to meet national service targets are included on a "Bottom Ten" report.[177] During FY 2015 and early FY 2016, the Postal Service deployed service improvement teams to sites that appeared on the Bottom Ten report for four or

[174] *Id.* at 7. This may also include Priority Mail and First-Class Package Services volume.

[175] *Id.* at 7 (emphasis omitted). The RPG model uses forecasted data to develop a machine schedule, including start times and throughputs, which is capable of processing all volumes by the intended clearance times. *Id.*

[176] *See* Service Response at 8; Responses of the United States Postal Service to Questions 1-6 and 10 of Chairman's Information Request No. 4, question 4 (January 18, 2017 Responses to CHIR No. 4).

[177] *See* Docket No. ACR2015, Responses to CHIR No. 22, question 6.a. "There is a period of time the Bottom Ten report was not generated in FY 2016, which was at the end of December 2015 through mid-January 2016." Response of the United States Postal Service to Question 6 of Chairman's Information Request No. 1, February 21, 2017, question 6.b. (February 21, 2017 Response to CHIR No. 1).

more consecutive weeks.[178] However, the Postal Service did not track "[t]he number of times service improvement teams were deployed during FY 2015 and FY 2016." February 21, 2017 Response to CHIR No. 1, question 6.d. Although the Bottom Ten report relies on facility-level data, the Postal Service states that "data [concerning a facility's appearance on the Bottom Ten report for four or more consecutive weeks in FY 2015 and FY 2016] are available only at the District level and not at the facility level." *Id.*

The Commission requested the Postal Service provide the percentage of pieces where its first processing operations occurred one day after collection. FY 2015 ACD at 138. In response, the Postal Service explains that it categorizes first processing operations failures as pieces that were either: processed on secondary operations after 0:00 on the day of collection; or processed on primary operations after 23:00 on the day of collection and receiving no secondary scan.[179]

The Postal Services measures the volume assigned to the air network by the designated clearance time. The Postal Service does not provide specific source information for these data. *See* January 10, 2017 Responses to CHIR No. 1, question 5.b.

(2) Commission Analysis

Table V-9 shows the percentage of EXFC First-Class Mail Single-Piece Letters/Postcards determined by the Postal Service to have origin processing delays, disaggregated by service standard. The Postal Service categorizes pieces with origin processing delays as first processing operation failures. Service Response at 9. It calculates the percentage of EXFC First-Class Mail Single-Piece Letters/Postcards with first processing operation failures using pieces that were either: processed on secondary operations after 00:00 on the day of induction; or processed on primary operations after 23:00 on the day of induction and receiving no secondary scan. *Id.*

[178] Docket No. ACR2015, Responses to CHIR No. 22, question 6.a. "The Postal Service stopped deploying service improvement teams based on the Bottom Ten report during FY 2016." February 21, 2017 Response to CHIR No. 1, question 6.c.

[179] Service Response at 9. These clearance times are specific origin processing failures for EXFC mail only, which is why they differ from the similar 24-hour clearance times and metrics used for all mail.

Table V-9
Origin Processing Delays for EXFC First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016

	FY 2015				FY 2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
2-Day	0.17%	0.24%	0.15%	0.14%	0.30%	0.20%	0.13%	0.17%
3-5-Day	1.47%	4.57%	2.40%	1.57%	3.54%	2.68%	1.32%	1.19%

Source: Service Response at 10; Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 13, February 10, 2017, question 1 (Responses to CHIR No. 13). The Postal Service also provided these data disaggregated by district. Service Response, Appendix B; January 10, 2017 Responses to CHIR No. 1, question 7.

The Commission determined which districts reported the highest percentages of origin processing delays in each quarter of FY 2015 and FY 2016 based on district level data provided by the Postal Service. Table V-10 shows that the Colorado/Wyoming District reported the highest overall percentage of origin processing delays and was the district with the highest percentage of origin delays for five of the eight fiscal quarters during FY 2015 and FY 2016.[180] The Detroit and Greater Boston Districts also are among the districts that frequently reported high percentages of origin processing delays during FY 2015 and FY 2016.

[180] Colorado/Wyoming District reported the highest percentage of origin processing delays for Quarter 2 and Quarter 3 of FY 2015 and Quarters 1-3 of FY 2016.

Table V-10
Five Districts with the Highest Percentages of Reported Origin Processing Delays for 3-5-Day EXFC First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016

FY 2015				FY 2016			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sierra Coastal (5.11%)	Colorado/ Wyoming (14.50%)	Colorado/ Wyoming (7.54%)	Salt Lake City (5.43%)	Colorado/ Wyoming (16.50%)	Colorado/ Wyoming (13.90%)	Colorado/ Wyoming (7.51%)	Detroit (6.34%)
Honolulu (4.30%)	Dallas (12.77%)	Central Plains (6.60%)	Mid-America (4.79%)	Detroit (8.42%)	Baltimore (8.48%)	Detroit (4.12%)	Mid-America (5.18%)
San Francisco (4.02%)	Central Plains (12.68%)	Honolulu (6.49%)	Colorado/ Wyoming (4.46%)	Baltimore (7.21%)	Houston (6.53%)	Honolulu (3.17%)	Westchester (3.23%)
Connecticut Valley (3.70%)	Triboro (10.67%)	Greater Boston (5.08%)	Mid-Carolinas (3.65%)	Northland (6.95%)	Detroit (6.42%)	Mid-America (2.77%)	Triboro (2.61%)
Greater Michigan (3.53%)	Central Pennsylvania (10.47%)	Lakeland (4.97%)	Greater Boston (3.32%)	Salt Lake City (6.93%)	Triboro (6.16%)	Greater Boston (2.43%)	Greater Boston (2.28%)

Source: Service Response, Appendix B; January 10, 2017 Responses to CHIR No. 1, question 7.

The Commission notes that none of the districts with the top three highest levels of collection delays (Appalachian, Capital, and Houston) report similar levels of origin processing delays. *See* Tables V-8 and V-10, *supra*. This supports the Postal Service's conclusion that collection delays are not a significant contributor for overall service performance issues, which may be due to the Postal Service's ability to recover from collection delays by expediting origin processing. *See* Service Response at 5.

The Commission identifies an opportunity for the Postal Service to improve First-Class Mail Single-Piece Letters/Postcards service performance by focusing improvement efforts on the districts with relatively large origin processing delays. The Postal Service's decision to focus on particular 24-hour clock time goals, and generate facility-specific reports to identify mail processed after the applicable 24-hour clock time goal, appears to be a reasonable approach to identifying the sources of origin processing delays. *See* February 7, 2017 Responses to CHIR No. 10, question 2.

CHIR No. 1, question 6 requested that the Postal Service identify all facilities that appeared on the Bottom Ten report for four or more consecutive weeks during FY 2015 and FY 2016, and provide corresponding data regarding the number of total piece failures at that facility for each date, the total volume of mailpieces at that facility for each date, and the number of times that service improvement teams were deployed to that facility during FY 2015 and

FY 2016. The Commission directs the Postal Service to provide Bottom Ten related data in section V.A.4.a., *infra*.

The Commission is unable to evaluate the effects of service improvement team deployments because the Postal Service did not track these deployments. *See* February 21, 2017 Responses to CHIR No. 1, question 6.d. The Postal Service states that it stopped deploying service improvement teams based on the Bottom Ten report during FY 2016.[181]

Based on this analysis and the Commission's findings concerning service performance in FY 2016, the Commission directs the Postal Service to provide updated data and information related to the Bottom Ten report and origin processing delays. This directive is discussed in section V.A.4.a., *infra*.

c. Transit

Transit refers to the transportation, via air or ground, of a mailpiece that is destined for an address outside of the local service area from which it was mailed. Service Response at 2. During this phase, mail travels from the origin processing facility to the destination processing facility. *Id.*

Overall, the Postal Service focuses its measurement efforts with respect to assignment to mode of transportation, the departure of outbound trips from the origin processing facility, and arrival at the destination facility. The transportation of the mail between the origin processing and destination facility may involve multiple handoffs between other Postal Service facilities as well as commercial air and ground carriers. The number and types of handoffs vary based on several factors including the mailpiece, its origin, and its destination. The Postal Service reports on efforts to increase visibility with respect to these handoffs. Throughout the transit phase, the Postal Service attempts to minimize delays and use more direct routes.

The Commission subdivides its discussion of the transit phase by mode of transit—air and ground transportation. For each mode, the Commission first describes the Postal Service's explanation of its efforts to leverage data to mitigate poor service performance during the transit phase. Second, the Commission provides phase-specific analysis of each mode.

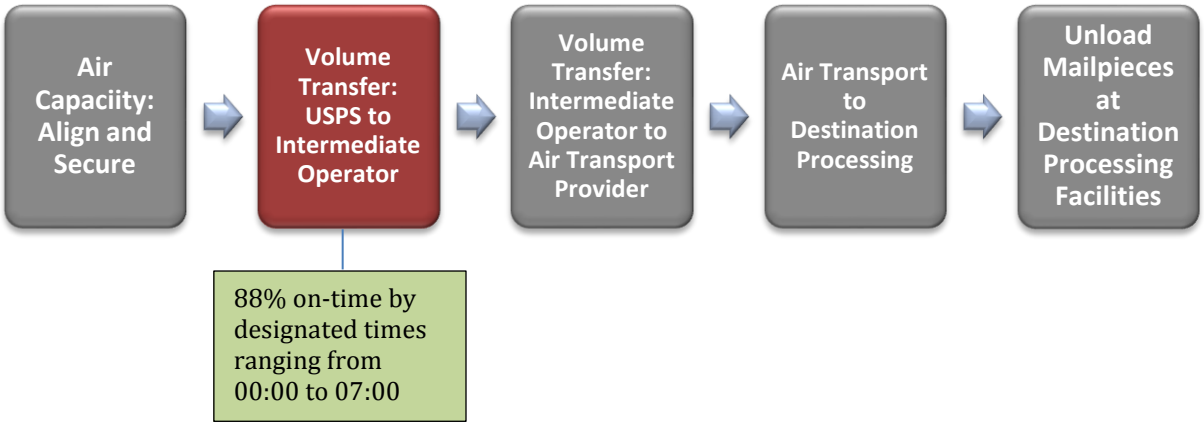
(1) Air Transit

With respect to air transit, the Postal Service's first processing action is a continuation of the last step of the origin processing phase—securing capacity and assigning mailpieces. Second, these mailpieces are transferred to an intermediate operator who is contracted to deliver them to an air carrier. Third, after traveling some distance by ground, the intermediate operator transfers the mailpieces to a contracted air carrier. Fourth,

[181] The Postal Service states that it now uses IV to identify causes of service failures. Docket No. ACR2015, Responses to CHIR No. 22, question 6.a.; *see also* February 21, 2017 Responses to CHIR No. 1, question 6.c. IV, which is currently under development, may be used for operational assessments. The use of IV for service performance reporting is at issue in pending Docket No. PI2015-1.

mailpieces are transported to the destination processing facility. Finally, the mailpieces are unloaded at the destination processing facility.

The diagram below illustrates that the Postal Service only measures one out of five processing actions against the 24-hour clock processing metric. The Postal Service sets a national goal for outbound trips departing from a mail processing facility from 00:00 through 07:00 at an 88 percent on-time departure rate. January 10, 2017 Responses to CHIR No. 1, question 5.



(a) Air Transit: Measurement and Visibility

The Postal Service's first processing action is to secure capacity and assign mailpieces. The Postal Service reports on its efforts to secure additional air capacity to "minimize the impact of air capacity constraints on service performance." Service Response at 11. The Postal Service attributed the FY 2015 air capacity gaps to Phase 2 of Network Rationalization, which "caused a shift in mail volume between mail processing facilities,…[and] resulted in additional interrupted network flows due to insufficient air carrier capacity in the needed locations."[182]

The Postal Service developed a daily shortfall report to identify all air capacity gaps. *See* Docket No. ACR2015, Responses to CHIR No. 22, question 10.a. The Postal Service reports that Headquarters and Area Office Transportation Managers are responsible for developing plans to bridge gaps in air capacity. *See id.* Using the Logistics Condition Reporting System, the Postal Service tracks air network delays daily by mail class at the national, area, and other levels. Service Response at 14.

The focus of the second through fifth processing actions involve transfers: from the Postal Service to the intermediate operator, from the intermediate operator to the contract air transportation provider, air transport to the destination, and from the contract air transportation provider back to the Postal Service.

[182] FY 2015 ACD at 133 (citing Docket No. ACR2015, January 19, 2016 Responses to CHIR No. 2, question 19.a.).

The Postal Service acknowledges that these transfers "play[] a critical part in the timeliness of postal delivery." Service Response at 15. To track these transfers, the Postal Service monitors daily Automated Area Distribution (AADC)/Area Distribution Center (ADC) processing delays. *Id.* AADC/ADC processing delays occur when a mailpiece "was processed timely at the origin plant, but scanned late at the destinating processing facility."[183] AADC/ADC processing delay data is not sufficiently granular to isolate specifically when the delay occurred. *Id*.

The Postal Service also reports on its technology-focused effort to improve monitoring of mailpieces at these key points. Service Response at 10. Specifically, the Postal Service describes a "rapidly expanding" pilot project to use "barcode scanning technology to identify the actual tender and retrieval of mail products from the air carrier locations."[184] In connection with this pilot project, the Postal Service has begun to use "carrier-specific contractual requirements for on-time performance as the thresholds to monitor [air carrier performance] against." Docket No. ACR2015, Responses to CHIR No. 22, question 7.b.i.; *see also* January 18, 2017 Responses to CHIR No. 4, question 6. The Postal Service explains that after an air carrier misses its carrier-specific contractual requirements for three consecutive weeks, the carrier is replaced.[185]

(b) Commission Analysis

The Commission focuses its analysis on two sets of data provided by the Postal Service. The first is air capacity gaps, which correspond with the first point on the diagram and may contribute to additional downstream delays. The second is AADC/ADC processing delays, which encompass all delays during the transit phase, including those not specific to air transit.

The air capacity gap refers to the difference between the space available on air transportation and the Postal Service's need for space on air transportation. The Postal Service stated that Phase 2 of Network Rationalization resulted in insufficient air carrier capacity, which the Postal Service asserted was one of the primary reasons for the dramatic decline in First-Class Mail service performance results in FY 2015. FY 2015 ACD at 133. In response to these constraints, the Postal Service reported taking three specific counter measures during FY 2015 to mitigate the effect of network constraints on service performance results: the onboarding of new commercial air carriers, the purchasing of dedicated charters to offset the shortage of capacity, and continued negotiation for additional air capacity.[186]

---

[183] *Id.* Specifically, the Postal Service defines the late scan at the expected AADC to occur "after 12:00 on the day prior to expected delivery." *Id.*

[184] *Id.* The Postal Service explains that barcode scanning at air carrier locations is a national initiative that was implemented November 21, 2016. January 10, 2017 Responses to CHIR No. 1, question 12.

[185] *See* Docket No. ACR2015, Responses to CHIR No. 22, question 7.b.ii. The Postal Service also describes two interim steps:"[t]he first week a threshold is not met triggers a meeting with the supplier to review their performance. The second consecutive week a threshold is missed triggers a follow-up meeting with the supplier during which they are expected to detail a plan for improvement." *Id.*

[186] Docket No. ACR2015, Responses of the United States Postal Service to Questions 15-26 of Chairman's Information Request No. 2, January 19, 2016, question 19.c. (Docket No. ACR2015, January 19, 2016 Responses to CHIR No. 2).

The data provided by the Postal Service suggests that significant gaps in air capacity may contribute to additional downstream delays. This may occur because some mailpieces initially assigned to air transit and unable to travel on the initially-assigned plane wait for another contracted air carrier whereas others proceed by slower ground transportation.

Table V-11 displays the air capacity gap, by fiscal quarter, for Quarter 2 of FY 2015 through Quarter 4 of FY 2016.

Table V-11
Air Capacity Gap by Quarter, FY 2015 and 2016

	FY 2015	FY 2016
Q1	N/A	19,506,738
Q2	20,534,544	22,629,880
Q3	13,292,344	13,537,884
Q4	8,085,818	2,447,592

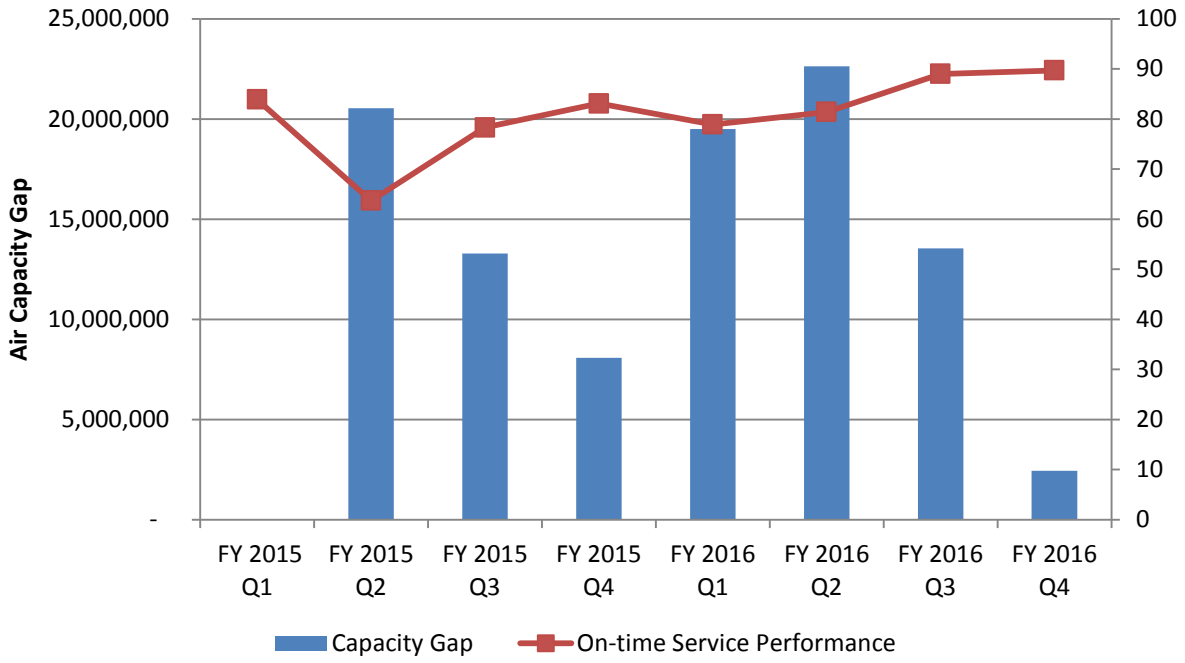
Note: Data is calculated using daily cubic feet volume. "Data is not provided for [FY 2015] Quarter 1 because Phase 2 of Network Rationalization was implemented on January 5, 2015, at the beginning of FY 2015 Quarter 2." FY 2015 ACD at 133, n.231.

Source: Docket No. ACR2015, January 19, 2016 Responses to CHIR No. 2 question 19.b.; January 10, 2017 Responses to CHIR No. 1, question 8; Response of the United States Postal Service to Question 1 of the Chairman's Information Request No. 28, March 17, 2017, question 1 (Response to CHIR No. 28).

As Table V-11 shows, the air capacity gap was similar in FY 2016 Quarter 2 and Quarter 3 compared to FY 2015 Quarter 2 and Quarter 3. In Quarter 1 through Quarter 3 of FY 2016, the air capacity gap remained above 13 million cubic feet. Quarter 4 of FY 2016 showed a marked improvement, in which the gap narrowed to less than 3 million cubic feet.

Figure V-3 illustrates the change in the air capacity gap and nationwide 3-5-Day First-Class Mail Single-Piece Letters/Postcards service performance results by fiscal quarter during FY 2015 and FY 2016.

Figure V-3
Air Capacity Gaps Compared to Quarterly Service Performance Results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016



Note: Air capacity gap data is not provided for Quarter 1 of FY 2015.

Source: Docket No. ACR2015, January 19, 2016 Responses to CHIR No. 2, question 19.b.; Response to CHIR No. 28, question 1.

The Postal Service achieves higher service performance results in fiscal quarters with lower air capacity gaps. However, the Commission determines that air capacity gaps are not the sole cause of poor service performance results as shown by the air capacity gaps and service performance results observed in FY 2016.

Figure V-3 shows that the service performance results for FY 2016 Quarter 2 and Quarter 3 improved, even as the air capacity gap remained substantial. The service performance results in FY 2016 Quarter 4 did not markedly improve, even as the air capacity gap declined considerably. Specifically, despite reporting that the air capacity gap narrowed to less than 3 million cubic feet in Quarter 4 of FY 2016, the corresponding service performance results improved only slightly.

The Commission also evaluates the reported AADC/ADC processing delays. Table V-12 shows the percentages of these processing delays disaggregated by 2-Day and 3-5-Day service standards for EXFC First-Class Mail Single-Piece Letters/Postcards. These data show that processing delays are more significant in mail with a 3-5-Day service standard, which account for approximately 65 percent of all First-Class Mail Single-Piece Letters/Postcards. January 10, 2017 Responses to CHIR No. 1, question 21.

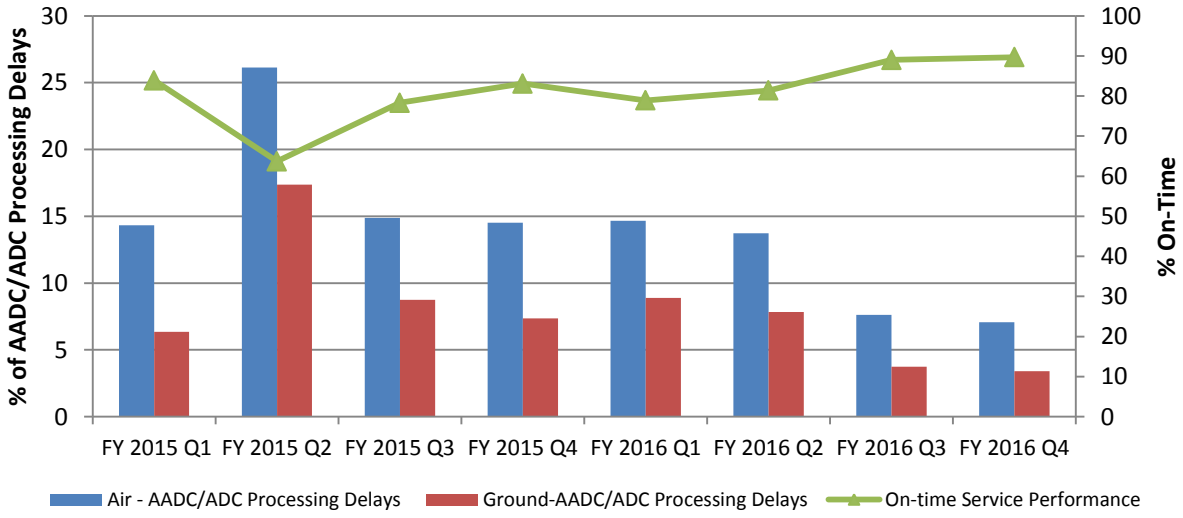
Table V-12
Percent of Nationwide AADC/ADC Processing Delays for EXFC First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016

	2-Day		3-5-Day	
	FY 15	FY 16	FY 15	FY 16
Q 1	1.12	0.76	8.79	11.05
Q 2	1.78	0.69	19.99	10.04
Q 3	0.68	0.36	11.00	5.22
Q 4	0.59	0.36	10.04	4.81

Source: Service Report at 16; February 17, 2017 Responses to CHIR No. 16, question 2. The Postal Service also provided these data disaggregated by district. Service Response, Appendix C; January 10, 2017 Responses to CHIR No. 1, question 15.

When these processing delays are compared for air and ground transit, it is clear that they occur more frequently with air transit. In FY 2015 and FY 2016, approximately one-third of 3-5-Day EXFC First-Class Mail Single-Piece Letters/Postcards traveled by air. January 10, 2017 Responses to CHIR No. 1, question 11. As shown in Table V-12, AADC/ADC processing delays are approximately two times more common with mailpieces using air transit than those using ground transit. These data corroborate the Postal Service's assertions that mailpieces with a 3-5-Day service standard are disproportionately affected by processing delays in air transportation. *See* FY 2015 ACD at 134.

Figure V-4
Percent of AADC/ADC Processing Delays Disaggregated by Mode Compared to Quarterly Service Performance Results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016



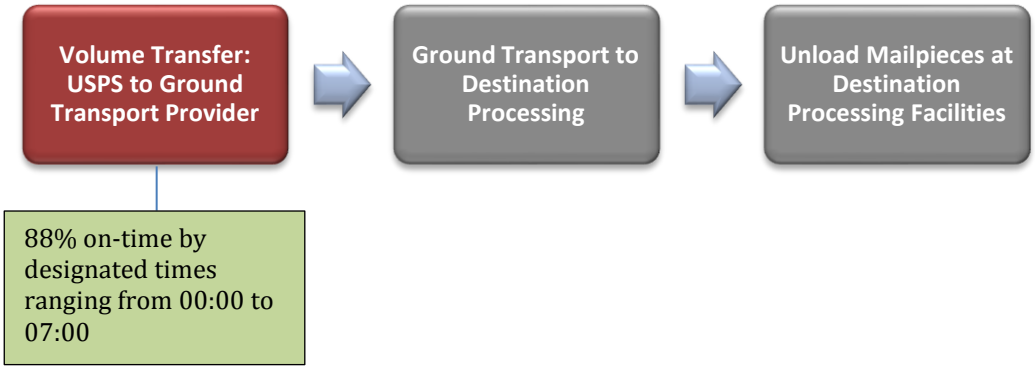
Source: Service Report at 16; February 17, 2017 Responses to CHIR No. 16, question 2.

As Figure V-4 also shows, the Postal Service achieves higher service performance results in fiscal quarters with lower AADC/ADC processing delays, particularly for air transit. Based on this analysis and the Commission's findings concerning service performance in FY 2016, the Commission directs the Postal Service to provide updated data and information related to air transit delays. This directive is discussed in section V.A.4.a., *infra*.

(2) Ground Transit

When a mailpiece travels by ground transit, the first processing action requires the transfer of the mailpiece to the contracted ground transportation provider. Second, the ground transportation provider transports the mailpiece to the destination processing facility. En route to the destination processing facility, the mailpiece may be transferred to and transported by additional ground transportation providers. Throughout ground transit, the Postal Service attempts to adjust to minimize delays and use more direct routes. Finally, the mailpiece is unloaded at the destination processing facility.

The diagram below illustrates that the Postal Service applies a 24-hour clock processing metric to only one out of three processing actions. As with air transportation, the Postal Service sets a national goal for outbound trips departing from a mail processing facility from 00:00 through 07:00 to have an 88 percent on-time departure rate. January 10, 2017 Responses to CHIR No. 1, question 5.



(a) Ground Transit: Measurement and Visibility

Mail that does not destinate in the same area as it originates must be assigned to either air or ground transportation. The Postal Service does not have the same capacity issues with respect to ground transportation that it has with air transportation.

The Postal Service records the on-time percentage of outbound trips from a mail processing facility between designated times to measure the first processing operations. In addition, the Postal Service states that further efforts to improve the visibility of this processing action are underway. Service Response at 13. For example, it is developing the Surface Visibility (SV) program which "enables mail acceptance…and track[s] containers and trailers across the surface network." *Id.* The Postal Service also mentions development

of the "Handling Unit Diagnostic System (HUDS)," which provides information on delayed handling units based on clearance times and dispatch schedules. *Id.* at 13-14.

With respect to monitoring and decreasing delays associated with ground transit, the Postal Service focuses on "Critically Late Trip (CLT)," which the Postal Service defines as those highway contract routings that experience delays of more than 4 hours.[187] The Postal Service states that if a highway contract route (HCR) incurs more than four CLTs per week, the Administration Officer begins a five-step corrective action plan. Docket No. ACR2015, Responses to CHIR No. 22, question 12.b.i., iv. The Postal Service uses the Transportation Information Management Evaluation System (TIMES) to identify and track these CLTs. Service Response at 11-12. Table V-13 shows the volume of CLTs in both FY 2015 and FY 2016, disaggregated by area.

Table V-13
Critically Late Trips by Area, FY 2015 and FY 2016

Area	FY 2015	FY 2016	% Percent Change
Capital Metro	6779	6492	-4.2%
Eastern	7824	7663	-2.1%
Great Lakes	5668	6264	+10.1%
Northeast	4338	4713	+8.6%
Pacific	2840	1857	-34.6%
Southern	8311	8282	-0.3%
Western	6366	4674	-26.6%

Source: January 10, 2017 Responses to CHIR No. 1, question 13.

Stating that after the service standards were changed in January 2015, Surface Transfer Centers (STCs)[188] became "overburdened with processing volume," the Postal Service represents that it is working to "bypass [STCs] where justified by volume" and instead use "point-to-point routings." Service Response at 11. Therefore, the Postal Service plans to develop a STC optimization model, which it expects to be operational by September 2017, "to maximize trips and reduce equipment/trailer costs."[189]

Furthermore, the Postal Service reports that Headquarters and Area Office Transportation Managers are responsible for ensuring that routings are "service-responsive" by comparing

[187] Docket No. ACR2015, Responses to CHIR No. 22, question 12.b.i. The causes of these delays include postal dock operation errors, surface transportation contractor mechanical problems, or scheduling conflicts. Service Response at 11. The Postal Service emphasizes that data are not sufficiently granular to determine whether a failed piece was delayed at origin, destination, or during transit. *Id.* at 15.

[188] A STC is a Postal Service facility that accepts, re-processes, and dispatches mailpieces currently in transit to a destination facility. Specifically, "STCs distribute, dispatch, consolidate and transfer First-Class Mail, Priority [M]ail and Periodicals within a specialized surface transportation network." Docket No. ACR2013, Response of the United States Postal Service to Question 4 of Chairman's Information Request No. 16, March 28, 2014.

[189] Docket No. ACR2015, Responses to CHIR No. 22, question 13.b., 13.c. Specifically, the Postal Service expects that the model will "propose the optimal number of STCs, the location of each STC, and the associated transportation requirements." *Id.*, question 13.b.

the destination receipt date and time with the established Critical Entry Time (CET) for the particular class of mail, taking into account the appropriate service standard.[190]

The Postal Service does not specify any data or reports specific to unload mailpieces at destination facility processing action.

(b) Commission Analysis

The Commission uses the number of CLTs to analyze ground transportation performance. Given that approximately 65 percent of 3-5-Day EXFC First-Class Mail Single-Piece Letters/Postcards travel by ground, CLTs adversely affect service performance results. January 10, 2017 Responses to CHIR No. 1, question 11. Table V-14 illustrates districts with the five greatest percentage declines in critically late HCR trips between FY 2015 and FY 2016. It also compares the percentage change in service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards reported from FY 2015 to FY 2016.

Table V-14
Five Districts with the Highest Percentage Decline in Critically Late Trips Compared to Corresponding District-Level Service Performance Results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016

District	Critically Late HCR Trips			Service Performance Results		
	FY 2015	FY 2016	Change	FY 2015	FY 2016	Pt Change
Atlanta	2375	1084	-54.4%	79.20%	85.20%	+6.0
Philadelphia Metro	932	592	-36.5%	81.00%	86.50%	+5.5
Connecticut Valley	1106	731	-33.9%	76.10%	84.30%	+8.2
Dallas	1311	886	-32.4%	74.70%	85.00%	+10.3
Northern New Jersey	2158	1591	-26.3%	76.30%	84.20%	+7.9

Source: January 10, 2017 Responses to CHIR No. 1, question 13.

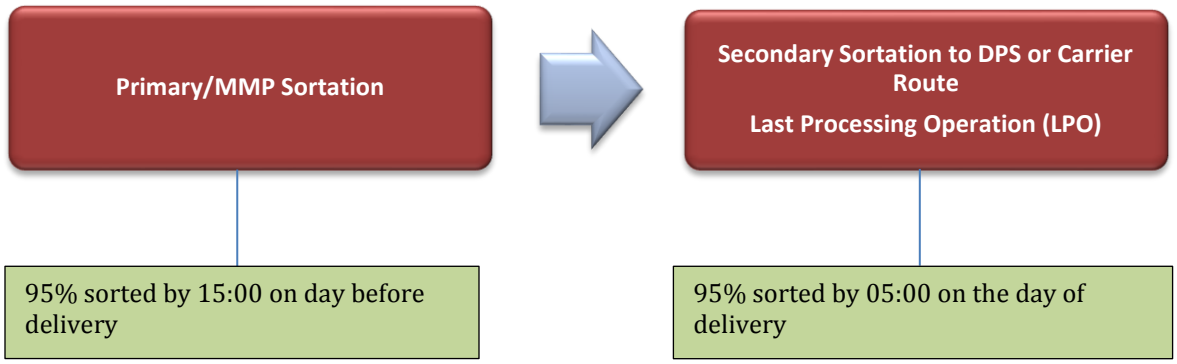
A low performing ground transportation network is not the sole cause of low service performance results. However, the Postal Service's data indicates that decreasing the number of CLTs likely plays a role in improving service performance results at the district level. As a result, if the Postal Service continues its focus on improving its ground transportation network, district level service performance results for First-Class Mail Single-Piece Letters/Postcards are likely to increase. A continued focus on decreasing the number of CLTs should improve nationwide service performance for 3-5-Day First-Class Mail Single-Piece Letters/Postcards as well.

[190] *See* Docket No. ACR2015, Responses to CHIR No. 22, question 8.b., 8.c. Service-responsive routings are mail class-specific transportation sequences designed to move the mail from the origin facility to the destination facility and result in mail being received at the destination facility prior to the established CET for the particular class of mail such that delivery can be made by the expected delivery date. *Id.*, question 8.a.

Based on this analysis and the Commission's findings concerning service performance in FY 2016, the Commission directs the Postal Service to provide updated data and information related to CLTs. This directive is discussed in section V.A.4.a., *infra*.

d. Destination Processing

Destination processing refers to the processing phase that occurs after First-Class Mail Single-Piece Letters/Postcards arrive at a destination processing facility. *See* Service Response at 2. The basic operational flow for the destination processing phase involves two sortations: a primary sortation and a secondary sortation. *See id.* First, the mailpieces receive an incoming primary sortation, also known as a MMP sortation.[191] Second, the mailpieces receive an incoming secondary sortation to DPS or Carrier Route sequence.[192] The incoming secondary sort is also known as the Last Processing Operation (LPO) because it is the final automated mail processing operation. The diagram below illustrates the opportunities for measurement during the destination processing phase along with the applicable 24-hour clock metrics and corresponding national goals.



The Postal Service also describes using facility-specific data to provide additional visibility and promote local action.

In the remainder of the discussion concerning this phase, the Commission first describes the Postal Service's explanation of its efforts to leverage data to mitigate poor service performance during destination processing. Second, the Commission provides phase-specific analysis.

(1) Destination Processing: Measurement and Visibility

Two of the 24-hour clock processing metrics apply to the destination processing phase: MMP cleared and DPS second pass cleared. January 10, 2017 Responses to CHIR No. 1,

---

[191] *See id.* The Postal Service uses the words "outgoing" and "incoming" to differentiate processing operations. An outgoing processing operation is used for mail that needs additional sortation at another Postal Service facility. An incoming operation is used for mail that will not be transported to another Postal Service processing facility, and thus is at the final processing facility prior to delivery.

[192] *See id.* The Postal Service sorts most letters to DPS using the Delivery Bar Code Sorter (DBCS). The Postal Service uses the Flats Sequencing System (FSS) to sort flats into DPS, but only 30 percent of flats were sorted to DPS in FY 2016. *See* Chapter 6, *infra*. Flats that cannot be sorted to DPS on an FSS are sorted to Carrier Route on an Automated Flats Sorting Machine (AFSM).

question 5. First, measurement of MMP cleared determines the percentage of First-Class Mail Single-Piece Letters/Postcards and First-Class Mail Presorted Letters/Postcards that require and receive a primary sortation at a destination facility by 15:00 on the day before delivery. *Id.* Second, the measurement of DPS second pass cleared determines the percentage of First-Class Mail Single-Piece Letters/Postcards, First-Class Mail Presorted Letters/Postcards, and Standard Mail Letters that require and receive a DPS or Carrier Route sortation at a destination facility by 05:00 on the day of delivery. *Id.*

The Postal Service uses MHTS data to determine the volume of mail that falls into each of four categories: processed in a manner that enhances the opportunity for delivery before the date implied in the applicable service standard (advanced); received the correct final scan at the destination plant after 08:00 on the expected day of delivery (on-time); processed after the 15:00 cut-off time on the day before delivery (processed late); or processed after 05:00 on the day of delivery (Dead on Arrival (DOA)).[193] This data is included in a MMP by 15:00 Report that breaks down the percentage of mailpieces that fall into each of these four categories. Service Response at 17.

The Postal Service states that the MHTS does not maintain historical data beyond the preceding 3 weeks and that it is unable to quantify how much mail fell into each category for FY 2015 and FY 2016.[194] The Postal Service explains that if destination processing reports indicate that a facility has multiple occurrences of on-hand volumes at 15:00, that facility must identify the root cause of failure, generate solutions, and document the improvement process for Headquarters. *See* Service Response at 17. Also, the Postal Service states that if destination processing reports indicate that a facility reported that it processed 100 percent of its mail, but had late primary processing after 15:00 on the day before delivery, that facility must address the discrepancy. *See id.*

(2) Commission Analysis

The Postal Service reports the percentage of EXFC First-Class Mail Single-Piece Letters/Postcards that has already missed the applicable service standard by the LPO, which is the incoming secondary sortation. These data are disaggregated by district and service standard and[195] are based on data from the Transit Time Measurement System (TTMS) First-Class Mail report and the Root Cause Failure Analysis report. Service Response at 18.

The reported percentages of EXFC First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard that already missed the service standard by its LPO decreased

[193] Service Response at 12-13, 16-17; January 10, 2017 Responses to CHIR No. 1, questions 16, 17.

[194] January 10, 2017 Responses to CHIR No. 1, questions 16, 17. As to advanced mail specifically, on June 27, 2016, the Postal Service reported "[s]o far, over 11 percent of the 2-day mail and 5 percent of the 3-5 day mail is being processed in a manner that enhances the opportunity for delivery before the date implied by the applicable service standard." Service Response at 13. The Postal Service was unable to provide updated end of FY 2016 measurements for this initiative, "[b]ecause MHTS does not maintain historical data beyond the preceding three weeks." January 10, 2017 Responses to CHIR No. 1, question 16.

[195] Service Response at 18, Appendix D; Revised Response of the United States Postal Service to Question 18 of Chairman's Information Request No. 1 – Errata, March 3, 2017, question 18 (March 3, 2017 Response to CHIR No. 1).

across all districts in FY 2016 compared to FY 2015. Table V-15 ranks the five districts that reported the greatest change from FY 2015 to FY 2016. Table V-15 also compares this data to the applicable district level service performance results reported in FY 2015 and FY 2016.

Table V-15
Five Districts with the Highest Percentage Change in Mailpieces that Already Missed Service Standard by LPO and Corresponding District-Level Service Performance Results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, FY 2015 and FY 2016

District	Missed Standard by its LPO			Service Performance Results		
	FY 2015 (avg)	FY 2016 (avg)	% Change	FY 2015	FY 2016	Pt Change
South Florida	28.34%	12.12%	-57.24%	71.5%	84.7%	+13.2
Santa Ana	24.21%	11.13%	-54.02%	74.3%	86.2%	+11.9
Northern New England	27.91%	12.89%	-53.82%	73.3%	84.2%	+10.9
Suncoast	22.84%	11.59%	-49.27%	77.4%	87.25	+9.8
South Jersey	18.45%	9.68%	-47.55%	79.8%	87.55	+7.7

Source: Service Response, Appendix D; March 3, 2017 Response to CHIR No. 1, question 18.

This comparison shows that the Postal Service can improve district level service performance results for First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard by reducing the percentage of mailpieces that already miss the service standard by its LPO.

The Postal Service's data reveal that as the destination processing phase concludes, a significant portion of EXFC First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard have already missed its service standard. *See* Table V-15. However, the Postal Service's data do not pinpoint whether the service performance failure originated in the destination processing phase or is the product of cumulative delays occurring during the earlier phase(s) (Collections/First Mile, origin processing, or transit). This is because the Postal Service's report of EXFC First-Class Mail Single-Piece Letters/Postcards that missed the 3-5-Day service standard by its LPO may include mailpieces for which the delay occurred during destination processing as well as mailpieces for which the delay originated before arriving at the destination processing facility.

Improved leveraging of MHTS and TTMS data may help to isolate the phase(s) contributing to First-Class Mail Single-Piece Letters/Postcards missing the 3-5-Day service standard by its LPO in two ways. First, comparing the MHTS data to TTMS data may help to determine if an error noted using TTMS—that the mailpiece already missed the delivery standard by its LPO—occurred during the destination processing phase or during an earlier phase. Second, improved leveraging of MHTS data, including the MMP by 15:00 Report, may enhance the

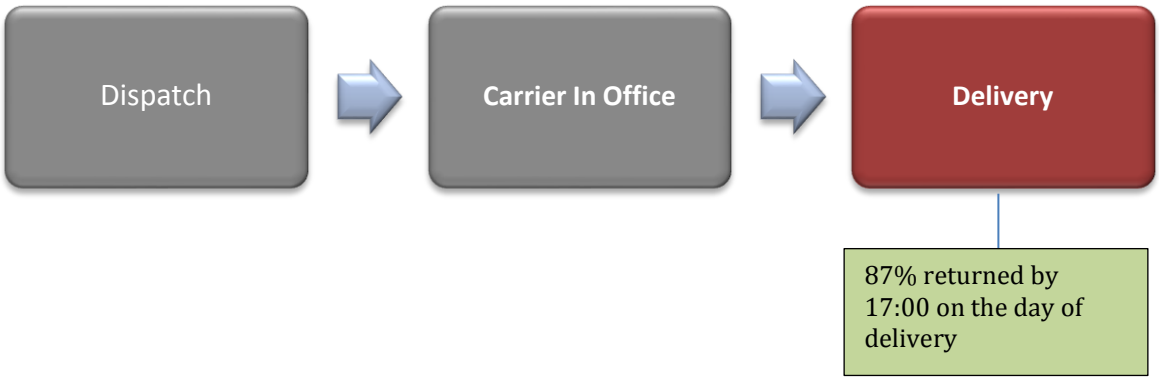
ability to pinpoint the source of the error within the destination processing phase by comparing which, if any, of the four categories related to destination processing were met.

Based on this analysis and the Commission's findings concerning service performance in FY 2016, the Commission directs the Postal Service to provide updated data and information related to the destination processing phase, particularly related to the MMP by 15:00 Report and mailpieces determined to have missed their service standard by LPO. This directive is discussed in section V.A.4.a., *infra*.

e. Delivery/Last Mile

Delivery/Last Mile refers to the final phase during which a mail carrier delivers a mailpiece to the addressee. *See* Service Response at 2. The basic operational flow for the Delivery/Last Mile phase involves three major steps: mail dispatch, carrier in office operations, and delivery.[196]

The diagram below illustrates three opportunities for measurement during the Delivery/Last Mile phase, along with the applicable 24-hour clock metric. The last of the Delivery/Last Mile processing actions is measured against the 24-hour clock metric and has a corresponding national goal of 87 percent of carriers returned to the office by 17:00 on the day of delivery. January 10, 2017 Responses to CHIR No. 1, question 5.



In the remainder of the discussion concerning this phase, the Commission first describes the Postal Service's explanation of its efforts to leverage data to mitigate poor service performance during Delivery/Last Mile. Second, the Commission provides phase-specific analysis.

(1) Delivery/Last Mile: Measurement and Visibility

The Postal Service defines a Delivery/Last Mile failure by three criteria. These are when a mailpiece: has a correct, final scan from the destination plant before 08:00 on the expected day of delivery; has no additional scan anomalies; and is not delivered by its service

[196] First-Class Mail Single-Piece Letters/Postcards that were not processed to the DPS level during the destination processing phase will be manually processed by mail carriers ("cased") before these two steps occur. *See* Service Response at 19-20.

standard. Service Response at 18. The Postal Service states that failures may be a result of a delay in mail dispatch from the destination plant or a delay in the Delivery/Last Mile phase. *Id.*

The Postal Service currently does not have visibility into operational failures within the three processing actions in the Delivery/Last Mile phase. Specifically, the Postal Service does not currently track issues that occur in the dispatch or carrier in office processing operations. The Postal Service states that the internal Service Performance Measurement (SPM) system can be used to "help identify operational issues between the Last Processing Operation and delivery," which encompasses both of these processing operations. *Id.* at 20.

The Postal Service tracks Delivery/Last Mile failures, as a whole, using its TTMS First-Class Mail report and Root Cause Failure Analysis report. *Id.* at 19. Table V-16 shows the percentage of EXFC First-Class Mail Single-Piece Letters/Postcards with Last Mile failures, disaggregated by service standard.

Table V-16
Percent of Nationwide Delivery/Last Mile Failures for EXFC First-Class Single-Piece Letters/Postcards Disaggregated by Service Standard, FY 2015 and FY 2016

	2-Day		3-5-Day	
	FY 2015	FY 2016	FY 2015	FY 2016
Q1	1.34%	1.66%	1.22%	1.39%
Q2	1.74%	1.72%	1.38%	1.55%
Q3	1.34%	1.35%	1.21%	1.31%
Q4	1.39%	1.45%	1.24%	1.52%

Source: Service Response at 19; January 10, 2017 Responses to CHIR No. 1, question 19.

The Postal Service uses the following databases and corresponding outputs to increase visibility into the possible causes of Delivery/Last Mile failures:

Databases	**Outputs**
MHTS Pre-M	Out of Sequence Errors
3M Case	Mis-sent, Mis-sorted, or Mis-sequenced mail
Customer Service Daily Reporting System (CSDRS)	Delayed Mail volumes by class, shape, Post Offices, Stations, and Branches
MHTS[197]	Mailpieces processed more than once
Hot Case	Times of scans that were executed or missed scans

Source: Service Response at 19-20. The Postal Service states that it does not maintain the historical MHTS data necessary to attribute the sources of Delivery/Last Mile failures occurring in FY 2016. January 10, 2017 Responses to CHIR No. 1, question 20.

[197] The Postal Service uses MHTS to track volume that is processed on the wrong DPS or Carrier Route sort program. Service Response at 18. This "out-of-sort" (OOS) mail volume is caused by improper sorting, labeling, or containerizing. *Id.*

(2) Commission Analysis

With respect to EXFC First-Class Mail Single-Piece Letters/Postcards, the Postal Service asserts that although Delivery/Last Mile failures occur, "they have a minimal adverse impact on overall service." Service Response at 19. The data provided by the Postal Service reports that a relatively low percentage of EXFC First-Class Mail Single-Piece Letters/Postcards missed their service standard due solely to a Delivery/Last Mile failure.[198] This supports the Postal Service's assertion. Nonetheless, the additional transparency at other measurement points within the Delivery/Last Mile phase would help to confirm this assertion and to isolate sources of failure within the Delivery/Last Mile phase.

Based on this analysis and the Commission's findings concerning service performance in FY 2016, the Commission directs the Postal Service to provide updated data and information related to the Delivery/Last Mile phase, particularly related to Delivery/Last Mile failures. This directive is discussed in section V.A.4.a., *infra*.

4. FY 2016 Service Performance Results by Class

a. First-Class Mail

(1) FY 2015 Directives

Determining that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2015, the Commission expected improvement in FY 2016. FY 2015 ACD at 138. Finding First-Class Mail Single-Piece Letters/Postcards to be out of compliance in FY 2015, the Commission issued four directives. *Id.* Those directives, the Postal Service's response, and the Commission's analysis are discussed in section V.A.3., *supra*.

In the FY 2015 ACD, finding that "First-Class Mail Flats continued to fall substantially short of annual performance targets," the Commission issued a separate directive. FY 2015 ACD at 138. This directive, the Postal Service's response, and the Commission's analysis are discussed in Chapter 6.

(2) FY 2016 Results

For the second time since the Postal Service began reporting service performance of all Market Dominant mail products, no First-Class Mail product met or exceeded its service performance target. *See* Table V-2. Table V-17 shows service performance results compared to the annual on-time percentage targets for all First-Class Mail products from FY 2012 to FY 2016.

[198] Unlike other mail classes, the Postal Service does not report a "last mile factor" for mail measured by EXFC. The last mile factor quantifies the effect of last mile service performance on overall service performance. *See* USPS *Quarterly Service Performance Report* for Quarter 4, FY 2016, Excel file "Standard Mail-Flats 164 Scores Report.xlsx," tab "SM – Narrative;" *http://www.prc.gov/documents/quarterly-performance*.

Table V-17
First-Class Mail
Service Performance Results, FY 2012–FY 2016

	FY 2012		FY 2013		FY 2014		FY 2015		FY 2016	
	Target	**% On-Time**	*Target*	**% On-Time**	*Target*	**% On-Time**	*Target*	**% On-Time**	*Target*	**% On-Time**
Single-Piece Letters/Postcards										
Overnight	*96.65*	**97.0**	*96.70*	**96.8**	*96.80*	**96.7**	*96.80*	**95.8**	*96.80*	**N/A**
2-Day	*94.15*	**95.6**	*95.10*	**96.0**	*96.50*	**95.7**	*96.50*	**94.0**	*96.50*	**95.5**
3-5-Day	*92.85*	**93.2**	*95.00*	**92.5**	*95.25*	**88.6**	*95.25*	**77.3**	*95.25*	**84.8**
Presorted Letters/Postcards										
Overnight	*96.65*	**96.9**	*96.70*	**97.3**	*96.80*	**97.2**	*96.80*	**96.0**	*96.80*	**96.3**
2-Day	*94.15*	**95.9**	*95.10*	**97.2**	*96.50*	**96.6**	*96.50*	**93.8**	*96.50*	**95.2**
3-5-Day	*92.85*	**95.4**	*95.00*	**95.4**	*95.25*	**92.5**	*95.25*	**88.0**	*95.25*	**91.9**
Flats										
Overnight	*96.65*	**89.8**	*96.70*	**86.6**	*96.80*	**84.9**	*96.80*	**83.2**	*96.80*	**84.5**
2-Day	*94.15*	**85.0**	*95.10*	**84.4**	*96.50*	**82.5**	*96.50*	**79.8**	*96.50*	**80.6**
3-5-Day	*92.85*	**80.0**	*95.00*	**77.6**	*95.25*	**72.6**	*95.25*	**65.3**	*95.25*	**70.9**
Parcels										
Overnight	*96.65*	**89.8**	*96.70*	**89.8**	*96.80*	**88.4**	*96.80*	**84.8**	*96.80*	**N/A**
2-Day	*94.15*	**85.8**	*95.10*	**89.1**	*96.50*	**86.8**	*96.50*	**84.2**	*96.50*	**88.7**
3-5-Day	*92.85*	**88.4**	*95.00*	**88.8**	*95.25*	**83.8**	*95.25*	**73.7**	*95.25*	**80.3**
Outbound Single-Piece International										
Overnight		**95.0**		**94.3**		**93.0**		**90.4**		**N/A**
2-Day		**92.9**		**92.7**		**93.2**		**92.5**		**90.6**
3-5-Day		**90.7**		**87.5**		**85.7**		**82.5**		**84.5**
Combined	*94.00*	**91.5**	*94.00*	**88.9**	*94.00*	**87.8**	*94.00*	**85.3**	*94.00*	**86.2**
Inbound Letter Post										
Overnight		**94.1**		**92.3**		**91.8**		**88.6**		**N/A**
2-Day		**91.5**		**90.7**		**89.4**		**83.7**		**88.1**
3-5-Day		**89.2**		**86.5**		**82.9**		**71.3**		**77.7**
Combined	*94.00*	**90.5**	*94.00*	**88.0**	*94.00*	**85.2**	*94.00*	**75.6**	*94.00*	**81.4**

Note: Service performance results are reported using one decimal place while targets are reported using two decimal places. This captures the incremental increase in annual service performance targets. Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: Library Reference USPS–FY16–29, December 29, 2016, at 4; Docket No. ACR2015, Library Reference USPS–FY15–29, December 29, 2015, at 4; Docket No. ACR2014, Library Reference USPS–FY14–29, December 29, 2014, at 4; Docket No. ACR2013, Library Reference USPS–FY13–29, December 27, 2013, at 4; Docket No. ACR2012, Library Reference USPS–FY12–29, December 28, 2012, at 4.

(3) Postal Service Explanation for Not Meeting Service Standards

The Postal Service reports that it will continue "[l]everaging available data and enhanced technology" to "identify and correct deficiencies at the local levels." Library Reference USPS–FY16–29 at 9. The Postal Service refers the Commission to additional detail provided in the Service Response. *Id.* The Postal Service also reports that in Quarter 4 of FY 2016, it began to develop Network Operation Control Centers "to track processing and transportation across the nation in near-real time." *Id.* at 9-10.

(4) Comments

The Public Representative notes that FY 2016 First-Class Mail service performance levels generally improved from FY 2015 levels, except for Outbound Single-Piece First-Class Mail International. PR Comments at 5. He views this as a demonstration "that the Postal Service is recovering from the service performance issues most likely attributable to its network realignment issues." *Id.*

However, he observes "for the second year in a row, none of the First-Class Mail products met service performance targets (for FY 2015 or FY 2016)." *Id.* He also highlights that "except for First-Class Mail Parcels two-day, none of the First-Class Mail products have recovered to the service performance levels observed in FY 2014." *Id.* Given that First-Class Mail service performance results remain below target levels, he urges the Commission to "continue, and possibly increase, its oversight efforts." *Id.* at 8. He suggests that the Commission "require the Postal Service to include comprehensive service performance improvement plans in future ACRs." *Id.*

Sharing the Public Representative's concerns regarding the failure of First-Class Mail products to achieve performance targets, PostCom characterizes such failures as "a persistent feature of the annual compliance report." PostCom Reply Comments at 1. PostCom recommends that the Commission direct the Postal Service to leverage its voluminous tracking information to measure service performance. *Id.* at 1-2.

Frontiers of Freedom comments that although most service has improved over last year, "overall service still falls short." Frontiers of Freedom Reply Comments at 1. Frontiers of Freedom urges the Commission to "push the US Postal Service to fix their poor service performance." *Id.* at 2.

NTU comments that after the second consecutive year of the Postal Service's failed attempts to meet its on-time percentage performance targets for First-Class Mail products, the Commission must compel the Postal Service to provide solutions. NTU Reply Comments at 2.

The Postal Service acknowledges that it did not meet its FY 2016 targets and notes the opportunity to close the gap between the results and targets for First-Class Mail products with a 3-5-Day service standard. Postal Service Reply Comments at 47. The Postal Service opposes the Public Representative's suggestion for the inclusion of comprehensive service

performance improvement plans in future ACRs as counterproductive and burdensome. *Id.* at 42-43. The Postal Service disagrees with the assertions that it failed to provide detailed plans or visibility into how it will continue to pursue achievement of its performance targets. *Id.* at 43-44.

The Postal Service states that in FY 2017, it will continue refining the tools and strategies it employed in FY 2016. *Id.* at 47. The Postal Service reports its intent to focus on leveraging three specific 24-hour clock metrics related to clearing outgoing primary operations by midnight, on-time trips departing late between the hours of 00:00 and 07:00, and clearing MMP volume by 15:00. *See id.* The Postal Service also states that in FY 2017, it will develop additional analytical tools focused on the 24-hour clock metric. *See id.*

(5) Commission Analysis

For the second consecutive year, no First-Class Mail product met its percentage on-time service performance target. The Postal Service does not explain the failure to meet standards. *See* 39 C.F.R. § 3055.2(h). The Postal Service provides information related to its use of data to improve service performance. Library Reference USPS–FY16–29 at 9. The Postal Service's leveraging of data to improve service performance is discussed in section V.A.3., *supra*.

For First-Class Mail service performance, the Postal Service cites improvements made quarter over quarter during FY 2016. *Id.* at 8. This assertion is not new. The Postal Service has highlighted that First-Class Mail service performance trends rebounded in fiscal Quarter 3 and Quarter 4 in past years. *See, e.g.*, Docket No. ACR2015, Library Reference USPS–FY15–29 at 8. As a general trend, service performance results tend to improve in the spring and summer (fiscal Quarter 3 and Quarter 4) compared to the fall and winter (fiscal Quarter 1 and Quarter 2). The Commission noted in FY 2015 that historically the Postal Service had not sustained the improvement experienced in Quarter 3 and Quarter 4 through to the next fiscal year's Quarter 1. FY 2015 ACD at 106.

The FY 2016 quarterly service performance results are consistent with this analysis. Specifically, First-Class Mail service performance results declined from FY 2015 Quarter 4 to FY 2016 Quarter 1. The Commission notes that this cyclical variation in service performance results also occurred in FY 2016 Quarter 4 and FY 2017 Quarter 1.[199] However, contrary to past trends, the service performance results for most First-Class Mail products in FY 2017 Quarter 1 are higher than the results corresponding to the same period last year.

[199] USPS *Quarterly Service Performance Report*, FY 2017, Quarter 1, 'SPFC LC 171 Scores Report.xlsx', tab 'SPLC Quarter', cell E82; USPS *Quarterly Service Performance Report*, FY 2016, Quarter 4, 'SPFC LC 164 Scores Report.xlsx', tab 'SPLC Quarter', cell E82; *http://www.prc.gov/documents/quarterly-performance*.

The service performance results reported for FY 2016 First-Class Mail products improved from the results reported in FY 2015.[200] However, only the service performance result for First-Class Mail Parcels with a 2-Day service standard recovered to its FY 2014 level.

The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2016. The Commission directs the Postal Service to improve service performance results for all First-Class Mail products in FY 2017. If the Postal Service does not improve its service performance results in FY 2017, the Postal Service shall include a detailed and product-specific plan in its FY 2017 ACR for how performance will be improved.

The Commission remains particularly concerned that the service performance results reported for First-Class Mail Single-Piece Letters/Postcards has not returned to the level reported before FY 2015 and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the second year in a row. The Commission directs the Postal Service to improve service for First-Class Mail Single-Piece Letters/Postcards in FY 2017.

The Commission also directs the Postal Service to provide trackable data that is consistently collected and will continue to add transparency to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. The Commission directs the Postal Service to provide the following information (as applicable) for FY 2017, Quarter 1 and Quarter 2 within 90 days of the issuance of this report. The Commission directs the Postal Service to include the following information for FY 2017, Quarter 3, Quarter 4, and annualized for the fiscal year, in the FY 2017 ACR:

1. *The 24-hour processing clock metrics:*
    a. *The performance disaggregated by area level and district level for each national goal for each quarter and annually for FY 2017.*
    b. *The 10 facilities with the most failures in meeting each national goal for each of the 24-hour processing clock metrics during FY 2017. For each facility identified, please state the number of times that the facility failed to meet that national goal during FY 2017, and the corresponding number of times that the facility failed to meet that national goal during FY 2016. See* January 10, 2017 Responses to CHIR No. 1, question 5.c.
2. *Collections/First Mile:*
    a. *The volumes and percentages of First-Class Mail Single-Piece Letters/Postcards that received a zero bundle review during FY 2017, disaggregated by service standard for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 1.b. *Please also provide this information disaggregated by district and service standard. See id.,* question 1.c.

[200] Service performance results for Outbound Single-Piece International with a 2-Day service standard decreased in FY 2016, but overall results for the product improved in FY 2016.

b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with collection delays, disaggregated by district and service standard, for each quarter and annually for FY 2017. See id.,* question 4.

3. *Origin Processing:*

a. *All facilities that appeared on the Bottom Ten report for four or more consecutive weeks during FY 2017. For each identified facility, please state the corresponding district, all dates the facility appeared on the Bottom Ten report, the number of total piece failures at that facility for each date, and the total volume of mailpieces at that facility for each date. See* February 21, 2017 Response to CHIR No. 1, question 6.d.

b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays, disaggregated by district and service standard, for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 7.

c. *The national percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays, disaggregated by service standard, for each quarter and annually for FY 2017. See* Responses to CHIR No. 13, question 1.

4. *Transit:*

a. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated using daily cubic feet volume for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 8.

b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, disaggregated by district and service standard, for each quarter and annually for FY 2017, presented in three separate tables specific to air transportation, ground transportation, and both. See id.,* question 15.

c. *The national percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, disaggregated by service standard, for each quarter and annually for FY 2017, presented in three separate tables specific to air transportation, ground transportation, and both. See* February 17, 2017 Responses to CHIR No. 16, question 2.

d. *The report of total national network delays comparing the volume of First-Class Mail delayed weekly from October 1, 2016, through September 30, 2017, to the volume of First-Class Mail delayed at the same time during the previous year in an Excel file format. Please also provide this information disaggregated by area. See* Responses to CHIR No. 13, question 3.

e. *The number of critically late highway trips (any HCR that is late more than 4 hours) during FY 2017, disaggregated by fiscal quarter and district, for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 13.

f. The TTMS national aggregate estimates of Letters/Postcards that have missed the service standard by the last processing scan within the transit phase, disaggregated by service standard, for each quarter and annually for FY 2017. Please also provide this information disaggregated by district.

5. Destination Processing:

a. Managed Mail Program (MMP) by 15:00 Report, disaggregated by district and service standard, for each quarter and annually for FY 2017.

b. The TTMS national aggregate estimates of First-Class Mail Single-Piece Letters/Postcards that have already missed the service standard by the LPO within the destination processing phase, disaggregated by service standard, for each quarter and annually for FY 2017. Please also provide this information disaggregated by district. See March 3, 2017 Response to CHIR No. 1, question 18.

6. Delivery/Last Mile

a. The TTMS national aggregate estimates of First-Class Mail Single-Piece Letters/Postcards with Delivery/Last Mile failures reported, disaggregated by service standard, for each quarter and annually for FY 2017. See January 10, 2017 Responses to CHIR No. 1, question 19. *Please also provide this information disaggregated by district.*

b. The volume and percentage of First-Class Mail Single-Piece Letters/Postcards subject to the 2-Day or the 3-Day service standards, disaggregated by service standard, for each quarter and annually for FY 2017. See id., question 21.

The Commission expects that the Postal Service will provide this data and information consistent with the methodology used in the responses to CHIRs filed in Docket Nos. ACR2015 and ACR2016 and use an Excel spreadsheet format, if practicable. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2016 should clarification be necessary.

Furthermore, service performance results for First-Class Mail Flats continues to fall substantially short of annual performance targets. The Commission's action related to this product is discussed in Chapter 6.

b. Standard Mail

(1) FY 2015 Directives

In the FY 2015 ACD, the Commission expressed concern with the decline in service performance results for Standard Mail Letters, which reversed the previous 4-year trend of improving performance for this product. FY 2015 ACD at 141. The Commission also observed that "[t]he 6-10-Day service standard components of Standard Mail were the

worst performers in Standard Mail in FY 2015." *Id.* Noting that the Postal Service reported "that service performance for Standard Mail Letters has improved since April 2015," the Commission stated its expectation that this improvement would continue in FY 2016. *Id.*

The Commission also expressed concern "that the service performance of Every Door Direct Mail—Retail and Standard Mail High Density and Saturation Flats/Parcels were below the intended annual performance target." *Id.* The Commission stated its expectation that service performance for these products would improve in FY 2016. *Id.*

Finding that "Standard Mail Carrier Route and Standard Mail Flats continued to fall substantially short of intended annual performance targets," the Commission issued separate directives with respect to these and other flat-shaped mail products. *Id.* at 142. Those directives, the Postal Service's response, and the Commission's analysis are discussed in Chapter 6.

(2) FY 2016 Results

Table V-18 shows that service performance results for Standard Mail Parcels and High Density and Saturation Letters exceeded the performance targets set by the Postal Service. For the second year in a row, five of the seven Standard Mail products (High Density and Saturation Flats/Parcels, Carrier Route, Letters, Flats, and Every Door Direct Mail—Retail) did not meet their service performance targets. Standard Mail High Density and Saturation Flats/Parcels and Standard Mail Letters were near this year's targets of 91 percent on-time delivery for each product. Service performance results for Carrier Route and Flats remained well below targets in FY 2016. FY 2016 service performance results for Every Door Direct Mail—Retail declined from FY 2015 levels.

Table V-18 shows service performance results compared to the annual on-time percentage targets for all Standard Mail products from FY 2012 to FY 2016.

Table V-18
Standard Mail
Service Performance Results, FY 2012–FY 2016

	FY 2012		FY 2013		FY 2014		FY 2015		FY 2016	
	Target	% On-Time	*Target*	% On-Time	*Target*	% On-Time	*Target*	% On-Time	*Target*	% On-Time
High Density and Saturation Letters	*90.0*	**87.2**	*90.0*	**90.8**	*91.0*	**92.3**	*91.0*	**91.5**	*91.0*	**94.9**
High Density and Saturation Flats/Parcels	*90.0*	**90.8**	*90.0*	**87.0**	*91.0*	**87.2**	*91.0*	**87.0**	*91.0*	**90.0**
Carrier Route	*90.0*	**70.6**	*90.0*	**79.7**	*91.0*	**81.4**	*91.0*	**82.0**	*91.0*	**83.9**
Letters	*90.0*	**80.7**	*90.0*	**85.9**	*91.0*	**87.1**	*91.0*	**85.8**	*91.0*	**90.1**
Flats	*90.0*	**59.9**	*90.0*	**76.9**	*91.0*	**76.2**	*91.0*	**73.8**	*91.0*	**81.4**
Parcels	90.0	**N/A**	90.0	**98.7**	91.0	**N/A**	*91.0*	**98.1**	*91.0*	**98.3**
EDDM—Retail							*91.0*	**78.5**	*91.0*	**75.2**

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: Library Reference USPS–FY16–29 at 12; Docket No. ACR2015, Library Reference USPS–FY15–29 at 11; Docket No. ACR2014, Library Reference USPS–FY14–29 at 11; Docket No. ACR2013, Library Reference USPS–FY13–29 at 10; Docket No. ACR2012, Library Reference USPS–FY12–29 at 10.

(3) Postal Service Explanation for Not Meeting Service Standards

With respect to destination entered Standard Mail products, the Postal Service states that it intends to focus efforts on advancing processing.[201] The Postal Service explains that advancing processing will improve service performance for Standard Mail Flats processing by "reducing the WIP cycle time through targeting decreases in the time between bundle and next handling processing." Library Reference USPS–FY16–29 at 17.

(4) Comments

The Public Representative notes general improvement in Standard Mail service performance, but that "most service performance indicators are still below the applicable targets." PR Comments at 10. He suggests that "[t]he Commission's oversight efforts should continue, and possibly be increased." *Id.*

NTU comments that after the second consecutive year of the Postal Service's failed attempts to meet its on-time service performance targets for nearly every Standard Mail

[201] Library Reference USPS–FY16–29 at 16. In general, advancing denotes mailpieces that have been processed in a manner that enhances the opportunity for delivery before the date implied by the applicable service standard. Service Response at 13.

product, the Commission must compel the Postal Service to provide solutions. NTU Reply Comments at 2.

The Postal Service states "Standard Mail (now known as Marketing Mail) has improved, and…achieved record performance levels in FY2016." Postal Service Reply Comments at 48. Acknowledging that "the [flat[-] shaped product remains an opportunity for improvement," the Postal Service reemphasizes its continued efforts to reduce WIP cycle time and advance mail processing. *Id.* at 48-49. The Postal Service also states that it will add new Small Parcel Sorting System (SPSS) equipment at high volume locations during calendar year 2017. *Id.* at 48.

(5) Commission Analysis

Five of the seven Standard Mail products (High Density and Saturation Flats/Parcels, Carrier Route, Letters, Flats, and Every Door Direct Mail—Retail) did not meet their FY 2015 and FY 2016 percentage on-time service performance targets.

For three Standard Mail products (Carrier Route, Letters, and Flats), FY 2016 marks the fifth consecutive year that the Postal Service failed to meet the applicable targets. The Postal Service does not explain the failure to meet standards. *See* 39 C.F.R. § 3055.2(h). The Postal Service must cross-apply the data leveraging techniques discussed with respect to First-Class Mail to improve Standard Mail service performance. *See* V.A.3., *supra*.

The Postal Service highlights improvements made quarter over quarter in FY 2016. Library Reference USPS–FY16–29 at 14-15. This assertion is not new. FY 2015 ACD at 118-19. As the Commission has stated in the past, "in general, service performance is typically higher in Quarters 3 and 4 than in Quarters 1 and 2." *Id.* at 118. With particular attention to service performance improvements for Standard Mail Flats, the Commission has previously explained that "it appears that this represents a cyclical variation rather than an overall improvement in service performance results." *Id.* In the FY 2015 ACD, the Commission also noted that for FY 2012 through FY 2015, the Postal Service did not sustain the improved service performance of Quarter 3 and Quarter 4 through to the next fiscal year. *Id.* at 119. In FY 2016, quarterly service performance results appear to be consistent with this trend.

Consistent with the Commission's expectation, service performance results for Standard Mail Letters and Standard Mail High Density and Saturation Flats/Parcels improved in FY 2016 and exceeded the level of service reported in FY 2013, FY 2014, and FY 2015.

The Commission notes that the Postal Service improved its Standard Mail Flats service performance results between FY 2016 Quarter 1 and Quarter 2 as it had in most prior fiscal years. In FY 2015, Standard Mail Flats service performance results declined between FY 2015 Quarter 1 and Quarter 2. Without additional explanation from the Postal Service, it is unclear whether this improvement in FY 2016 was the result of specific Postal Service action that can be replicated in FY 2017.

The Postal Service began reporting service performance results for Every Door Direct Mail—Retail in FY 2015. The Postal Service did not meet its service performance target in its inaugural year of reporting, nor did it meet the target in FY 2016. In fact, service performance slightly declined in FY 2016 to 75.2 percent on-time service. The Postal Service must improve service performance for this product in FY 2017.

Consistent with the Commission's findings in the FY 2015 ACD, service performance results for Standard Mail products with a 6-10-Day service standard, measured End-to-End, remain relatively low compared to all Destination Entry Mail and other End-to-End service standards.[202] Table V-19 shows that although service performance results increased in FY 2016, results remain well below the products' on-time targets.

Table V-19
Service Performance Results for Standard Mail Products with a 6-10-Day Service Standard, FY 2012–FY 2016

	FY 2012 %	FY 2013 %	FY 2014 %	FY 2015 %	FY 2016 %	FY 2016 % Target[203]
High Density and Saturation Letters	82.3	57.9	56.5	57.4	61.5	*91.0*
High Density and Saturation Flats/Parcels	N/A	N/A	72.7	54.4	56.9	*91.0*
Carrier Route	74.3	64.5	60.2	60.6	67.0	*91.0*
Flats	59.8	53.1	52.9	45.1	50.3	*91.0*
Letters	55.7	59.8	56.7	48.6	55.4	*91.0*

Source: *See* USPS *Quarterly Service Performance Reports*, FY 2012–FY 2016, Quarter 4, Standard Mail, Standard Mail–Carrier Route Score Report, Standard Mail High Density and Saturation Letters Scores Report, Standard Mail High Density and Saturation Flats/Parcels Scores Report, Standard Mail Carrier Route Scores Report, Standard Mail Flats Scores Report, Standard Mail Letters Scores Report; *http://www.prc.gov/documents/quarterly-performance*.

The Commission views CLTs occurring during the transit phase of processing as closely linked to service performance for Standard Mail with a 6-10-Day service standard. For example, the reported number of CLTs decreased for five out of seven Postal Service areas in FY 2016 relative to FY 2015. *See* V.A.3.c., *supra*. The Commission also observes that some Postal Service districts report reducing CLTs by high percentages in FY 2016 relative to FY 2015. *See id.* These findings are consistent with service performance results improving from FY 2015 to FY 2016 for Standard Mail products with a 6-10-Day service standard. The Commission encourages the Postal Service to continue to improve service performance for

[202] *See* FY 2015 ACD at 140-41. In FY 2016, End-to-End Standard Mail with a 6-10-Day service standard represented 5.2 percent of the total measured Standard Mail. Responses to CHIR No. 13, question 2.b.

[203] In FY 2012 and FY 2013, the target was 90.0 percent. In FY 2014, FY 2015, and FY 2016, the target was 91.0 percent.

Standard Mail with a 6-10-Day service standard by decreasing the number of CLTs related to the transit processing phase.

The Commission finds that the Postal Service continues to meet its service performance targets for Standard Mail High Density and Saturation Letters and Standard Mail Parcels, which exceeded the annual service performance targets.

The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for the Standard Mail products that failed to meet the applicable annual service performance targets.

The Commission expects the improvement in service performance results made for Standard Mail High Density and Saturation Flats/Parcels and Standard Mail Letters to continue in FY 2017. The Commission is concerned that the FY 2016 Every Door Direct Mail—Retail service performance results continue to fall below the intended annual performance target and declined from the level reported in FY 2015. The Postal Service must improve service performance for this product in FY 2017. If the Postal Service does not improve its service performance results for these products in FY 2017, the Postal Service shall include a detailed and product-specific plan in its FY 2017 ACR for how performance will be improved.

Standard Mail Carrier Route and Standard Mail Flats service performance results continued to fall substantially short of intended annual performance targets. The Commission's actions related to these products are discussed in Chapter 6.

c. Periodicals

(1) FY 2015 Directives

Finding that FY 2015 "was the fourth consecutive year that Periodicals did not meet its service performance target," the Commission issued separate directives with respect to both Periodicals products and other flat-shaped mail products. FY 2015 ACD at 143. Those directives, the Postal Service's response, and the Commission's analysis are discussed in Chapter 6.

(2) FY 2016 Results

FY 2016 annual service performance results for Periodicals increased from FY 2015 levels. Table V-20 shows service performance results compared to the annual target of 91.0 percent on-time for both Periodicals products from FY 2012 to FY 2016.

Table V-20
Periodicals
Service Performance Results, FY 2012–FY 2016

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Target
In-County	68.7	82.0	80.9	77.7	80.1	*91.0*
Outside County	68.7	82.1	80.8	77.6	79.7	*91.0*

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: Library Reference USPS–FY16–29 at 18; Docket No. ACR2015, Library Reference USPS–FY15–29 at 15; Docket No. ACR2014, Library Reference USPS–FY14–29 at 15; Docket No. ACR2013, Library Reference USPS–FY13–29 at 13; Docket No. ACR2012, Library Reference USPS–FY12–29 at 14.

(3) Postal Service Explanation for Not Meeting Service Standards

The Postal Service states that Periodicals volumes decreased "6.4% for In-county and 4.1% for Outside County compared to FY 2015 levels." Library Reference USPS–FY16–29 at 20. The Postal Service reports its continued efforts to reduce WIP cycle time and to work with the mailing industry to improve the preparation and entry of Periodicals. *Id.* at 20-21; *see also* Postal Service Reply Comments at 48-49.

(4) Comments

The Public Representative notes that although service performance scores for Periodicals have "stabilized" in FY 2016, those scores "are still missing performance targets by greater than 10 percent." PR Comments at 11. He suggests the Commission continue overseeing the Postal Service's efforts to improve service performance for Periodicals products. *Id.*

PostCom highlights that actual service performance for Periodicals "continues to be well below targeted levels and plausible plans for improvement are sorely lacking." PostCom Reply Comments at 2. PostCom agrees with the Public Representative's suggestions regarding increased oversight, but notes that "there is limited optimism that the needed improvements in performance and transparency will result." *Id.* at 3.

Acknowledging that service performance for Periodicals remains below target, the Postal Service reemphasizes its continued efforts to work with the mailing industry and reduce WIP cycle time. Postal Service Reply Comments at 48-49.

(5) Commission Analysis

Neither Periodicals product met service performance targets in FY 2016. The Postal Service does not explain the failure to meet these standards. *See* 39 C.F.R. § 3055.2(h). The Postal Service must cross-apply the data leveraging techniques discussed with respect to First-Class Mail to improve Periodicals service performance. *See* V.A.3., *supra*.

The Postal Service reported it focused upon leveraging the WIP tool to improve service for Periodicals in FY 2015 and FY 2016.[204] Despite this focus, WIP cycle time increased for Periodicals in both FY 2015 and FY 2016. FY 2015 ACR at 22; FY 2016 ACR at 31. The Postal Service reports that it intends to continue this strategy in FY 2017. Library Reference USPS–FY16–29 at 21. The Commission is concerned that the Postal Service continues to pursue a strategy that does not appear to have been successful in the past two fiscal years.

This was the fifth consecutive year that Periodicals did not meet its service performance targets. In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets. The Commission directs the Postal Service to apply its data leveraging techniques to improve Periodicals service performance. Further Commission actions related to these products are discussed in Chapter 6.

d. Package Services

(1) FY 2015 Directives

Finding that FY 2015 was the fourth consecutive year that "[t]he service performance of Bound Printed Matter [BPM] Flats was substantially below other Package Services products," the Commission issued separate directives with respect to both BPM Flats and other flat-shaped mail products. FY 2015 ACD at 144. Those directives, the Postal Service's response, and the Commission's analysis are discussed in Chapter 6.

(2) FY 2016 Results

FY 2016 annual service performance results for Package Services increased from FY 2015 levels. The service performance for both BPM Parcels and Media Mail/Library Mail exceeded annual targets for the fifth consecutive year. Service performance results for BPM Flats remain below target.

Table V-21 shows service performance results compared to the annual target of 90.0 percent on-time for all Package Services products from FY 2012 to FY 2016.

[204] *See* Docket No. ACR2014, Library Reference USPS–FY14–29 at 17; Docket No. ACR2015, Library Reference USPS–FY15–29 at 17. WIP cycle time refers to the time between handling and processing. Docket No. ACR2015, Library Reference USPS–FY15–29 at 14.

Table V-21
Package Services
Service Performance Results, FY 2012–FY 2016

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Target
Bound Printed Matter Flats	54.3	62.6	60.2	45.2	53.6	*90.0*
Bound Printed Matter Parcels	94.4	98.4	99.3	99.4	99.2	*90.0*
Media Mail/Library Mail	92.7	93.3	91.7	91.2	92.2	*90.0*

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: Library Reference USPS–FY16–29 at 22; Docket No. ACR2015, Library Reference USPS–FY15–29 at 18;Docket No. ACR2014, Library Reference USPS–FY14–29 at 20; Docket No. ACR2013, Library Reference USPS–FY13–29 at 18. Docket No. ACR2012, Library Reference USPS–FY12–29 at 19.

(3) Postal Service Explanation for Not Meeting Service Standards

The Postal Service restates that mail characteristics for BPM Flats are "not generally compatible with flat or package sorting equipment." *Compare* Library Reference USPS–FY16–29 at 24-25 *with* Docket No. ACR2015, Library Reference USPS–FY15–29 at 20. The Postal Service asserts that incompatible sorting equipment causes additional manual handling and mail not being presented to delivery at the finest sort depth. Library Reference USPS–FY16–29 at 25. In addition, the Postal Service states that current regulations allow non-automated and automated BPM Flats to be comingled which "results in machineable pieces potentially being handled manually." *Id.*; *see also* Docket No. ACR2015, Library Reference USPS–FY15–29 at 20-21. The Postal Service, however, does not track the volume or percentage of BPM Flats that are processed manually. January 18, 2017 Responses to CHIR No. 4, question 3.

The Postal Service also states that it will focus on reducing WIP cycle time for machine compatible pieces and advancing processing to the day of acceptance. Library Reference USPS–FY16–29 at 25; *see also* Postal Service Reply Comments at 49. The Postal Service also will "continue[] to review the entry and make-up requirements" for BPM Flats. Library Reference USPS–FY16–29 at 25.

(4) Comments

Although noting the improvement in the level of performance for BPM Flats between FY 2015 and FY 2016, the Public Representative characterizes the product's score as remaining "far from its target." PR Comments at 13. Concluding that the Postal Service's

efforts to improve this product's service "is not showing significant results," he suggests that the Commission "recommend a new approach." *Id.* He suggests that "the Commission…inquire whether or not the Postal Service believes the Bound Printed Matter Flats service performance standard (and target) is realistic" and possibly adjust it so that "the product's price reflects the value of service actually being provided." *Id.* at 13-14.

PostCom highlights that actual service performance for BPM Flats "continues to be well below targeted levels and plausible plans for improvement are sorely lacking." PostCom Reply Comments at 2.

Acknowledging that service performance for BPM Flats remains below target, the Postal Service reemphasizes its continued efforts to reduce WIP cycle time, advance mail processing, and identify constraints. Postal Service Reply Comments at 49.

(5) Commission Analysis

Service performance results for BPM Parcels and Media Mail/Library Mail have exceeded the applicable service performance targets since FY 2012.

In FY 2016, service performance results for BPM Flats remained more than 35 percentage points below the on-time service performance target. The Postal Service does not explain the failure to meet standards. *See* 39 C.F.R. § 3055.2(h). Although the Commission acknowledges the unique characteristics of BPM Flats, the Commission is concerned that the Postal Service's plan for improving the service performance of this product does not include tracking data to monitor root causes or the effects of improvements.

The Postal Service must cross-apply the data leveraging techniques discussed with respect to First-Class Mail to improve BPM Flats service performance. *See* V.A.3., *supra*.

Media Mail/Library Mail and BPM Parcels service performance results continue to exceed the Postal Service's annual service performance targets. BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the fifth consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve BPM Flats service performance. Further Commission action related to BPM Flats is discussed in Chapter 6.

e. Special Services

(1) FY 2015 Directives

Finding that "[t]he Postal Service exceeded service performance results for all special services except for Post Office Box Service, which was near its service performance target" in FY 2015, the Commission stated its expectation that service performance for Post Office Box Service would improve in FY 2016. FY 2015 ACD at 145.

(2) FY 2016 Results

Service performance results exceeded targets for each product within the Special Services class, with the exception of Post Office Box Service. The Post Office Box Service result was

89.7 percent, just under the 90.0 percent target. Table V-22 shows the service performance results compared to the annual target of 90.0 percent on-time for all Special Services products from FY 2011 to FY 2016.

Table V-22
Special Services
Service Performance Results, FY 2011–FY 2016

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Target
Ancillary Services	93.4	93.4	91.4	92.3	92.1	91.7	*90.0*
International Ancillary Services	99.6	99.6	99.3	99.7	99.7	99.7	*90.0*
Address List Services	93.3	83.3	100	33.3	100	-	*90.0*
Money Orders	97.2	99.2	99.2	98.3	99.3	99.2	*90.0*
Post Office Box Service	93.1	92.6	90.9	90.2	89.7	89.7	*90.0*
Stamp Fulfillment Services	-	96.7	99.5	98.4	97.1	99.4	*90.0*

Note: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

There were no orders for Address List Services in FY 2016. Library Reference USPS–FY16–29 at 27. Data was not provided for Stamp Fulfillment Services in FY 2011. The Commission required the Postal Service to begin reporting on Stamp Fulfillment Services in FY 2012 Quarter 2.

Source: Library Reference USPS–FY16–29 at 27; Docket No. ACR2015, Library Reference USPS–FY15–29 at 23; Docket No. ACR2014, Library Reference USPS–FY14–29 at 25; Docket No. ACR2013, Library Reference USPS–FY13–29 at 22; Docket No. ACR2012, Library Reference USPS–FY12–29 at 23.

(3) Postal Service Explanation for Not Meeting Service Standards

The Postal Service explains that the service performance result for Post Office Box Service was below target because "[c]hanges in mail mix…impact the distribution of mail." Library Reference USPS–FY16–29 at 29. The Postal Service reports that it plans to improve service by "re-deploy[ing] equipment to certain high volume, high impact sites to complete distribution earlier." *Id.*

(4) Comments

The Public Representative observes that the service performance for Post Office Box Service did not meet its 90.0 percent on-time target for the second year in a row. PR Comments at 14, 15. He references the frustration and inconvenience that customers would experience from the failure to place mail in the Post Office Box by the scheduled cut-off

time. *Id.* at 15. He also indicates that failure to place mail in the Post Office Box by the scheduled cut-off time may affect the service performance scores for each underlying individual class of mail. *See id.* at 16. He suggests that the "Commission [] not only require the Postal Service to develop a plan for consistently meeting this service standard, but to develop a plan that would result in providing a much higher level of service." *Id.*

(5) Commission Analysis

Service performance results for Ancillary Services, International Ancillary Services, Money Orders, and Stamp Fulfillment Services have exceeded the applicable percentage on-time service performance targets since FY 2012.

For FY 2016, service performance results for Post Office Box Service remained below, but near, target. The Postal Service reports the same explanation and mitigation strategy for Post Office Box Service in FY 2016 as was reported in FY 2015. *Compare* Docket No. ACR2015, Library Reference USPS–FY15–29 at 25 *with* Library Reference USPS–FY16–29 at 29. In response to a CHIR, the Postal Service elaborated concerning the types and approximate quantity of equipment redeployed during CY 2016 in an effort to more efficiently distribute increasing parcels volume and facilitate placing mail into Post Office Boxes earlier.[205] Given the service performance result was the same in FY 2015 and FY 2016, it is unclear if this mitigation strategy was effective.

The Postal Service exceeded service performance results for all Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service to improve in FY 2017. If the Postal Service does not achieve its service performance target in FY 2017 for Post Office Box Service, it shall include a detailed plan in its FY 2017 ACR for how performance will be improved.

5. Other Issues

Aiming to improve insight into actual service performance, the Public Representative suggests that the Commission require the Postal Service to consider implementing a new metric, "average calendar days to delivery." PR Comments at 2, 16-17. He notes this reporting method could be considered in a separate rulemaking docket. *Id.* at 17. The Postal Service opposes this proposal stating that "the Postal Service's substantial service performance improvements in FY 2016 indicate that current measures are working." Postal Service Reply Comments at 49.

Several commenters remarked on their perception of a lack of improvement, visibility, and accountability with respect to the Postal Service's service performance overall. *See* PR Comments at 5; PostCom Reply Comments at 1-3; NTU Reply Comments at 2-3; ACI Reply Comments at 1-2. The Public Representative and PostCom express concerns related to the Postal Service's presentation of its service performance reporting, particularly with respect

[205] Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 16, February 22, 2017, question 1 (February 22, 2017 Response to CHIR No. 16).

to the sufficiency of the Postal Service's statements regarding why service performance levels are not achieved or actions planned to improve service performance. *See* PR Comments at 5; PostCom Reply Comments at 1-2.

Acknowledging the concerns with respect to the products for which service performance results remain below the applicable on-time percentage target, the Postal Service maintains that it "made tremendous strides in 2016, improving its performance in almost all service categories." Postal Service Reply Comments at 42. The Postal Service expresses confidence "that the service improvement strategies which were first instituted in FY2015, and which continued to be refined throughout FY 2016, are significantly responsible for the remarkable recovery which was realized in FY 2016." *Id.* The Postal Service disagrees with the assertions that it failed to provide detailed plans or visibility into how it will continue to pursue achievement of high-quality service performance targets referencing its continued refinement of the techniques introduced in FY 2015. *Id.* at 43-44.

The Commission acknowledges the issues raised by the commenters. The Commission values the commenters' participation and perspectives, and their relative views may inform the Commission's work moving forward. Moreover, interested parties may submit petitions to initiate a proceeding if circumstances warrant.

B. Customer Access

1. Introduction

Title 39 of the United States Code (U.S.C.) requires the Postal Service to report "measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including…the degree of customer satisfaction with the service provided." 39 U.S.C. § 3652(a)(2)(B)(ii). Measuring customer access to postal services is important in evaluating universal service. Access may also have an impact on customer satisfaction. 39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to four aspects of customer access: post offices (including closings and emergency suspensions), residential and business delivery points, collection boxes, and wait time in line.

The FY 2016 ACR and Library Reference USPS–FY16–33[206] contain customer access information responsive to the requirements of Title 39 and the Commission's regulations. The Postal Service provides additional information in responses to CHIRs.[207] It also provides a copy of the CPMS database and additional data on suspended post offices in Library Reference USPS–FY16–45.[208]

[206] Library Reference USPS–FY16–33, December 29, 2016.

[207] *See, e.g.*, Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 24, March 7, 2017 (Responses to CHIR No. 24).

[208] Library Reference USPS–FY16–45, January 23, 2016; *see* Notice of the United States Postal Service of Filing of USPS–FY16–45 and USPS–FY16–NP34, January 23, 2017.

2. Retail Facilities

In its FY 2016 ACR, the Postal Service provides data on the number of retail facilities at the beginning and end of FY 2016, as well the number of retail facility closings during FY 2016.[209] This information is disaggregated by type of retail facility. Table V-23 shows the number of retail facilities from FY 2014 to FY 2016. Postal-managed retail facilities consist of post offices, stations and branches, and carrier annexes. Non-postal-managed retail facilities consist of contract postal units, Village Post Offices, and community post offices.

Table V-23
Retail Facilities

Facility Type	FY 2014	FY 2015	FY 2016	FY 2016 Change from FY 2015	FY 2016 Change from FY 2014
Post Offices	26,669	26,615	26,611	-4	-58
Classified Stations & Branches and Carrier Annexes	4,993	4,991	4,974	-17	-19
Total Postal-Managed	31,662	31,606	31,585	-21	-77
Contract Postal Units	2,660	2,504	2,458	-46	-202
Village Post Offices	759	848	856	8	97
Community Post Offices	560	536	503	-33	-57
Total Non-Postal-Managed	3,979	3,888	3,817	-71	-162
Total Retail Facilities	35,641	35,494	35,402	-92	-239

Source: Library Reference USPS–FY16–33; FY 2016 *Annual Report to Congress* at 28; Response of the United States Postal Service to Question 13 of Chairman's Information Request No. 11, February 6, 2017, question 13 (February 6, 2017 Response to CHIR No. 11).

The total number of retail facilities in FY 2016 was 35,402, 92 less than FY 2015. Other than Village Post Offices,[210] which increased by 8 in FY 2016 to a total of 856,[211] all retail

[209] Library Reference USPS–FY16–33, Excel file "Post.Offices.FY2016.xlsx," tab "Post Offices;" *see* 39 C.F.R. § 3055.91(a)(1)-(3).

[210] Village Post Offices are operated by local businesses and offer limited postal services like stamps and flat-rate products.

[211] The Postal Service offered conflicting Village Post Office numbers in both their ACR and *Annual Report to Congress*, but gave a definitive answer in a CHIR response. February 6, 2017 Response to CHIR No. 11, question 13.

facility types decreased from the previous year. The largest decrease was in Contract Postal Units,[212] which decreased by 46.

3. POStPlan

On May 25, 2012, the Postal Service requested an advisory opinion from the Commission on POStPlan, a proposal to realign the hours of operation at approximately 17,700 of its nearly 32,000 post offices, stations, and branches to more closely reflect the workload at these offices.[213] The Commission issued its advisory opinion on August 23, 2012, which stated that if implemented properly, POStPlan should help balance service and cost savings in a manner consistent with Title 39.[214] The Postal Service confirms that as of the end of FY 2016, 100 percent of the post offices covered by POStPlan had their hours of operations realigned.[215]

4. Suspensions

The Postal Service provides data on the number of post offices under suspension at the end of FY 2016.[216] This number is calculated by adding the number of post offices under suspension at the start of the fiscal year to the number of post offices suspended during the year, and then subtracting the number of post offices reopened or closed by a Postal Service final determination during the year. Table V-24 shows the number of post offices under suspension at the end of FY 2016. The Postal Service did not close any facilities in FY 2016.[217] Table V-24 also shows that the number of post offices under suspension grew in FY 2016.[218]

---

[212] Contract Postal Units are operated by local businesses and offer the same basic services available at a postal-managed retail facility.

[213] Docket No. N2012-2, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, May 25, 2012, at 1.

[214] Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 2.

[215] Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 24, March 7, 2017, question 2 (Responses to CHIR No. 24).

[216] Library Reference USPS–FY16–33, Excel file "Post.Offices.FY2016.xlsx," tab "Suspensions"; *see* 39 C.F.R. § 3055.91(a)(4)-(6).

[217] Library Reference USPS–FY16–33 indicated closures occurred in FY 2016. The Postal Service explains that the values in the "Closings During Fiscal Year" in Library Reference USPS–FY16–33 column are the result of discontinued finance numbers and similar accounting adjustments. FY 2016 ACR at 79 n.47.

[218] The most common reasons for suspension were an expired or terminated lease and safety and health. For more information on suspensions, *see* Library Reference USPS–FY16–45, Excel file "Suspended_EOY16.xls." Other reasons include damaged property, health and safety, and lease expiration. *Id*.

Table V-24
Number of Post Offices Under Suspension at the End of FY 2016

	Under Suspension at the Start of FY 2016	Suspended During FY 2016	Reopened During FY 2016	Under Suspension at the End of FY 2016
Post Offices	477	113	60	530
Stations/Branches	121	8	5	124
Carrier Annexes	1	0	0	1
Total	599	121	65	655

Source: Library Reference USPS–FY16–33, Excel file "Post.Offices.FY2016.xlsx," tab "Suspensions."

In the FY 2015 ACD, the Commission expressed concern that the number of post offices under suspension continued to grow. FY 2015 ACD at 150. It stated that it expected the Postal Service to reduce the number of facilities under suspension in FY 2016. *Id.* If the number of suspended facilities did not decrease, the Commission directed the Postal Service to include a detailed explanation of why it was unable to do so in the FY 2016 ACR. *Id.*

In the FY 2016 ACR, the Postal Service asserts that it appreciates and shares the Commission's concern with the backlog in retail facility suspensions. FY 2016 ACR at 80. However, it explains that it deferred action on reducing the number of suspensions in FY 2016 due to potential questions and concerns from stakeholders at the federal and local levels. *Id.* The Postal Service states that "[a]s of the end of FY 2016, 264 suspended facilities had undergone the retail discontinuance process to its conclusion, except for publication of the announcement of the discontinuance in the *Postal Bulletin* under Handbook PO-101 § 422.34." *Id.* at 81. The Postal Service asserts that it "intends to publish final notice of discontinuances in the *Postal Bulletin*" for these 264 suspended facilities "in the near term in FY 2017." *Id*. The Postal Service also notes that "[a]nother 391 retail units under suspension are at earlier stages of the review or discontinuance process…Throughout FY 2017, local management will resume its review of the remaining suspensions under applicable regulations." *Id*. The Postal Service states that this process may continue beyond the end of FY 2017 due to the number of affected retail units. *Id*.

CHIR No. 16 asked the Postal Service to provide a timeline for when the Postal Service will publish final notices of discontinuance in the *Postal Bulletin* for the 264 suspended facilities that have undergone the retail discontinuance process. CHIR No. 16, question 5.a. In its response, the Postal Service stated that it is currently vetting the suspended facilities that have completed the discontinuance process to ensure all necessary steps were followed.[219] The Postal Service notes that during this vetting process, it identified four facilities with

[219] Responses of the United States Postal Service to Questions 5 and 6 of Chairman's Information Request No. 16, March 17, 2017, question 5.a. (March 17 2017 Responses to CHIR No. 16).

incomplete or missing information. *Id.* Consequently, the Postal Service reports that the number of suspended facilities that have undergone the retail discontinuance process to its conclusion, except for publication of the announcement of the discontinuance in the *Postal Bulletin*, is 260 (revised from 264). *Id.*

The Postal Service asserts that it will publish final notices of discontinuance for these suspended facilities in the *Postal Bulletin* after completing the vetting process. *Id.* However, the Postal Service could not confirm that it will publish final notices of discontinuance for all 260 suspended facilities by the end of FY 2017. *Id.*, question 5.b.

CHIR No. 16 also asked the Postal Service to provide a plan and timeline for reducing the number of facilities under suspension. CHIR No. 16, question 6. The Postal Service responds that as of March 17, 2017, 23 facilities that were suspended at the end of FY 2016 have reopened. March 17, 2017 Responses to CHIR No. 16, question 6. It asserts that developing a timeline is difficult. *Id.* For example, it notes that it can be difficult to determine a completion date for repairing facilities that have been suspended due to damage caused by natural disasters. *Id.*

The Postal Service states that it has not completed the discontinuance process for 395 suspended facilities.[220] The Postal Service provides the following timeline for completing the discontinuance process for these 395 facilities:

- FY 2017, Quarter 3 – 50 facilities
- FY 2017, Quarter 4 – 50 facilities
- FY 2018, Quarter 1 – 60 facilities
- FY 2018, Quarter 2 – 70 facilities
- FY 2018, Quarter 3 – 80 facilities
- FY 2018, Quarter 4 – 85 remaining facilities[221]

The Commission expects the Postal Service to significantly reduce the number of suspended facilities in FY 2017. The Commission directs the Postal Service to provide an update to Library Reference USPS–FY16–33, Excel file "Post.Offices.FY2016.xlsx," tab "Suspensions" within 40 days of the end of each quarter. If the Postal Service is unable to meet its timeline during FY 2017, the Postal Service must include a detailed explanation of why it was unable to do so in the FY 2017 Annual Compliance Report.

5. Delivery Points

The Postal Service reports information on the number of residential and business delivery points at the beginning and end of FY 2016.[222] The total number of delivery points in FY

[220] *Id.* The Postal Service reported 391 facilities in the FY 2016 ACR, but increased this number by four during its process of vetting the suspended facilities that have completed the discontinuance process. *Id.*, question 5.a.

[221] *Id.*, question 6.

[222] Library Reference USPS–FY16–33, Excel file "DeliveryPointsFY2016.xlsx;" FY 2016 *Annual Report to Congress* at 28; *see* 39 C.F.R. § 3055.91(b).

2016 was 156,094,180, an increase of 1,142,352 from FY 2015. FY 2016 *Annual Report to Congress* at 28. Table V-25 shows the trend in average number of mailpieces per delivery point from FY 2010 to FY 2016.

Table V-25
Average Number of Mail Pieces per Delivery Point, FY 2010–FY 2016

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Number of Pieces (Millions)	170,859	168,297	159,859	158,384	155,375	154,157	154,323
Number of Pieces per Delivery Point	1133	1111	1051	1036	1010	995	989

Source: Commission calculation based on FY 2016 *Annual Report to Congress* at 26, 28.

6. Collection Boxes

The Postal Service provides data on the number of collection boxes at the beginning and end of FY 2016.[223] Nationally, there were 152,267 collection boxes at the end of FY 2016, 1,467 fewer than in FY 2015.[224] Additional data on collection boxes appear in Library Reference USPS–FY16–33.

7. Wait Time in Line

39 C.F.R. § 3055.91(d) requires the Postal Service to provide information pertaining to aspects of customer access including wait time in line. The Postal Service provides the average customer wait time in line for retail service for the beginning of FY 2016 and for each successive fiscal quarter at the Postal Administrative Area and National levels.[225] Table V-26 shows the national average customer wait time in line results by fiscal quarter for FYs 2014, 2015, and 2016.

[223] Library Reference USPS–FY16–33, Excel file "CollectionBoxesFY2016.xlsx;" *see* 39 C.F.R. § 3055.91(c).

[224] The Postal Service initially cited numbers that indicated a decrease of 5,739 collection boxes, but amended that assertion with an update to the FY 2016 ACR. Third Notice of the United States Postal Service of Filing of Revised Annual Compliance Report Pages – Errata, March 6, 2017, at 8.

[225] Library Reference USPS–FY16–33, Excel file "WaitTimeInLineFY2016.xlsx."

Table V-26
National Average Wait Time in Line
By Quarter, FY 2014–FY 2016

	FY 2014	FY 2015	FY 2016
Quarter 1	2:23	2:33	3:12
Quarter 2	2:35	2:43	3:26
Quarter 3	2:29	2:40	2:45
Quarter 4	2:24	2:36	2:17

Source: Library References USPS–FY16–33, Excel file "WaitTimeInLineFY2016.xlsx." tab "Quarter Avg. Wait Natl;" Docket No. ACR2015, Library Reference USPS–FY15–33; Docket No. ACR2014, Library Reference USPS–FY14–33.

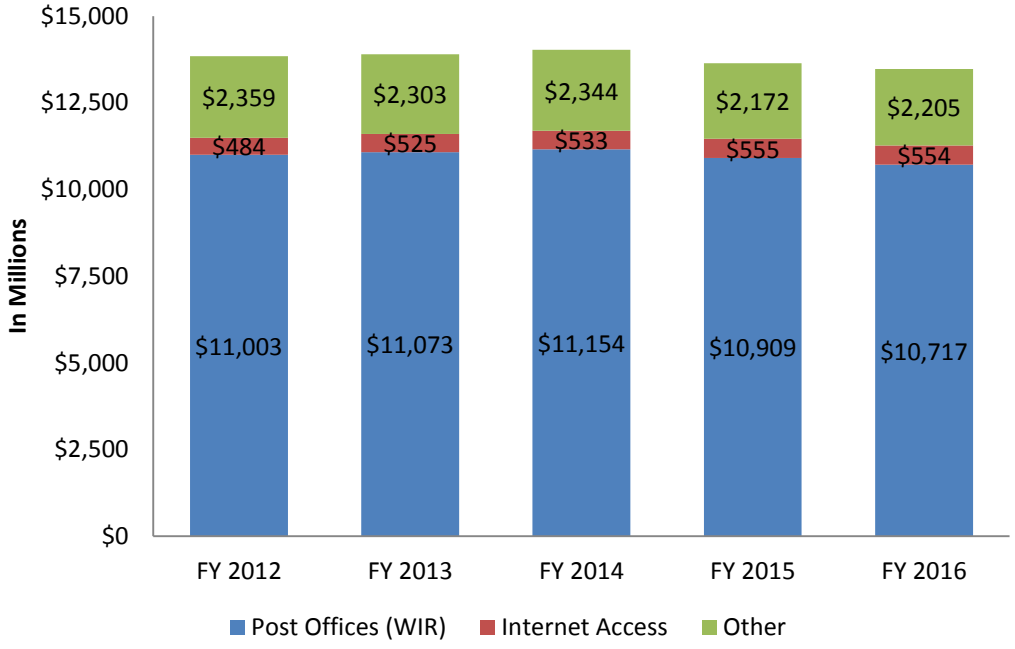
Table V-26 shows that national average wait times in line for Quarter 1 through Quarter 3 have been steadily increasing between FY 2014 and FY 2016. The increase in quarterly wait time in line is also reflected on the aggregate national level, with average wait time having increased from 2:36 in FY 2015 to 2:48 in FY 2016. FY 2016 ACR at 79. The Postal Service states that the service standard for wait time in line is "Five Minutes or Less." FY 2016 *Annual Report to Congress* at 34.

8. Alternative Access

In addition to providing products and services at postal managed retail facilities, the Postal Service has continued to expand postal access through alternate channels. Figure V-5 compares retail revenue by channel from FY 2012 to FY 2016. The channels are:

- Post Offices (walk-in revenue (WIR) from post offices and contract postal units)
- Internet Access (Click-N-Ship)
- All Other (stamps only sales by retail partners, self-service kiosks, and stamps by mail/phone/fax)

Figure V-5
Retail Revenue by Channel, FY 2012–FY 2016



Source: January 13, 2017 Responses to CHIR No. 3, question 5.

In FY 2016, a little more than 20 percent of retail revenue was generated through channels other than postal managed retail facilities. The methodology for calculating retail revenue changed in FY 2016. The Postal Service reviewed the PC Postage retail channel, which has historically been a major contributor in the Internet Access category. Based on this review, the Postal Service determined that PC Postage's key characteristics had changed since 2008. January 13, 2017 Responses to CHIR No. 3, question 5. The Postal Service is now categorizing PC Postage as commercial revenue rather than retail revenue. FY 2016 *Annual Report to Congress* at 35. Figure V-5 reflects the new methodology.

C. Customer Satisfaction with Market Dominant Products

1. Background

The Postal Service is required to provide measures of the degree of customer satisfaction with the service provided for Market Dominant products. 39 U.S.C. § 3652(a)(2)(B)(ii). In the *Annual Compliance Report,* the Postal Service must provide a copy of each type of customer survey, a description of the type of customer targeted by the survey, the number of surveys initiated and received, and the number of responses received for each question,

disaggregated by each possible response. 39 C.F.R. § 3055.92. The Postal Service provides this information in Library Reference USPS–FY16–38.[226]

In FY 2016, the Postal Service measured customer satisfaction with Market Dominant products by surveying three customer groups: residential, small/medium business, and large business customers. FY 2016 ACR at 72. Residential customers completed the Delivery (Residential) survey.[227] Small/medium business customers (those with fewer than 250 employees at one site) completed the Delivery (Small/Medium Business) survey.[228] A panel of large business customers (those with more than 250 employees at one site) completed the Large Business survey.[229] These surveys are part of the Customer Insights (CI) program, which is intended to provide a comprehensive view of customer experience across the most frequently used customer contact channels. FY 2016 ACR at 71. The Commission examines the CI program in detail in its analysis of the Postal Service's FY 2016 *Annual Performance Report* and FY 2017 Annual Performance Plan.

Table V-27 contains a comparison of FY 2014, FY 2015, and FY 2016 customer satisfaction results for residential, small/medium business, and large business customers.

[226] Library Reference USPS–FY16–38, December 29, 2016.

[227] Library Reference USPS–FY16–38, file "Delivery - USPS FY16 Residential Delivery SURVEY.docx."

[228] Library Reference USPS–FY16–38, file "Delivery - USPS FY16 Small Business Delivery SURVEY.docx."

[229] Library Reference USPS–FY16–38, file "Large Business û USPS FY16 LB Panel SurveyÆ.docx."

Table V-27
Comparison of Customer Satisfaction with Market Dominant Categories, FY 2014-FY 2016

Market Dominant Categories (Mailing Services)	Residential % Rated Very/Mostly Satisfied			Small/Medium Business % Rated Very/Mostly Satisfied			Large Business % Rated Very/Mostly Satisfied (Q4 only)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
First-Class Mail	91.15%	89.22%	89.13%	87.25%	84.77%	83.34%	**	83.27%	81.49%
Single-Piece International	85.58%	85.80%	84.80%	83.04%	82.31%	81.34%	**	82.65%	74.37%
Standard Mail	86.76%	85.11%	85.49%	83.82%	80.82%	79.87%	**	79.49%	76.89%
Periodicals	85.90%	85.50%	85.07%	83.26%	82.42%	81.86%	**	77.10%	74.26%
Single-Piece Standard Post	88.92%	86.66%	86.28%	84.06%	82.65%	81.83%	**	77.81%	75.85%
Media Mail	88.66%	87.17%	86.59%	86.55%	85.18%	84.05%	**	78.61%	74.28%
Bound Printed Matter	--*	--*	--*	81.72%	81.70%	80.11%	**	76.54%	73.40%
Library Mail	--*	85.10%	85.54%	81.79%	85.43%	83.05%	**	78.66%	70.56%

*--Number of responses received did not meet minimum threshold for 90 percent level of confidence.

**--FY 2014 Not Available.

Source: FY 2016 ACR at 74; FY 2015 ACR at 59.

2. Comments

The Public Representative comments that "customer satisfaction has declined for nearly every market dominant category." PR Comments at 23. He asserts that the greatest customer satisfaction declines were for large business customers, followed by small business and residential customers. *Id.* He notes that although the Postal Service appears to have improved service performance, this improvement does not translate into an increase in customer satisfaction. *Id.* He suggests that the Commission closely monitor customer satisfaction to ensure that further declines do not occur. *Id.*

In its reply comments, the Postal Service asserts that it "continues to strive to meet customer needs in every service sector." Postal Service Reply Comments at 41-42. It maintains that it takes customer satisfaction very seriously, continues to analyze all available data to determine root causes of a lack of satisfaction, and uses a variety of initiatives to identify concerns and implement solutions. *Id.* at 42.

3. Commission Analysis

As the Public Representative notes, customer satisfaction declined for almost every market dominant category. In particular, large business customer satisfaction with Single-Piece International Mail and Library Mail declined significantly between FY 2015 and FY 2016. The Postal Service acknowledges that it needs to improve customer satisfaction for its large

business customers. FY 2016 ACR at 76. It states that management will continue to analyze customer satisfaction results to better understand key drivers for current scores. *Id.* The Postal Service asserts that better understanding reasons for current scores will enable it to design and implement appropriate customer satisfaction improvements. *Id.* For example, the Postal Service explains that it "employed Lean Six Sigma principles to identify ways to maximize service opportunities and correct service problems." *Id.* at 75-76.

The Commission finds that the Postal Service should take appropriate steps to improve customer satisfaction. In the FY 2017 ACR, the Postal Service should discuss the reasons for any further declines in customer satisfaction. The Commission evaluates customer experience results in detail in its analysis of the Postal Service's FY 2016 *Annual Performance Report* and FY 2017 Annual Performance Plan.

CHAPTER 6: FLATS COST AND SERVICE ISSUES

A. Introduction

The Postal Service faces significant challenges in profitably processing and delivering flat-shaped mailpieces (flats). In each ACD since FY 2008, the Commission has discussed the issues related to flats and has provided the Postal Service opportunities to improve these issues with flexibility and autonomy. In the FY 2015 ACD, the Commission directed the Postal Service to identify a method to measure, track, and report the cost and service performance issues concerning flats. In response, the Postal Service provided a discussion of data systems that could be used to measure certain issues relating to flats.

Given the compressed nature of ACD proceedings and the need for consistent review of the issues, the Commission will initiate a strategic rulemaking to develop reporting requirements related to flats operational cost and service issues.

B. Commission Directive

In the FY 2015 ACD, the Commission identified and analyzed six "pinch points" that contribute to cost and service issues for flats:

- Bundle processing
- Low productivity on automated equipment
- Manual sorting
- Productivity and service issues in allied operations
- Increased transportation time and cost
- Last mile/delivery

FY 2015 ACD at 165.

Using available data, the Commission identified and discussed flats cost and/or service issues for each individual pinch point. *See* FY 2015 ACD at 165-180. However, the Commission acknowledged that there was a "lack of comprehensive data" which prevents the Postal Service and the Commission from measuring the impact of specific initiatives designed to improve cost and service issues for flats. FY 2015 ACD at 180.

The Commission directed the Postal Service to identify a method to measure, track, and report the cost and service performance issues relating to each individual pinch point identified by the Commission at the most granular level practicable. *Id*. at 181. To increase transparency, the Commission requested certain information in support of the identified methods, specifically the Commission requested information related to: available data to

support methods to measure, track and report on cost and service issues related to flats, the cost to produce and aggregate current data, additional data that would be needed to support a method to measure, track and report on cost and service issues related to flats and the cost to produce that data, and what information would be necessary to develop, implement, monitor, and quantify results for a comprehensive plan to improve flats service performance and cost coverage if an ideal data system were available. *Id*.

C. Postal Service Responses

The Postal Service responded to the Commission's Chapter 6 directive on July 26, 2016.[230] In its response, the Postal Service did not dispute that these six pinch points contribute to flats cost and service issues; it also did not identify additional pinch points. Response at 4. The Postal Service provided an extensive discussion of data systems that could be used to measure different aspects of each individual pinch point.

The Postal Service described the data systems as "data systems that could be relevant to identifying the causes of service failures and cost changes." *Id*. at 16. The Postal Service also provided information about the capabilities, limitations, and potential future improvements to operational data systems. *Id.* at 21-75. The Postal Service provided a general discussion about how an ideal data system could measure, track, and report on cost and service issues related to flats. However, the Postal Service did not provide a specific method for each individual pinch point to measure, track, and report on cost and service issues related to flats in response to the Commission directive.

In order to clarify the FY 2015 ACD Directive and redirect the Postal Service's response, the Commission issued Commission Information Request No. 1.[231] That request also scheduled an off-the-record technical conference on October 21, 2016, to determine the status of the Postal Service's proposed methods for each individual pinch point to measure, track and report on flat cost and service issues. The Postal Service filed its response to CIR No. 1 on November 28, 2016.[232]

In both its original Response and in its Response to CIR No. 1, the Postal Service provided general information related to all pinch points, and information specific to each individual pinch point. This information is summarized below.

1. General Information

In its Response, the Postal Service provided general information related to an ideal data system, postal network operations, problems with generating cost data, and a general statement about costs.

---

[230] Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, July 26, 2016, Report Regarding Information about Flats Data Systems (Response).

[231] Docket No. ACR2015, Commission Information Request No. 1, September 27, 2016 (CIR No. 1).

[232] Response of the United States Postal Service to Commission Information Request No. 1, November 28, 2016 (Response to CIR No. 1).

a. Ideal data system

The Postal Service did not provide a description of an ideal data system for each individual pinch point, as requested. Rather, it discusses the general concepts involved in an ideal data regime. Response at 7. The Postal Service explains that if it were to design an ideal data system, it would "seek to capture information about every mail piece processed through each operation." *Id.* at 9-10. The ideal data system would ensure proper mail flow and inform management of the efficiency of each operation. *Id.* at 10. In addition, the Postal Service explains that an ideal data system would include data on each operational step in the mail processing flow from plan to post office. *Id.* The Postal Service also explains that an ideal data system would be able to collect data without human intervention. *Id.* at 12.

b. Postal network operations

In contrast to its broad concept description of an ideal data system, the Postal Service provides a discussion of The Real World of Postal Network Operations. *Id*. The Postal Service explains that postal operations are complex and involve "hundreds of thousands of employees of various skill levels and capabilities to process enormous volumes of diverse types of mail through various automated and manual processes, across thousands of facilities." *Id.* The Postal Service discusses that an ideal data system may not be ideal because it may require human intervention that diverts resources from processing the mail, and that producing more granular data will likely be expensive. *Id.* at 14.

c. Generation of data

The Postal Service discusses why providing a detailed analysis of costs is both impractical and inadvisable at this time. *Id*. at 16. The Postal Service contends that before it begins to produce the data envisioned by the Commission, it must first identify the root causes of the failures. *Id.* at 17. It goes on to explain that "[e]stimating specific costs required to analyze existing data, supplement or modify existing data systems, or develop new sources of data or programs is premature, and attempting to do so without a clearer understanding of what is needed would be very difficult and inefficient or wasteful." *Id.*

d. General statement about costs

In its Response to CIR No. 1, the Postal Service provides a statement about costs. Specifically, the Postal Service explains that operationally, managers track workhours, which must be converted to costs. Response to CIR No. 1 at 10-11. The Postal Service also explains that the appropriate metric for measuring success of managers is total workhours. *Id.* at 10. Nonetheless, the Postal Service states that it is capable of translating "accounting data into operational data into cost data." *Id.* at 11.

The Postal Service proposes to initially report quarterly data at the national level. *Id*. at 13. It also proposes that reporting based on Labor Distribution Codes (LDCs) and the Management Operating Data System (MODS) operations will be useful to standardize reporting, especially if the Commission requires reporting below the national level. *Id.* at 14. These types of data will provide a broad overview of efficiency. *Id.* at 17.

The Postal Service also proposes to use its Periodicals workshare model as a means to estimate cost implications of changes in postal operations. *Id.* The Postal Service provides a model that creates switches to estimate the impacts of failures, such as bundle breakage and automated productivities. *Id.*

2. Pinch Point Specific Information

In addition to general information, the Postal Service provided information specific to each individual pinch point. The specific information focused on data systems that can collect information related to each individual pinch point, limitations of those data systems, and potential improvements to those data systems. In addition, in its Response to CIR No. 1, the Postal Service provided potential metrics to track some pinch points. This information is summarized below by pinch point.

a. Bundle Processing

The Postal Service divided its discussion on bundle processing into two sections: delay in reaching the initial bundle process and bundle breakage. *Id.* at 23.

(1) Bundle Delays

The Postal Service identifies the current data systems related to bundle delays in reaching processing: the Facility Access and Shipment Tracking system (FAST); the Transportation Information Management Evaluation System (TIMES); the Yard Management System (YMS); Surface Visibility (SV); Work In Process (WIP) metrics ; the Service Performance Diagnostics tool (SPD); the Business Intelligence Data Store (BIDS); the Seamless Acceptance and Service Performance System (SASP); and the Bundle Visibility Program. *Id.* at 24-25. The Postal Service explains that it can use these data systems to report the amount of time that passes from arrival to initial bundle sort, track where carrier route bundles are in the process, and determine where in the process a delay occurred. *Id*. at 27.

The Postal Service focuses its discussion of improvements to potential enhancements to SV, which will improve data collection, and allow the Postal Service to better use existing data. To measure the "Delay in Reaching the Initial Bundle Process" portion of this pinch point, the Postal Service proposes the following metrics: median elapsed time from entry to bundle scan and median elapsed time from entry to piece scan. *Id.* at 28.

(2) Bundle Breakage

The Postal Service identifies the following data systems that generate data related to bundle breakage: BIDS; WIP; PostalOne!; SV; FAST; SASP; Bundle Breakage Visibility Reports; and electronic Mail Improvement Reporting (eMIR). These data systems can provide details on the number of bundles processed, the number of bundles identified as broken, mailer volume of broken bundles, and more. For bundle breakage, the Postal Service discusses potential improvements to eMIR that could address at-risk mail. *Id.* at 33-34.

The Postal Service acknowledges that "[r]eduction in bundle breakage will reduce rehandling (rework) costs and can improve cycle times through the distribution process,

thereby improving service performance." *Id.* at 38. It proposes that the following metric could be used to measure bundle breakage: "percentage of bundles broken by class, quantified as described, for Full Service bundles with three or more individual pieces scanned during the bundle sort on APPS or APBS." *Id.* at 39.

b. Low Productivity on Automation Equipment

The Postal Service identifies the following data systems that produce information related to low productivity on automation equipment: SPD; Mail History Tracking System (MHTS); Mail Processing Variance tool (MPV); Web Management Operating Data Systems (WebMODS); Web End of Run (WebEOR); Time and Attendance Collection System (TACS); eFlash; Web-based Complement Information System (WebCOINS); Productivity Analysis Tool (PAT); Run Plan Generator (RPG); Mail Processing Equipment Watch (MPEWatch); eMIR; and the Transit-Time Measurement System. The Postal Service also explains that it uses Lean Six Sigma and Kaizen studies to investigate productivity problem areas. Response at 42.

With these data systems, the Postal Service explains that it can identify operational performance trends at the national level, identify commonly occurring incorrect mailflows, identify delays, create run plans, and notify mailers of irregularities in mail preparation. *Id*. at 36-40. The Postal Service discusses potential data improvements including the development of expected operating paths, integration of eMIR and Informed Visibility, and other improvements to Informed Visibility, including modeling of cost deviations. *Id.* at 41-42.

The Postal Service does not propose a specific metric to measure this pinch point, but instead, identifies specific metrics that it internally uses to measure, track, and report to management, including "mail volume, equipment and operational hours (not employee workhours), and planned start and end times for each run." Response to CIR No. 1 at 48. Additionally, throughput per hour performance is also measured. *Id.* The Postal Service does not explain how it will use this information to report on issues relating to flats.

c. Manual Sorting

The Postal Service identifies the following data systems that produce information related to manual sorting: TACS; In-Office Cost System (IOCS); WebEOR; WebMODS; and eFlash. The Postal Service also references a week-long survey of mail worked in manual units to approximate manual workloads (*e.g.,* Total Piece Handled (TPH)) for the entire year. *Id*. at 56.

Despite describing these data systems, the Postal Service explains that it has limited visibility into its manual operations. It states that it can measure workhours in manual operations, estimate time spent handling mail products, and approximate manual TPH. *Id*. at 55-56. Potential data improvements listed by the Postal Service include defining expected mailflows to determine when mail is expected to be sorted, and the addition of radio frequency identification (RFID) technology to identify mail moving into manual sorting operations. *Id.* at 59-63.

Because of the limited visibility into manual operations, the Postal Service does not propose metrics to measure manual processing. However, it does discuss limited options for improving manual data, which includes using available data in the service performance measurement system to infer manual sorting activities when certain expected scan events are not observed. *Id.* at 59. The Postal Service does not explain how it will use this information to report on issues relating to flats.

d. Productivity and service issues in allied operations

The Postal Service identifies the following data systems that produce information related to allied operations: MODS; WIP; SPD; BIDS; SASP; and Bundle Visibility.

The Postal Service explains that its data related to allied operations are limited and it does not have distribution of workhours between letters, flats, and parcels or allied operations at delivery units. *Id*. at 69. However, the Postal Service explains that it can report the time between primary operations, and track where carrier route bundles are in the process. *Id.* at 71. Potential improvements to data related to allied operations include creating additional WIP metrics, and adding container and tray scans. *Id*. at 75.

The Postal Service does not propose specific metrics to measure the cost and service impacts of productivity and service issues in allied operations. However, the Postal Service does discuss the capabilities of WIP metrics and the Bundle Visibility program which provides some visibility into allied operations. The Postal Service has observed that "[a] decrease in the WIP and cycle time has a direct bearing on improvements to service performance…." *Id.* at 78. The Postal Service also discusses the potential method of identifying delays related to allied operations by comparing the time that elapses between processing events that are visible, and identifying instances in which actual time elapsed exceeds the expected time. *Id.* at 76. The Postal Service does not explain how it will use this information to report on issues relating to flats.

e. Increased transportation time and cost

The Postal Service identifies the following data systems that produce information related to transportation cost and service: SV; TIMES; Bundle Visibility; and Transportation Cost System (TRACS).

With the data from these systems, the Postal Service is able to create origin to destination visibility to optimize its transportation network. It is also able to determine on-time percentages, space utilization, locate bundles in the mailstream, and allocate costs to mail categories. *Id*. at 80. Potential improvements to transportation data include adding nesting information, and enhancing Informed Visibility to ensure the most cost effective transportation is chosen. *Id*. at 81; Response at 63.

The Postal Service states that it does not currently have metrics available to measure service impacts for the transportation pinch point, but metrics could be developed by leveraging nesting data from the current Bundle Visibility process to measure cycle times.

Response to CIR No. 1 at 81. The Postal Service also expects to be able to report "Trips on Time and SV Scan Rate Metrics." *Id.* at 82. The Postal Service does not explain how it will use this information to report on issues relating to flats.

f. Last mile/delivery

The Postal Service identifies the following data systems that produce information related to last mile/delivery cost and service issues: IOCS; Carrier Cost System (CCS); Customer Service Daily Reporting System (CSDRS); Delivery Operations Information System (DIOS); MHTS; Service Performance Management (SPM); Bundle Scanning Visibility Scorecard; and Transit Time Measurement System (TTMS).

Using these data systems, the Postal Service can identify delays, calculate last mile impacts, and compare actual bundle scans to expected bundle scans. Potential improvements to these data systems include refining business logic to more accurately quantify the impact of delivery on service performance, such as changing business rules defining the conditions under which a piece would be attributed to a failure in the last mile category. *Id*. at 93-95. The Postal Service notes that IOCS and CCS data have limited usefulness for improving last mile operations and attempting to improve these systems would be a "futile and impractical exercise." *Id*. at 95.

In terms of potential metrics to measure last mile cost and service issues, the Postal Service states that it already provides last mile metrics to the Commission as part of the quarterly Market Dominant product data generated by the Service Performance Measurement System currently under review in Docket No. PI2015-1. *Id*. at 97. The Postal Service does not explain how this information would be used to report on issues relating to flats.

D. FY 2016 Results

In FY 2016, the combined attributable costs of Outside County Periodicals and Standard Mail Flats exceeded revenues by over $1.1 billion. *See* Chapter 3, *supra,* at 43, 48. Since FY 2008, the combined attributable costs of Periodicals and Standard Mail Flats exceeded revenues by more than $9.5 billion. *Id.*

In FY 2016, service performance improved, but still did not meet targets, as discussed in detail in in Chapter 5. *See* Chapter 5 at 91 and Table VI-1. Since inception of the current service performance measurement system, the Postal Service has not met its service performance targets for any flats product.

Table VI-1
Flats Products' Service Performance Results FY 2011–FY 2016

Product	FY 2012		FY 2013		FY 2014		FY 2015		FY 2016	
	Target	% On-Time	Target	% On-Time	Target	% On-Time	Target	% On-Time	Target	% On-Time
First-Class Mail Flats 3-5 Day[233]	92.85	80.00	95.00	77.60	95.25	72.60	95.25	65.28	95.25	70.9
Standard Mail Carrier Route	90.00	70.60	90.00	79.70	91.00	81.40	91.00	82.02	91.00	83.9
Standard Mail Flats	90.00	70.00	90.00	76.90	91.00	76.20	91.00	73.78	91.00	81.4
Periodicals Outside County	91.00	68.70	91.00	82.10	91.00	80.80	91.00	77.57	91.00	79.7
Bound Printed Matter Flats	90.00	54.30	90.00	62.60	90.00	60.20	90.00	45.20	90.00	53.6

Source: PRC–LR–ACR2016/9.

In the FY 2015 ACD, the Commission identified and discussed factors that contribute to cost and service issues. The Postal Service did not refute these factors in its report. Below, the Commission updates key data from Chapter 6 of the FY 2015 ACD with FY 2016 data and explains that there has been little improvement since the FY 2015 ACD.

1. Bundle Processing

In FY 2015, the Commission found that current data related to bundle breakage are limited because data do not fully indicate the scope and scale of bundle breakage. FY 2015 ACD at 167. The Postal Service did not file any additional data related to bundle processing in the FY 2016 ACR. However, as discussed above, the Postal Service provided several options to measure issues related to bundle processing in its original Response and its Response to CIR No. 1. But the Postal Service did not provide any data or estimate any cost savings associated with resolving issues related to bundle processing.

2. Low Productivity on Automation Equipment

In FY 2015, the Commission found that primary machines used to process flats, the automated processing on the Automated Parcel Bundle Sorter (APBS), the Automated Package Processing System (APPS), and the Automated Flats Sequencing Machine (AFSM) 100, had declining productivities. *Id.* at 167-68. As shown in Table VI-2, these productivities continue to decline, which leads to reduced operational efficiency of the Postal Service.

[233] First-Class Mail Flats 3-5 Day denotes First-Class Mail Flats that have a service standard of 3 to 5 days. Most First-Class Mail Flats volume falls into this category.

Table VI-2
Pieces Per Hour (PPH) Sorted

Fiscal Year	AFSM100 Incoming Secondary		SPBS/APBS Incoming		APPS Incoming	
	PPH	% Change	PPH	% Change	PPH	% Change
2008	3273		252		498	
2009	3138	-4.1%	224	-10.8%	451	-9.3%
2010	2998	-4.5%	208	-7.2%	430	-4.7%
2011	2898	-3.3%	201	-3.4%	397	-7.7%
2012	2692	-7.1%	220	9.6%	361	-9.0%
2013	2725	1.2%	232	5.4%	350	-3.0%
2014	2685	-1.5%	219	-5.6%	319	-9.1%
2015	2673	-0.4%	205	-6.6%	304	-4.5%
2016	2567	-4.0%	194	-5.3%	271	-11.0%

Source: PRC–LR–ACR2016/9.

In FY 2015, the Postal Service attributed these productivity declines to the long running volume declines but did not explain why lower volumes necessarily translate into lower productivities.[234]

The FSS is another machine used by the Postal Service to process flats. In FY 2016, 20 percent of flats that destinated in FSS zones were not finalized on FSS equipment, which is relatively unchanged from FY 2015.[235] The Postal Service spent over $205 million on processing flats on FSS in FY 2016, a 1.8 percent increase over FY 2015. *See* PRC–LR–ACR2016/9. In its Responses to the FY 2015 ACD, the Postal Service did not provide any estimates of the cost or service impact of FSS implementation on flats.

The Postal Service did not file any additional data in the FY 2016 ACR to measure, track or report on cost and service issues related to low productivity on automation equipment.

3. Manual Sorting

In FY 2016, the Postal Service spent $353.3 million on manually processing flats, a 0.7 percent reduction from FY 2015. *See* PRC–LR–ACR2016/9. The available data for manual sorting lacks transparency, as there is no way to track and report the amount of manual

[234] Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-6, 8, 10, 12-13 and 15-22 of Chairman's Information Request No. 2, January 23, 2015, question 8. The Postal Service has not linked the productivity of the APPS, APBS, or AFSM at a facility level to facility-specific volumes. That is, the Postal Service has not provided evidence that facilities with lower volume actually have lower productivities.

[235] Library Reference USPS–FY16–11, December 29, 2016, Excel file "USPS-FY16-11 STD flats.xlsx," tab "Coverage Factors," cell E79.

processing that actually occurs. The Commission and the Postal Service previously identified global issues with the cost and service performance of flats that are manually processed.[236] As discussed above, the Postal Service did not propose any metrics to track or measure manual processing due to the lack of data that would provide visibility.

The Postal Service did not file any additional data in the FY 2016 ACR to measure, track or report on cost and service issues related to Manual Sorting.

4. Productivity and Service Issues in Allied Operations

Visibility into allied operations is limited. One way the Postal Service gains insight into allied operations is through WIP cycles. The Postal Service reports that WIP cycle median hours increased from 52 hours to 54 hours for Standard Mail Flats and increased from 23 to 24 hours for Periodicals. FY 2016 ACR at 31.

Table VI-3
Service Performance Diagnostics Tool
Median 5 Day Work In Process
Standard Mail Flats, FY 2012–FY 2016

Time Period from Service Performance Diagnostics	Median Hours
FY 2012 (Week ending 3/02/12 - 9/28/12)	52.4
FY 2013 (Week ending 10/19/12 - 9/27/13)	50.5
FY 2014 (Week ending 10/01/13 - 9/30/14)	49
FY 2015 (Week ending 10/01/14 - 9/30/15)	52
FY 2016 (Week ending 10/01/15 - 09/30/16)	54

As shown in Table VI-3, WIP cycle times have increased 5 hours since FY 2014. In FY 2014, as part of its efforts to improve the productivity of its mail processing network, the Postal Service introduced a load leveling program meant to create loads that can be more evenly processed across the workweek.[237] However, the Postal Service has not quantified any associated cost savings for the load leveling operational changes.[238]

The Postal Service did not provide any additional information in the FY 2016 ACR to measure, track or report on cost and service issues related to Productivity and Service Issues in Allied Operations.

[236] *See Periodicals Mail Study: A Joint Report of the United States Postal Service and Postal Regulatory Commission*, September 2011, at 2.

[237] *See* Responses of the United States Postal Service to Questions 1-6, 8-10 of Chairman's Information Request No. 11, February 16, 2016, question 9.

[238] *See* Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2, 5-11 and 13-14 of Chairman's Information Request No 3, January 30, 2015, question 6.

5. Increased Transportation Time and Cost

In the past 4 years, unit transportation costs have increased 26.5 percent. *See* Table VI-4. From FY 2015 to FY 2016, unit transportation costs increased 11.5 percent. The Postal Service has not provided an explanation for this large increase in unit costs.

Table VI-4
Flats Transportation Costs
FY 2013–FY 2016

	FY 2013	FY 2014	FY 2015	FY 2016	% Change FY 2013 to FY 2015
Cost Segment 14 Flats Cost	686, 602	669,692	712,179	757,237	10.3%
Flats Volume	23,558,663	22,161,652	21,489,192	20,544,661	-12.8%
Flats Transportation Unit Costs	$0.0291	$0.0302	$0.0331	$0.0369	26.5%

Source: PRC–LR–ACR2016/9.

The Postal Service states that it does not currently have metrics available to measure service impacts for the transportation pinch point, but metrics could be developed by leveraging nesting data from the current Bundle Visibility process to measure cycle times. Response to CIR No. 1 at 81.

The Postal Service did not provide any additional information in the FY 2016 ACR to measure, track or report on cost and service issues related to Transportation.

6. Last mile/delivery

The Postal Service spent a total of $1.1 billion in city carrier in-office costs, which include casing costs for flats in FY 2016. *See* Table VI-5. When the additional mail processing costs associated with the FSS are added to the city carrier in-office costs,[239] the Postal Service spent $1.319 billion processing flats to Delivery Point Sequence (DPS) in FY 2016.[240] This is virtually unchanged from FY 2015, when the Postal Service spent $1.345 billion on processing flats to DPS. FY 2015 ACD at 178-79. *See* Docket No. ACR2015, Library Reference USPS–FY15–26. This is nearly the amount spent casing flats in FY 2008, when volume was 67 percent higher than FY 2016.[241] In FY 2008, the Postal Service had to manually case all flats because there were no FSS machines. Despite the addition of 100 FSS

[239] As detailed in Table VI-5, the segment 6 in-office cost for flats was $1.143 billion. As detailed in Docket No. ACR2015, Library Reference USPS–FY15–26, Excel file "shp16.prc.xls," tab "Flats(2)," columns "F" and "AX," the mail processing cost for the FSS was $205 million.

[240] The cost of FSS processing in MODS and NDC facilities was over $205 million. *See* Library Reference USPS–FY16–26.

[241] As detailed in Table VI-5, the cost segment 6 in-office cost for flats in FY 2008 was $1.549 billion, $230 million more than the combined FSS mail processing and in-office cost of $1.319 billion in FY 2016. As further detailed in Table VI-7, flat volume was 34.35 billion pieces in FY 2008 and declined to 20.55 billion pieces in FY 2016, which represents a 40.2 percent decline.

machines and lower volume, the Postal Service spent nearly the same total amount in processing flats in FY 2016.

Table VI-5
Cost Segment 6: City Delivery Carriers – Office Activity
Unit Costs FY 2008–FY 2016

Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
CS 6 Flat Costs ($ in millions)	1,549	1,519	1,513	1,442	1,274	1,196	1,139	1,143	1,114
Flats Volumes (millions)	34,356	28,773	26,524	25,719	24,081	23,559	22,162	21,489	20,545
Unit Costs (cents)	4.51	5.28	5.71	5.61	5.29	5.08	5.14	5.32	5.42

Source: PRC–LR–ACR2016/9.

The Postal Service did not provide any additional information in the FY 2016 ACR to measure, track or report on cost and service issues related to Last Mile/Delivery.

E. Comments

PostCom, Valpak, and the Public Representative filed comments related to Chapter 6 of the FY 2015 ACD.

PostCom states that it appreciates the efforts of the Commission to increase the quantity and quality of cost information provided by the Postal Service, as well as, to consider new approaches to resolving open issues. PostCom Comments at 2. For example, PostCom states that "the October 21 technical conference was a welcome effort to improve the exchange of relevant technical information on service and costs." *Id*. In the event that there are similar issues in the 2016 data, PostCom endorses a similar approach. *Id*. PostCom explains that "[i]t is unclear how the Postal Service expects to make operational decisions that will improve product cost efficiencies when they are unable to measure the causal effects of such decisions." *Id*. at 4. PostCom notes that the Postal Service remains largely indifferent to the importance of understanding how its operational decisions impact the costs that it is able to pass directly onto its customers due to its monopoly status. *Id*.

The Public Representative acknowledges the Postal Service's efforts to improve productivity and efficiency of flats processing. PR Comments at 34. However, based on his analysis of the information presented in the FY 2016 ACR, he cannot conclude that the Postal Service fully followed the Commission's directives regarding cost reduction for flats. *Id*.

Valpak explains that the Postal Service's 120-day report demonstrates that the Postal Service "intends to do virtually nothing to stem their losses on underwater products unless forced to do otherwise by the Commission." Valpak Comments at 9. Valpak contends that the Postal Service's report contains details about opportunities to improve data that would be prohibitively expensive to implement and would likely have little impact on performance or productivity. *Id*. at 10. Valpak states that the Postal Service reports confirm

that the Postal Service is "unwilling or financially unable to develop data systems where they do not now exist." *Id*. at 11. Valpak concludes that the Postal Service has not complied with the FY 2010 ACD directive and that, 16 months after the end of FY 2015, the Postal Service has not taken action to begin to effectively deal with the problems. *Id*. at 12.

In its reply comments, the Postal Service states that the Commission should reject Valpak's assertion that it has failed to comply with the Commission's directive. Postal Service Reply Comments at 46. The Postal Service explains that it responded honestly and extensively to the Commission's directives to examine its data systems for flats in detail. *Id*. at 45-46.

F. Commission Analysis and Next Steps

The Commission's FY 2015 ACD directive requested that the Postal Service propose methods for each individual pinch point to measure, track, and report on cost and service issues related to flats. Although informative, the Postal Service's response to the directive did not address the main request. The Commission clarified its request in CIR No. 1. In its Response to CIR No. 1, the Postal Service provided additional information related to potential metrics that could be used for some pinch points, but again did not provide a comprehensive plan to measure, track, and report cost and service issues for each individual pinch point. However, the Postal Service stated that the information provided is "the first step in an evolutionary process to develop a set of data reports that the Commission and the Postal Service can agree add value to the question of how best to track and report on metrics that will ultimately lead to improvements in the service and efficiency of flats processing." Response to CIR No. 1 at 3.

The Commission acknowledges that the information and analysis requested in the FY 2015 ACD Chapter 6 directive is operational in nature. Moreover, the Postal Service has continuously pointed to operational solutions to address the cost and service issues related to flats.[242] However, it does not appear that the Postal Service has a comprehensive plan to measure, track, and report cost and service issues. Solutions, including operational solutions, to cost and service issues remain important to the Commission because of their impact on the ability of the Periodicals class and the Standard Mail Flats product to cover costs and meet service performance targets. Given the continued and worsening decline of cost coverage and service performance issues, the Commission finds additional transparency is necessary in these areas to hold the Postal Service accountable. Like the information and analysis requested in the FY 2015 ACD Chapter 6 directive, the Commission acknowledges that any plan proposed by the Postal Service to address these issues will be operational in nature, in part due to the Postal Service's continuous identification of new operational solutions each year. The Commission observes, however, that consistent accountability with regard to these operational issues and changing operational solutions has been lacking. Therefore, the Commission will continue to monitor cost and service issues related to flats despite the operational nature of the issues and proposed solutions.

[242] *See, e.g.,* Docket No. R2010-4, Responses of the United States Postal Service to Questions from the Bench at the Hearing for Dr. Kiefer, August 19, 2010, at 20.

As explained above, due to the Postal Service's inability to provide a plan using existing data (or data to be developed) to address systemic and long-standing cost and service issues related to flats processing, the Commission will initiate a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Using the information provided by the Postal Service thus far and soliciting comments from interested parties, the Commission will develop potential data enhancements and consistent reporting requirements that will be used to measure, track, and report the cost and service performance issues concerning flats. The Commission anticipates that the data enhancement and consistent reporting will lead to the development of measurable goals to decrease the costs and improve the service of flats.

Appendix A: Key Commission Findings and Directives Requiring Postal Service Action for Annual Compliance Reports

KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2016 ACD)

First-Class Mail:

- *The Commission finds that the discount for Automation AADC Letters was not in compliance in FY 2016. The Postal Service must align the discount for Automation AADC Letters with avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.* FY 2016 ACD, Chapter 2 at 13.
- *The Commission finds that the Automation Mixed AADC Cards, Automation AADC Cards, and 5-Digit Automation Cards discounts were not in compliance in FY 2016. The Postal Service must align these discounts with avoided costs in the next Market Dominant price adjustment or provide support for an applicable statutory exception.* FY 2016 ACD, Chapter 2 at 13.
- *The Commission finds that the discounts for Automation ADC Flats and Automation 3-Digit Flats were not in compliance in FY 2016. The Postal Service must align these discounts with avoided costs in the next Market Dominant price adjustment or provide support for an applicable statutory exception.* FY 2016 ACD, Chapter 2 at 14.
- *The Commission finds that the discount for Automation 5-Digit Flats was sufficiently justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2016. However, the Commission expects the Postal Service to achieve progress in moving this discount toward a 100 percent passthrough in future price increases. In the next Market Dominant price adjustment and each adjustment thereafter, the Postal Service shall implement its proposed plan to reduce this excessive discount by at least 5 percentage points until such time that the discount is equal to avoided cost. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.* FY 2016 ACD, Chapter 2 at 15.

Periodicals Pricing Efficiency:

- *The Commission directs the Postal Service to include an updated version of the 120-day Report in its FY 2017 ACR. The report must include an analysis of how the removal of FSS pricing in Docket No. R2017-1 impacted the cost, contribution, and revenue of Periodicals in FY 2017 and whether the removal improved the efficiency of Periodicals pricing in FY 2017.* FY 2016 ACD, Chapter 2 at 22.

Standard Mail:

- *The Commission finds that the discounts for Automation AADC Letters and Non-automation 5-Digit Non-machinable Letters were not in compliance in FY 2016. The Postal Service's use of the rate shock exception for the Automation AADC Letters and Non-automation 5-Digit Non-machinable Letters discounts is not adequately supported and the Commission finds that the Postal Service did not take sufficient steps in FY 2016 to reduce these excessive passthroughs. In addition, the Postal Service took no substantial action to reduce these excessive passthroughs in Docket No. R2017-1. The Postal Service must align the discounts for Automation AADC Letters and Non-automation 5-Digit Non-machinable Letters with avoided costs in the next Market Dominant price adjustment or provide support for an applicable statutory exception.* FY 2016 ACD, Chapter 2 at 26.

- *The Commission finds that this discount was not in compliance in FY 2016. The Postal Service must either align the Non-automation 3-Digit Non-machinable Letters discount with avoided cost during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception.* FY 2016 ACD, Chapter 2 at 26.

- *The Commission finds that these two discounts were not in compliance in FY 2016. The Postal Service must either align the Nonprofit NDC Irregular Parcels discounts with avoided costs during the next general Market Dominant price adjustment, or provide support for an applicable statutory exception. No further action is required for the NDC Marketing Parcels discount because the discount approved in Docket No. R2017-1 brings the passthrough below 100 percent.* FY 2016 ACD, Chapter 2 at 32.

- *The Commission finds that in FY 2016 no progress was made toward addressing the issues it raised in the FY 2010 ACD. The Postal Service must continue responding to the requirements of the FY 2010 ACD directive by proposing above-average price increases for Standard Mail Flats, striving to reduce Standard Mail Flats cost, and providing the*

required documentation of those efforts in future Annual Compliance Reports. FY 2016 ACD, Chapter 3 at 57.

- *The Commission finds that FY 2016 revenue for Standard Mail Parcels was not sufficient to cover attributable cost. The Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate; however, unit cost increases are overwhelming unit revenue increases. In addition to above-average price increases, the Postal Service should explore and implement opportunities to further reduce the unit cost of Standard Mail Parcels and report on those opportunities and results in the FY 2017 Annual Compliance Report.* FY 2016 ACD, Chapter 3 at 59.

Package Services:

- *The Commission finds that the BPM Flats DNDC dropship, BPM Flats DSCF dropship, BPM Flats DDU dropship, BPM Parcels DNDC dropship, BPM Parcels DSCF dropship, and BPM Parcels DDU dropship discounts were not in compliance during FY 2016. The Postal Service must either align these discounts with avoided costs during the next general Market Dominant price adjustment or provide support for an applicable statutory exception.* FY 2016 ACD, Chapter 2 at 40.
- *The Commission finds the BPM flats DFSS dropship discount was not adequately justified in FY 2016. However, because this discount was eliminated in Docket No. R2017-1, no further action is necessary.* FY 2016 ACD, Chapter 2 at 41.

Special Services:

- *The Postal Service must investigate the accuracy of the incremental costing method with respect to mail processing costs attributed to Money Orders. In future Market Dominant price adjustments, the Postal Service shall improve cost coverage through above-average price increases for this product until such time that cost coverage reaches 100 percent of attributable costs.* FY 2016 ACD, Chapter 3 at 61.
- *The Commission finds that FY 2016 revenue for COD was not sufficient to cover attributable cost. The Commission recognizes the difficulty of generating accurate costs for products with low volume and the statistical variation in small sample sizes. The Postal Service shall report in the FY 2017 ACR on the number of In-Office Cost*

System (IOCS) tallies for the COD product and include the confidence interval for the cost coverage. FY 2016 ACD, Chapter 3 at 62.

- *The Commission finds that FY 2016 revenue for Stamped Envelopes was not sufficient to cover attributable cost. If the Postal Service deems it appropriate to include premium options and shipping fees with Stamped Envelopes, it should realign its revenue and cost calculations for Stamped Envelopes. The Postal Service must improve the product's cost coverage through realignment or above-average price increases in future Market Dominant price adjustments until such time that cost coverage reaches 100 percent of attributable costs.* FY 2016 ACD, Chapter 3 at 63.

ICRA:

- *The Postal Service used a methodology for the ICRA that was not approved by the Commission. If the Postal Service intends to use this methodology in its FY 2017 ACR, it should file the proposed methodology in a rulemaking proceeding.*

  Additionally, such filing should include a discussion of the following:

  1. *The Postal Service's ability to disaggregate the international mail cost pools between Market Dominant and Competitive products for the incremental cost calculation*
  2. *The accuracy of and potential improvement to the costing system for International Mail, specifically addressing the following points:*
     a. *The availability of International Service Center (ISC)-level Management Operating Data System data*
     b. *Machine productivity at ISC versus non-ISC facilities*
     c. *The proportion of sacked versus non-sacked mail arriving at ISCs*
     d. *The proportion of properly labeled versus improperly labeled mail arriving at ISCs*
     e. *The number of IOCS tallies for International Mail products*

FY 2016 ACD, Chapter 3 at 65.

Inbound Letter Post:

- *The Commission finds that FY 2016 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission's directive in section III.8.a above with respect to the ICRA is intended to address costing issues with Inbound Letter Post.*

  In addition, the Commission recommends that the Postal Service continue to pursue compensatory terminal dues in the UPU and to pursue bilateral agreements that contain Inbound Letter Post rates that are more compensatory than UPU terminal dues. FY 2016 ACD, Chapter 3 at 67.

- *The Commission directs the Postal Service to provide a report on Inbound Letter Post service performance as part of the FY 2017 ACR. This report shall include monthly service performance reports for Inbound Letter Post, aggregations of weekly failure reports, as well as an analysis of the failures and steps being taken to improve service performance.* FY 2016 ACD, Chapter 3 at 68.

Market Dominant International NSAs:

- *The Commission finds that the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 and Inbound Market Dominant Exprès Service Agreement 1 products satisfy 39 U.S.C. § 3622. The Commission directs the Postal Service, in future ACR filings, to provide financial documentation to demonstrate that noncompensatory bilateral agreements improve the net financial position of the Postal Service over UPU default terminal dues rates.* FY 2016 ACD, Chapter 3 at 69.

International Ancillary Services:

- *The Commission finds that International Ancillary Services covered its cost as a whole, but that Inbound Registered Mail failed to cover its cost. The Commission urges the Postal Service to promote greater participation by foreign postal operators in the Inbound Market Dominant Registered Service Agreement 1, which provides more compensatory prices for Inbound Registered Mail from participating foreign postal operators.* FY 2016 ACD, Chapter 3 at 70.

PHI NSA:

- *The Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 2. However, continuation of the contract may help offset the negative contribution from Contract Year 2. The Postal Service shall report on its forecast for the remainder of the PHI NSA within 90 days of the issuance of this ACD. The report shall include an updated estimate of PHI volume and any amendments to the contract.* FY 2016 ACD, Chapter 3 at 74.

Parcel Return Service:

- *In FY 2016, every Competitive domestic product with rates of general applicability, except Parcel Return Service, covered its attributable cost and thereby satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2). The Commission directs the Postal Service to report within 90 days on the results of its investigation into the Parcel Return Service cost estimates in FY 2016. The Postal Service must discuss the corrective actions that it has taken and plans to take to improve cost coverage.* FY 2016 ACD, Chapter 4 at 80.

Competitive NSAs:

- *The Commission finds that Priority Mail Contract 70, Priority Mail Contract 108, Priority Mail Contract 109, Priority Mail Contract 128, Priority Mail Contract 135, Priority Mail Contract 150, Priority Mail Contract 160, Priority Mail Contract 166, Priority Mail Contract 169, Priority Mail Contract 183, Priority Mail Contract 214, Priority Mail Contract 228, and Parcel Return Service Contract 10 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2016. The Commission directs the Postal Service to report within 30 days on the result of the Postal Service's renegotiation efforts and evaluations relating to Priority Mail Contract 150, Priority Mail Contract 160, and Parcel Return Service Contract 10. The Postal Service shall discuss the corrective actions taken or the actions the Postal Service plans to take to improve cost coverage.* FY 2016 ACD, Chapter 4 at 82.

- *The Commission reminds the Postal Service of its obligation to file notices of termination for NSAs that terminate prior to their scheduled expiration date in each respective docket. Should the Postal Service not terminate any of the contracts it reported it planned to terminate, the Postal Service shall discuss the reasons the contract was not terminated and the corrective actions taken or the actions the Postal Service plans to take to improve cost coverage in the filing relating to Priority Mail Contract 150, Priority Mail Contract 160, and Parcel Return Service Contract 10.* FY 2016, Chapter 4 at 82-83.

- *The Commission is required to review each NSA product to determine compliance with 39 U.S.C. § 3633(a)(2). Therefore, for those Competitive domestic NSAs that are not active or are paying published rates, the Postal Service should file a notice of termination so that any such contracts are removed from the competitive product list.*[243] *Furthermore, the Commission directs the Postal Service to identify each NSA product that had no mailpieces shipped under the contract when it files future ACRs.* FY 2016 ACD, Chapter 4 at 83.

IMTS—Inbound:

- *The Commission finds that IMTS—Inbound was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2016. The Commission recommends the Postal Service request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product.* FY 2016 ACD, Chapter 4 at 84.

First-Class Mail Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2016. The Commission directs the Postal Service to improve service performance results for all First-Class Mail products in FY 2017. If the Postal Service does not improve its service performance results in FY 2017, the Postal Service shall include a detailed and product-specific plan in its FY 2017 ACR for how performance will be improved.* FY 2016 ACD, Chapter 5 at 133.

- *The Commission remains particularly concerned that the service performance results reported for First-Class Mail Single-Piece Letters/Postcards has not returned to the*

[243] *See, e.g.*, Docket No. CP2014-29, Notice of the United States Postal Service of Termination of Global Reseller Expedited Package Contracts 1 Negotiated Service Agreement, September 30, 2014.

level reported before FY 2015 and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the second year in a row. The Commission directs the Postal Service to improve service for First-Class Mail Single-Piece Letters/Postcards in FY 2017. FY 2016 ACD, Chapter 5 at 133.

- *The Commission also directs the Postal Service to provide trackable data that is consistently collected and will continue to add transparency to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. The Commission directs the Postal Service to provide the following information (as applicable) for FY 2017, Quarter 1 and Quarter 2 within 90 days of the issuance of this report. The Commission directs the Postal Service to include the following information for FY 2017, Quarter 3, Quarter 4, and annualized for the fiscal year, in the FY 2017 ACR:*

    1. *The 24-hour processing clock metrics:*

        a. *The performance disaggregated by area level and district level for each national goal for each quarter and annually for FY 2017.*

        b. *The 10 facilities with the most failures in meeting each national goal for each of the 24-hour processing clock metrics during FY 2017. For each facility identified, please state the number of times that the facility failed to meet that national goal during FY 2017, and the corresponding number of times that the facility failed to meet that national goal during FY 2016. See* January 10, 2017 Responses to CHIR No. 1, question 5.c.

    2. *Collections/First Mile:*

        a. *The volumes and percentages of First-Class Mail Single-Piece Letters/Postcards that received a zero bundle review during FY 2017, disaggregated by service standard for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 1.b. *Please also provide this information disaggregated by district and service standard. See id.*, question 1.c.

        b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with collection delays, disaggregated by district and service standard, for each quarter of FY 2017 for each quarter and annually for FY 2017. See id.*, question 4.

3. *Origin Processing:*

    a. *All facilities that appeared on the Bottom Ten report for four or more consecutive weeks during FY 2017. For each identified facility, please state the corresponding district, all dates the facility appeared on the Bottom Ten report, the number of total piece failures at that facility for each date, and the total volume of mailpieces at that facility for each date. See* February 21, 2017 Response to CHIR No. 1, question 6.d.

    b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays, disaggregated by district and service standard, for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 7.

    c. *The national percentage of First-Class Mail Single-Piece Letters/Postcards with origin processing delays, disaggregated by service standard, for each quarter and annually for FY 2017. See* Responses to CHIR No. 13, question 1.

4. *Transit:*

    a. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated using daily cubic feet volume for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 8.

    b. *The percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, disaggregated by district and service standard, for each quarter and annually for FY 2017, presented in three separate tables specific to air transportation, ground transportation, and both. See id.*, question 15.

    c. *The national percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, disaggregated by service standard, for each quarter and annually for FY 2017, presented in three separate tables specific to air transportation, ground transportation, and both. See* February 17, 2017 Responses to CHIR No. 16, question 2.

d. *The report of total national network delays comparing the volume of First-Class Mail delayed weekly from October 1, 2016, through September 30, 2017, to the volume of First-Class Mail delayed at the same time during the previous year in an Excel file format. Please also provide this information disaggregated by area. See* Responses to CHIR No. 13, question 3.

e. *The number of critically late highway trips (any HCR that is late more than 4 hours) during FY 2017, disaggregated by fiscal quarter and district, for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 13.

f. *The TTMS national aggregate estimates of Letters/Postcards that have missed the service standard by the last processing scan within the transit phase, disaggregated by service standard, for each quarter and annually for FY 2017. Please also provide this information disaggregated by district.*

5. *Destination Processing:*

   a. *Managed Mail Program (MMP) by 15:00 Report, disaggregated by district and service standard, for each quarter and annually for FY 2017.*

   b. *The TTMS national aggregate estimates of First-Class Mail Single-Piece Letters/Postcards that have already missed the service standard by the LPO within the destination processing phase, disaggregated by service standard, for each quarter and annually for FY 2017. Please also provide this information disaggregated by district. See* March 3, 2017 Response to CHIR No. 1, question 18.

6. *Delivery/Last Mile:*

   a. *The TTMS national aggregate estimates of First-Class Mail Single-Piece Letters/Postcards with Delivery/Last Mile failures reported, disaggregated by service standard, for each quarter and annually for FY 2017. See* January 10, 2017 Responses to CHIR No. 1, question 19. *Please also provide this information disaggregated by district.*

b. *The volume and percentage of First-Class Mail Single-Piece Letters/Postcards subject to the 2-Day or the 3-Day service standards, disaggregated by service standard, for each quarter and annually for FY 2017. See id., question 21.*

- *The Commission expects that the Postal Service will provide this data and information consistent with the methodology used in the responses to CHIRs filed in Docket Nos. ACR2015 and ACR2016 and use an Excel spreadsheet format, if practicable. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2016 should clarification be necessary.* FY 2016 ACD, Chapter 5 at 133-135.

Standard Mail Service Performance:

- *The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for the Standard Mail products that failed to meet the applicable annual service performance targets.* FY 2016 ACD, Chapter 5 at 140.
- *The Commission expects the improvement in service performance results made for Standard Mail High Density and Saturation Flats/Parcels and Standard Mail Letters to continue in FY 2017. The Commission is concerned that the FY 2016 Every Door Direct Mail—Retail service performance results continue to fall below the intended annual performance target and declined from the level reported in FY 2015. The Postal Service must improve service performance for this product in FY 2017. If the Postal Service does not improve its service performance results for these products in FY 2017, the Postal Service shall include a detailed and product-specific plan in its FY 2017 ACR for how performance will be improved.* FY 2016 ACD, Chapter 5 at 140.

Periodicals Service Performance:

- *This was the fifth consecutive year that Periodicals did not meet its service performance targets. In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets. The Commission directs the Postal Service to apply its data leveraging techniques to improve*

Periodicals service performance. Further Commission actions related to these products are discussed in Chapter 6. FY 2016 ACD, Chapter 5 at 142.

Package Services Service Performance:

- *Media Mail/Library Mail and BPM Parcels service performance results continue to exceed the Postal Service's annual service performance targets. BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the fifth consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve BPM Flats service performance.* FY 2016 ACD, Chapter 5 at 144.

Special Services Service Performance:

- *The Postal Service exceeded service performance results for all Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service to improve in FY 2017. If the Postal Service does not achieve its service performance target in FY 2017 for Post Office Box Service, it shall include a detailed plan in its FY 2017 ACR for how performance will be improved.* FY 2016 ACD, Chapter 5 at 146.

Post Office Suspensions:

- *The Commission expects the Postal Service to significantly reduce the number of suspended facilities in FY 2017. The Commission directs the Postal Service to provide an update to Library Reference USPS–FY16–33, Excel file "Post.Offices.FY2016.xlsx," tab "Suspensions" within 40 days of the end of each quarter. If the Postal Service is unable to meet its timeline during FY 2017, the Postal Service must include a detailed explanation of why it was unable to do so in the FY 2017 Annual Compliance Report.* FY 2016 ACD, Chapter 5 at 151.

Customer Satisfaction:

- *The Commission finds that the Postal Service should take appropriate steps to improve customer satisfaction. In the FY 2017 ACR, the Postal Service should discuss the*

reasons for any further declines in customer satisfaction. FY 2016 ACD, Chapter 5 at 157.

STATUS OF KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2015 ACD)

Periodicals Pricing:

- *The Commission finds that the Postal Service failed to meaningfully address the FY 2014 ACD directive that it report the cost and contribution impact of the worksharing incentives offered for 5-Digit and Carrier Route presortation and on its progress in improving pricing efficiency. The Commission therefore directs the Postal Service within 120 days of issuance of this ACD to file a report which:*
  - *Discusses whether the 5-Digit, Carrier Route, and FSS workshare discounts are the proper economic incentives and send efficient pricing signals to mailers.*
  - *Reports the cost, contribution, and revenue impact of the pricing changes made by the Postal Service in FY 2015.*
  - *Provides a detailed quantitative analysis of the progress made in leveraging the Postal Service's pricing flexibility to improve the efficiency of Periodicals pricing in FY 2015.*
  - *Identifies any obstacles to providing the requested analysis as well as the Postal Service's strategy and timeframe for addressing those obstacles. The Postal Service must provide steps it has taken towards overcoming the obstacles identified.*
    - The Postal Service responded in a timely manner on July 26, 2016 providing a report that gave a robust narrative and workpapers containing quantitative analyses.[244]
- *The Commission also directs the Postal Service to include an updated version of the report in its FY 2016 ACR.* FY 2015 ACD, Chapter 2 at 23-24.
    - The Postal Service filed Library Reference USPS-FY16-44 on December 29, 2016, adequately responding to the Commission's request for an updated version.

[244] Docket No. ACR2015, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, July 26, 2016, question 1 (Third Response to the FY 2015 ACD).

Inbound Letter Post:

- *The Commission finds that FY 2015 revenue for Inbound Letter Post was not sufficient to cover attributable cost. Under current circumstances, the Commission does not recommend any remedial action. However, it does recommend continued efforts to develop a more compensatory UPU terminal dues formula for the next rate cycle (CY 2018 through CY 2021). The Commission also recommends that the Postal Service continue to pursue bilateral agreements that result in an improved financial position for the Postal Service relative to default UPU rates.* FY 2015 ACD, Chapter 3 at 70.
    - The Postal Service has renewed several bilateral agreements in FY 2016 and FY 2017.
- *The Commission directs the Postal Service to report within 90 days of issuance of this ACD on further progress in its plans to improve on-time service performance scores for Inbound Letter Post. The Postal Service shall specifically address its progress in improving sacks processing, in negotiating at the UPU for adjustments to the sacked mail service performance standard, and the Lean Six Sigma Black Belt project.* FY 2015 ACD, Chapter 3 at 72.
    - The Postal Service provided a report addressing these issues in its second response[245] to the FY 2015 ACD. Its report demonstrated actions taken to improve service, as well as improvements in on-time service performance.

Competitive NSAs:

- *The Commission finds that Priority Mail Contract 135 and Parcel Return Service Contract 8 are not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Postal Service stated that it will either amend or terminate the contracts as appropriate. The Commission directs the Postal Service to report within 30 days of issuance of this ACD on the result of the Postal Service's evaluation and the corrective action the Postal Service intends to take.* FY 2015 ACD, Chapter 4 at 82.

[245] Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information for the FY 2015 Annual Compliance Determination, June 27, 2016 (Second Response to the FY 2015 ACD).

- In its response, the Postal Service explained that, after closely monitoring Priority Mail Contract 135 and Parcel Return Service Contract 8, it determined not to take any corrective action.[246] The Postal Service stated that Priority Mail Contract 135 volume increased significantly during Quarters 1 and 2 of FY 2016 and that it anticipated that the contract would cover its cost in FY 2016.[247] The Postal Service stated that because of a shift in the characteristics of the mailer profile, it expected Parcel Return Service Contract 8 to cover its cost in FY 2016. First Response to the FY 2015 ACD, question 1.

- *For those Competitive domestic NSAs that are not active or are paying published rates, the Postal Service should file a notice of termination to remove the agreement from the competitive product list. Furthermore, the Commission directs the Postal Service to identify each NSA product that had no mailpieces shipped under the respective contracts when it files future ACRs.* FY 2015 ACD, Chapter 4 at 83.

  - In Library Reference USPS–FY16–NP27, the Postal Service filed a list of NSAs that had no mailpieces shipped under the respective contracts.[248] The Postal Service also explained why each listed NSA lacked volume; such explanations included: no mailings under the contract in FY 2016, contract partner paid published prices, or the contract was superseded by another NSA. The Postal Service terminated a number of NSAs in FY 2016;[249] however, there are still NSAs that are inactive or are paying published rates on the competitive product list.

IMTS—Outbound and IMTS—Inbound:

- *The Commission finds that the IMTS—Outbound and IMTS—Inbound products were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the obstacles to exiting or renegotiating the agreements that comprise the IMTS—Inbound product.*

---

[246] Docket No. ACR2015, Response of the United States Postal Service to Commission Request for Additional Information in the FY 2015 Annual Compliance Determination, April 27, 2016, question 1 (First Response to the FY 2015 ACD).

[247] First Response to the FY 2015 ACD, question 1. The Postal Service later identified Priority Mail Contract 135 as one of five contracts that was terminated in FY 2016. Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 6, January 23, 2017, question 7.a.

[248] Library Reference USPS–FY16–NP27, December 29, 2016, Excel file "NSAsWNoVolume_FY16.xlsx."

[249] *See* Docket No. MC2014-8, *et al.*, Notice of the United States Postal Service and Certification Provided in Response to Commission Order No. 3770, February 16, 2017, Attachment A.

The Postal Service must discuss the impact of the FY 2016 price change for cost coverage of IMTS—Outbound in the FY 2016 ACR. FY 2015 ACD, Chapter 4 at 85.

- The Postal Service informed the Commission of plans to increase the price of IMTS—Outbound in its Second Response to the FY 2015 ACD. Second Response to the FY 2015 ACD, question 2. The Postal Service proposed new rates, which the Commission approved, in Docket No. CP2017-20.[250] The Postal Service also discussed the obstacles to renegotiating this agreement, particularly the need for a Delegation of Authority from the Department of State. Second Response to the FY 2015 ACD, question 2.

Inbound Parcel Post (at UPU rates):

- *The Commission finds that the Inbound Parcel Post (at UPU rates) product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2015. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the status of its negotiations to remove the need to secure signatures upon delivery. The Commission also recommends that the Postal Service enter into bilateral agreements with foreign postal operators with rates that are above default UPU rates to improve the net financial position of the Postal Service.* FY 2015 ACD, Chapter 4 at 86-87.

  - The Postal Service reported on the development of ECOMPRO, which would remove the need to secure signatures upon delivery and the price increases in Docket No. CP2016-207. Second Response to the FY 2015 ACD, question 3.

International Ancillary Services:

- *The Commission directs the Postal Service to report within 90 days of issuance of this ACD on the results of its examination of pricing solutions for Outbound Competitive International Registered Mail and what steps it plans to take to improve cost coverage. FY 2015 ACD, Chapter 4 at 87.*

  - The Postal Service informed the Commission of plans to increase the price of Outbound Competitive International Registered Mail in its Second Response to the FY 2015 ACD. Second Response to the FY 2015 ACD, question 4. The

[250] Docket No. CP2017-20, Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 16-7, October 19, 2016 (Docket No. CP2017-20 Notice).

Postal Service proposed new rates, which the Commission approved, in Docket No. CP2017-20. Docket No. CP2017-20 Notice.

Inbound Air Parcel Post (at non-UPU rates):

- *The Commission concludes that the entry of inbound air parcels from EPG-member countries was inconsistent with 39 U.S.C. § 407(a)(2). The Commission directs the Postal Service to inform the Commission when it has formally exited the EPG Agreement. By July 31, 2016, the Postal Service must inform the Commission of the date it formally exited the EPG Agreement or must explain why it has not exited the EPG Agreement.* FY 2015 ACD, Chapter 4 at 91-92.
    - The Postal Service informed the Commission that it exited the EPG Agreement according to its terms in its Second Response to the FY 2015 ACD. Second Response to the FY 2015 ACD, question 5.

Service Performance:

- *The Commission is particularly concerned with the recent dramatic decline of service performance for First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance.*
    - In FY 2016, service performance results for First-Class Mail increased relative to FY 2015 levels. This includes a reversal of the downward trend for First-Class Mail Single-Piece Letters/Postcards with a 3-5 day service standard. Service performance results did not reach its target despite the increase in performance. FY 2016 ACR at 67-70.
- *The Commission directs the Postal Service to improve service for First-Class Mail Single-Piece Letters/Postcards in FY 2016. The Postal Service must provide an explanation in the FY 2016 ACR detailing specific efforts targeted to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2016. Further, it must provide a detailed, comprehensive plan to improve service performance for First-Class Mail Single-Piece Letters/Postcards within 90 days of issuance of this ACD.*
    - The Postal Service filed its report with its Second Response to the FY 2015 ACD. Second Response to the FY 2015 ACD, question 6.

- *In addition, the Postal Service must provide the following data, disaggregated by district level and service standard, in conjunction with its plan: percent of First-Class Mail Single-Piece Letters/Postcards that missed collection box pickups; percent of First-Class Mail Single-Piece Letters/Postcards where First Processing Operations (FPO) occurred one day after collection box pickup; percent of First-Class Mail Single-Piece Letters/Postcards that missed processing windows due to ground transportation constraints; percent of First-Class Mail Single-Piece Letters/Postcards that missed processing windows due to air transportation constraints; average WIP cycle time; facilities with above average WIP cycle time; and percent of First-Class Mail Single-Piece Letters/Postcards that have already missed service standard by Last Processing Operation (LPO).* FY 2015 ACD, Chapter 5 at 137-138.
    - The Postal Service provided this information with its Second Response to the FY 2015 ACD. Second Response to the FY 2015 ACD, Excel file "ACD.90.Improvement.Plan.Appendices.xlsx."
    - The breadth of data was limited to FY 2015 and the first two quarters of FY 2016, as was available at the time of submission. *See id.* CHIRs were issued in the FY 2016 ACR to acquire the final two quarters of information for FY 2016.

Post Office Suspensions:

- *The Commission previously recommended that the Postal Service proceed expeditiously in either discontinuing offices under suspension or reopening them.*[251] *It reiterates that recommendation in this proceeding. The Commission expects the Postal Service to reduce the number of facilities under suspension in FY 2016. If it is unable to do so, the Postal Service shall include a detailed explanation of why it was unable to do so in the FY 2016 Annual Compliance Report.* FY 2015 ACD, Chapter 5 at 150.
    - The Postal Service was unable to reduce the number of facilities under suspension in FY 2016, stating "action on clearing the backlog of suspensions was essentially deferred in FY 2016." FY 2016 ACR at 80.
    - The Postal Service provided a plan and timeline for reducing the backlog in FY 2017.[252]

[251] *See* FY 2014 ACD at 121.

[252] Responses of the United States Postal Service to Questions 5 and 6 of Chairman's Information Request No. 16, March 17, 2017, question 6.

Flats Cost and Service Issues:

- *In order to understand what can be done to improve cost and service efficiency for flats, the Commission directs the Postal Service to provide a report on flats issues within 120 days of issuance of this ACD. This report shall address, at a minimum, each of the pinch points described above and repeated below. If the Postal Service identifies additional operational areas where it has developed, or intends to develop, measurement systems to comprehensively identify and resolve cost and service efficiency issues for flats, it shall provide such additional details. The Commission recognizes the importance of striking a balance between the value of utilizing systems to analyze granular data and the cost of using or developing systems to analyze said data. Where the Postal Service cannot leverage its current data systems to generate and analyze granular data, it should explain the process and expense involved to acquire and analyze such data.*

- *For each pinch point, the report shall identify a method to measure, track, and report the cost and service performance issues relating to the individual pinch point at the most granular level practicable. As part of this method, the Postal Service shall identify the service performance impact of the individual pinch point at the most granular level practicable. In order to increase transparency, the report shall contain the following information regarding the Postal Service's data systems for each pinch point:*

    - *Identify all information related to each pinch point operation that is generated by current data systems. Include all relevant existing data systems, such as IMb Service Performance Diagnostics System (SPD), Seamless Acceptance and Service Performance (SASP), Informed Visibility (IV), the Intelligent Mail Accuracy and Performance System (IMAPS), and any other systems not identified herein.*

    - *Provide a detailed analysis of the cost to produce and aggregate such data in a way capable of quantifying the cost and service impacts of each pinch point at the most granular level practicable. The cost analysis should include all development costs, as well as ongoing data maintenance and analysis costs, and include specific estimates of workhours required and the cost of those workhours.*

- *Identify relevant information, in addition to current data, that could be developed by adjusting or expanding existing data systems and provide a detailed analysis of the cost involved for any adjustments or expansions needed to generate the information.*
- *Identify all information that would be necessary to develop, implement, monitor, and quantify results for a comprehensive plan to improve flats service performance and cost coverage if an ideal data system were available.*

- *If, as a result of the Postal Service's analysis, it finds the type of information requested cannot be developed using existing data systems, the Postal Service shall provide a detailed explanation why, supported by examples, for each pinch point the Postal Service contends is not measurable using existing data systems. The Postal Service shall also provide a detailed description of the type of data collection/modifications to existing systems that would be required and associated costs.* FY 2015 ACD, Chapter 6 at 181.

  - The Postal Service responded to this directive on July 26, 2016. Third Response to the FY 2015 ACD, question 1. The Postal Service provided an extensive discussion of data systems that could be used to measure different aspects of individual pinch points; however, it did not provide a specific method for each pinch point to measure, track, and report on cost and service issues related to flats. *See id.* In order to clarify the FY 2015 ACD directive and redirect the Postal Service's response, the Commission issued Commission Information Request No. 1.[253] That request also scheduled an off-the-record technical conference on October 21, 2016, to determine the status of the Postal Service's proposed methods. *See* CIR No. 1 at 1. The Postal Service filed its response to CIR No. 1 on November 28, 2016.[254] In both its Third Response to the FY 2015 ACD and its Response to CIR No. 1, the Postal Service provided general information related to all pinch points, and information specific to each individual pinch point. *See* Third Response to the FY 2015 ACD, question 1; Response to CIR No. 1, question 1. The Postal Service's responses were informative; however, neither response addressed the Commission's main request to develop a method to measure, track, and report the cost and service performance issues relating to the individual pinch points. Due to the Postal Service's inability to provide a method using

[253] Docket No. ACR2015, Commission Information Request No. 1, September 27, 2016 (CIR No. 1).

[254] Docket No. ACR2015, Response of the United States Postal Service to Commission Information Request No. 1, November 28, 2016 (Response to CIR No. 1).

existing data (or data to be developed) to address systemic cost and service issues, the Commission will initiate a strategic rulemaking to develop proposed reporting requirements related to flats' operational cost and service issues.

Appendix B: Commenters
2016 *Annual Compliance Determination*

Commenter	Comment Citation	Citation Short Form
Amazon Fulfillment Services, Inc. (Amazon)	Reply Comments of Amazon Fulfillment Services, Inc., February 13, 2017	Amazon Reply Comments
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association, February 2, 2017	ACMA Comments
American Consumer Institute Center for Citizen Research (ACI)	Comments of the American Consumer Institute Center for Citizen Research, February 13, 2017	ACI Reply Comments
Association for Postal Commerce (PostCom)	Initial Comments of the Association for Postal Commerce, February 2, 2017	PostCom Comments
	Reply Comments of the Association for Postal Commerce, February 13, 2017	PostCom Reply Comments
Frontiers of Freedom	Reply Comments by Frontiers of Freedom, February 13, 2017	Frontiers of Freedom Reply Comments
Greeting Card Association (GCA)	Initial Comments of the Greeting Card Association, February 2, 2017	GCA Comments
Major Mailers Association, National Association of Presort Mailers, and National Postal Policy Council (First-Class Business Mailers)	Comments of the Major Mailers Association, National Association of Presort Mailers, and the National Postal Policy Council, February 2, 2017	First-Class Business Mailers Comments
National Taxpayers Union (NTU)	Comments of Pete Sepp, President, National Taxpayers Union Before the Postal Regulatory Commission, February 13, 2017	NTU Reply Comments

Commenter	Comment Citation	Citation Short Form
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc., February 2, 2017	Pitney Bowes Comments
	Reply Comments of Pitney Bowes Inc., February 13, 2017	Pitney Bowes Reply Comments
Public Representative	Public Representative Comments, February 2, 2017 (REVISED February 16, 2017). *See* Public Representative Notice of Errata, February 16, 2017	PR Comments
Stamps.com Inc. (Stamps.com)	Reply Comments of Stamps.com Inc., February 13, 2017	Stamps.com Reply Comments
Taxpayers Protection Alliance (TPA)	Reply Comments on the U.S. Postal Service Annual Compliance Report, February 13, 2017	TPA Reply Comments
United Parcel Service, Inc. (UPS)	Initial Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2016, February 2, 2017	UPS Comments
	Reply Comments of United Parcel Service, Inc. on Postal Service's Annual Compliance Report for Fiscal Year 2016, February 13, 2017	UPS Reply Comments
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, February 13, 2017	Postal Service Reply Comments
Valpak Direct Marketing Systems, Inc. and the Valpak Franchise Association, Inc. (Valpak)	Valpak Direct Marketing Systems, Inc. and the Valpak Franchise Association, Inc. Initial Comments on the United States Postal Service FY 2015 Annual Compliance Report, February 2, 2017	Valpak Comments

Appendix C: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AADC	Automated area distribution center
ACD	*Annual Compliance Determination*
ACMA	American Catalog Mailer Association
ACR	*Annual Compliance Report*
ADC	Area distribution center
AFSM	Automated Flats Sorting Machine
APWU	American Postal Workers Union
BPM	Bound Printed Matter
BSN	Business Service Network
CAGU	Citizens Against Government Waste
Carlson	Douglas F. Carlson
CEM	Customer Experience Measurement
C.F.R.	Code of Federal Regulations
CHIR	Chairman's Information Request
CI	Customer Insights
CPI	Consumer price index
CPI-U	Consumer price index for all urban consumers
CPO	Community Post Office
CPU	Contract postal unit
CRA	Cost and Revenue Analysis
DDU	Destination delivery unit
DFSS	Destination Flats Sequencing System
Discover	Discover Financial Services
DNDC	Destination network distribution center
DSCF	Destination sectional center facility
ECSI	Educational, cultural, scientific or informational (value)
EMS	Express Mail Service
EPG	E-Parcel Group
EXFC	External First-Class Measurement
FedEx	Federal Express Corporation
FSS	Flats Sequencing System
FY	Fiscal Year
GCA	Greeting Card Association
GEPS	Global Expedited Package Service
GREPS	Global Reseller Expedited Package Service

Acronym/Abbreviation	Meaning
ICRA	International Cost and Revenue Analysis
iMAPS	Intelligent Mail Accuracy and Performance System
IMb	Intelligent Mail barcode
IMMS	International Mail Measurement System
IMTS-Inbound	International Money Transfer Service-Inbound
IMTS-Outbound	International Money Transfer Service-Outbound
Mixed ADC	Mixed area distribution center
MPA & ANM	Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers
IOCS	In-Office Cost System
NAPM	National Association of Presort Mailers
NDC	Network distribution center
NPPC	National Postal Policy Council
NSA	Negotiated service agreement
NTU	National Taxpayers Union
PAEA	Postal Accountability and Enhancement Act
PHI	PHI Acquisitions, Inc.
Pitney Bowes	Pitney Bowes Inc.
POS	Point of Sale
PostCom	Association for Postal Commerce
PTS	Product Tracking System
PR	Public Representative
Progressive	Progressive Direct Mail Advertising
QBRM	Qualified Business Reply Mail
SASP	Seamless Acceptance and Service Performance
SFS	Stamp Fulfillment Services
TPA	Taxpayers Protection Alliance
UFSM	Upgraded Flats Sorting Machine
UHCC	Utah Hispanic Chamber of Commerce
U.S.C.	United States Code
UPS	United States Parcel Service
UPU	Universal Postal Union
Valassis	Valassis Direct Mail, Inc.
Valpak	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.
VPO	Village Post Office

HELP US IMPROVE THIS REPORT

In connection with Section 2 of the Plain Writing Act of 2010, the Postal Regulatory Commission is committed to providing communications that are valuable to our readers.

We would like to hear your comments on what you find useful about our Annual Compliance Determination report and how we can improve its readability and value.

Please contact the Commission's Office of Public Affairs and Government Relations to provide your feedback.

Postal Regulatory Commission
Office of Public Affairs and Government Relations

901 New York Avenue, NW
Suite 200
Washington, DC 20268

Phone: 202-789-6800
Fax: 202-789-6891
Email: PRC-PAGR@prc.gov