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Docket No. ACR2018

UNITED STATES POSTAL SERVICE
FY 2018 ANNUAL COMPLIANCE REPORT

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INTRODUCTION

The United States Postal Service hereby submits its Fiscal Year 2018 Annual Compliance Report (ACR or Report). The Report is provided pursuant to 39 U.S.C. Section 3652, which requires the Postal Service to file with the Postal Regulatory Commission, within 90 days after the end of each fiscal year (FY), a variety of data on costs, revenues, rates, and quality of service, in order to "demonstrate that all products during such year complied with all applicable requirements" of title 39.[1]

Overall, the Report demonstrates that the Postal Service maintained steady progress on many metrics, despite an environment of falling mail volumes and significant legal constraints, including a market dominant price cap that impedes progress on persistent cost coverage issues. The Postal Service built upon its achievements of the prior year in some areas and is committed to improving customer experience and service performance for all products in FY 2019. The Postal Service's market dominant and competitive products were broadly in compliance with the requirements of chapter 36 over the course of FY 2018. Across every market dominant class, the Postal Service reduced the number of workshare discount passthroughs that were above 100 percent, decreasing by nineteen the total number of such passthroughs. Competitive product volumes and revenues continued to grow, resulting in a total net competitive contribution of nearly 25 percent of institutional costs.

[1] Unless specified otherwise, section numbers used herein refer to statutory provisions in title 39, United States Code.

I. OVERVIEW OF REPORT

A. Contents

This Report consists of both the present document and underlying data appended as 74 separate folders. The present document contains only the most salient information from those folders, in order to demonstrate compliance with title 39 and the Commission's annual reporting rules.[2] Consistent with the structure that has been used in the past, Section I provides an overview of this Report, its contents, and its methodologies. Section II analyzes market dominant pricing compliance. Section III addresses service performance, customer satisfaction, and consumer access. Section IV discusses competitive products compliance. Section V covers market tests and nonpostal services. Finally, Section VI describes the nonpublic annex.

More detailed information than is contained in this document may be found in the appended folders. A list of the appended folders appears at Attachment One.[3] Each folder includes a preface document explaining its purpose, background, structure, and relationship with other materials in the Report. Broadly speaking, there are three types of data in the appended folders: (1) product costing material; (2) intra-product cost analyses; and (3) billing determinants. The focus of the product costing material, in terms of ultimate output, is the Cost and Revenue Analysis report (CRA), at USPS-FY18-1, and the International Cost and Revenue Analysis report (ICRA), at USPS-FY18-NP2. The intra-product cost analyses underpin Section II's examination of

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[2] *See generally* 39 C.F.R. §§ 3050 & 3055.

[3] The folders are sequentially numbered and labeled as USPS-FY18-1, USPS-FY18-2, etc. Folders in the nonpublic annex, discussed in Section VI below, are labeled as USPS-FY18-NP1, USPS-FY18-NP2, etc. (with "NP" signifying "nonpublic").

workshare discounts. The billing determinants set forth the volume and calculated revenue for each rate cell of every mail product.

Certain materials are presented in two versions, one public and the other nonpublic. The public versions are limited to information on individual market dominant products and aggregate information on competitive products. The corresponding nonpublic versions contain either disaggregated information on competitive products or information on both market dominant and competitive products in contexts in which it is not possible to segregate the two.

Section 3652(g) requires the Postal Service to submit, together with this Report, a copy of its most recent Comprehensive Statement. A copy of the Postal Service's FY 2018 Comprehensive Statement appears within the FY 2018 Annual Report in USPS-FY18-17.[4] Similarly, a copy of the Postal Service's annual report to the Secretary of the Treasury regarding the Competitive Products Fund, required by section 2011(i), appears as part of USPS-FY18-39, along with the other Competitive Products Fund materials required by Commission Rules 3060.20 through 3060.23.

B. Roadmap

A separate roadmap document is included at USPS-FY18-9. The roadmap is a technical document that consolidates brief descriptions of each of the appended folders and of the flow of inputs and outputs among them. It also discusses any changes between the methodologies used to prepare this Report and the methodologies applied

[4] On pages 15-32, the FY 2018 Annual Report presented in USPS-FY18-17 also includes the Postal Service's FY 2019 Annual Performance Plan and FY 2018 Annual Performance Report. Corresponding nonpublic materials associated with the FY 2019 Annual Performance Plan and FY 2018 Annual Performance Report are provided as a section within USPS-FY18-NP30.

by the Commission in the FY 2017 Annual Compliance Determination (ACD). In addition, it includes the listing of special studies and the discussion of obsolescence required by Commission Rule 3050.12.

C. Methodology

In general, the Postal Service has prepared this Report using the methodologies most recently approved or applied by the Commission. Any methodology changes are identified in USPS-FY18-9, and, where appropriate, in the preface accompanying each of the appended folders.

A material difference between this Report and previous ACRs relates to the reporting of aggregate attributable costs and institutional costs, as a consequence of the CRA's continued evolution in response to Commission Order No. 3506.[5] In the CRAs for years before FY 2016, the attributable costs of a product were the sum of its volume variable and product specific costs. In compliance with Order No. 3506, starting with the CRA for FY 2017, the attributable costs of a product began to be presented as the sum of its volume variable and product specific costs, plus the product's inframarginal costs calculated as part of the estimation of the product's incremental costs. For individual products, that procedure remains unchanged for FY 2018. Thus, computationally, the attributable costs of each individual product reported in the CRA this year should once again match the incremental costs of the same product.[6]

[5] Order No. 3506, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), PRC Docket No. RM2016-2 (Sept. 9, 2016; revised Oct. 19, 2016).

[6] For market dominant products, those incremental cost estimates are developed in a public folder, USPS-FY18-43 (Market Dominant Incremental Costs). For competitive products, the incremental costs are developed in either nonpublic folder USPS-FY18-NP10 (Competitive Products Incremental Costs) or, for domestic competitive negotiated service agreement (NSA) products, in nonpublic folder USPS-FY18-

Although the costs for individual products are reported as they were in last year's ACR, what has changed are the aggregation procedures used to report attributable costs for combinations of products, particularly at the class level. In the FY 2017 CRA, attributable costs for combinations of products, such as the market dominant classes, were reported as the sum of the attributable costs of all of the individual products within the combination.[7] In the FY 2017 ACD, however, the Commission chose instead to report class-level attributable costs as the incremental costs directly estimated for the group of combined products.[8] As the Commission noted, the group incremental cost estimate for any group of products normally exceeds the sum of the incremental cost estimates for the individual products within the group. The FY 2018 CRA follows the ACD procedures, and reports group incremental cost estimates when available as the attributable costs of combinations of products, including for the market dominant classes.[9]

The change in the attributable cost aggregation procedure for combinations of products affects the ACR in several ways. Most significantly, subsection 3633(a)(3) requires that competitive products collectively contribute an appropriate share of institutional costs. The aggregation change adopted by the Commission in the FY 2017

NP27. There are, however, instances (previously acknowledged by the Commission) in which computational complications preclude separate estimation of incremental costs for certain products, most notably international mail products. *See* Order No. 3641, Order Adopting Final Rules on Changes Concerning Attributable Costing, PRC Docket No. RM2016-3 (Dec. 1, 2016), at 6. For individual international products, the reported attributable costs continue to be calculated as the volume variable plus product specific costs.

[7] See Note 3 (Aggregate Categories) on page 7 of the FY 2017 Public Cost and Revenue Analysis (PCRA) (USPS-FY17-1).

[8] Annual Compliance Determination Report, Fiscal Year 2017, PRC Docket No. ACR2017 (Mar. 29, 2018), at 8-9 [hereinafter "FY 2017 ACD"].

[9] More details on cost aggregation procedures are discussed in the Preface to USPS-FY18-1.

ACD altered both the measure of institutional costs used to derive the appropriate share target, as well as the computation of the collective competitive product contribution used to evaluate compliance with that target. For purposes of the subsection 3633(a)(3) appropriate share test, the FY 2018 ACR now follows the methodology applied in the FY 2017 ACD. In contrast, there is no change in the application of the cross-subsidy test for competitive products required under subsection 3633(a)(1), which still compares the sum of competitive products' revenues with the group incremental costs of competitive products as a whole.[10] Similarly, because the latest changes only affect combinations of products, there is no change in the approach used to ensure that each individual competitive product recovers its attributable costs as required by subsection 3633(a)(2).[11] Lastly, while the attributable costs for individual products have been developed using consistent procedures across FY 2017 and FY 2018, it bears repeating that, because of the changes emanating from Order No. 3506, comparisons of product costs between those two years and all previous years require a measure of caution.

In Order No. 4836, the Commission amended its rules to require certain material previously provided in response to Information Requests be submitted with the initial ACR filing.[12] Accordingly, as anticipated in the Postal Service's August 17, 2018

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[10] Those group incremental costs are calculated in USPS-FY18-NP10 as they were last year, using the direct estimation procedures that replaced the previous "hybrid" methodology, in an update accepted for purposes of last year's ACD and formally approved as part of Proposal Three in Order No. 4719, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), PRC Docket No. RM2018-6 (July 19, 2018).

[11] On the market dominant side, the statutory basis for the attributable cost floor is found in subsection 3622(c)(2). To the extent that subsection refers to "each class of mail," as discussed above, the group estimation approach used to present attributable costs for market dominant *classes* in the FY 2018 CRA does not match the "sum of the products" approach employed in the FY 2017 CRA. The costs reported for individual market dominant products, however, are unaffected by this change.

[12] Order No. 4836, Order Amending Rules for Periodic Reporting, PRC Docket No. RM2018-2 (Sept. 25, 2018).

comments in that docket, third-party service performance information is now provided in USPS-FY18-NP9, and workhour data by Labor Distribution Code are provided in USPS-FY18-7. Material regarding the breakdown of fee revenue is provided in the same folders as billing determinants, so the public fee breakdown material is included within USPS-FY18-4, and the nonpublic material appears in USPS-FY18-NP1. Furthermore, the status report regarding a potential refinement in revenue distribution requested in Order No. 4827[13] with respect to Proposal Five and the reporting of International Inbound Letter Post products has been provided in the Preface to USPS-FY18-NP2.

In accordance with Commission Rule 3050.13, USPS-FY18-9 includes a table listing, in chronological order, the Postal Service's proposals to change analytical principles that either were pending when the FY 2017 ACR was submitted or have been filed since then.

[13] Order No. 4827, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), PRC Docket No. RM2018-8 (Sept. 21, 2018), at 18.

II. MARKET DOMINANT PRODUCTS

Below, the Postal Service discusses, for each market dominant mail class, FY 2018 costs, revenues, and volumes by product, as well as intra-product workshare discounts and passthroughs. Comprehensive cost, revenue, and volume data are contained in the CRA, at USPS-FY18-1, and in the ICRA, at USPS-FY18-NP2. Full data regarding workshare discounts and passthroughs are contained in USPS-FY18-3.

The total number of workshare discount passthroughs that were above 100 percent of avoided costs in FY 2018 decreased by nineteen, as compared to FY 2017. There were no passthroughs exceeding 100 percent in any First-Class Mail or Package Services category, and the number of such passthroughs within the USPS Marketing Mail and Periodicals classes also decreased. Three USPS Marketing Mail passthroughs that were above 100 percent do not fit within any of the exceptions listed in Section 3622(e)(2). However, as noted below, two of those passthroughs will shift to 100 percent or below once the prices approved in Docket No. R2019-1 go into effect on January 27, 2019; the Postal Service plans to address the third passthrough in future price cases by either recommending to the Governors that they align the discount with its cost avoidance, or citing to an appropriate statutory exception.

A. First-Class Mail

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for First-Class Mail products appear in the table that follows on the next page.

Table 1: First-Class Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue ($million)	Attributable Cost ($million)	Contribution ($million)	Revenue/ Piece ($)	Cost/ Piece ($)	Unit Contribution ($)	Cost Coverage (%)
Single-Piece Letters/Cards	17,460	$8,625	$5,419	$3,207	$0.494	$0.310	$0.184	159.18%
Presorted Letters/Cards	37,871	$14,316	$4,634	$9,682	$0.378	$0.122	$0.256	308.93%
Flats	1382	$1,909	$1,554	$356	$1.382	$1.125	$0.257	122.89%
First-Class Mail Fees		$125						
Total First-Class Domestic Mail (incl. fees)	56,714	$24,976	$11,607	$13,244	$0.440	$0.205	$0.236	214.24%
Outbound Single-Piece First-Class Mail Int'l	132	$198	$129	$69	$1.501	$0.979	$0.522	153.35%
Inbound Letter Post	444	$423	$504	-$81	$0.952	$1.135	-$0.183	83.85%
Total First-Class Mail	57,290	$25,597	$12,471	$13,125	$0.447	$0.218	$0.229	205.24%

Overall, First-Class Mail products covered their attributable costs in FY 2018, with cost coverage of 205.24 percent, up from the recasted cost coverage of 204.17 percent[14] in FY 2017, marking the first year since FY 2015 that First-Class Mail cost coverage improved from the previous year. Reasons for this improved cost coverage include a higher percentage of high cost coverage Presort than lower cost coverage Single-Piece mailpieces, as well as the transfer of First-Class Mail Parcels to the competitive product list. Unfortunately, volumes for First-Class Mail products have been declining year-over-year, and while cost coverage for the class was higher than last

[14] For First-Class Mail as a whole, 204.17 percent is the FY 2017 cost coverage obtained by recasting using FY 2017 values from Appendix A of the Commission's Financial Analysis report for FY 2017, but applying the same aggregation procedures for Total First-Class Mail as applied in the FY 2018 CRA (in which the volume variable/product specific costs for the two International rows are added to the group incremental costs for Domestic First-Class Mail, as described on page 7 of the Preface to USPS-FY18-1).

year, total contribution is down from FY 2017. Total contribution fell from $14.0 billion in FY 2017 to $13.2 billion in FY 2018. Despite the overall decline in contribution, every First-Class Mail product except Inbound Letter Post covered its costs in FY 2018. Although First-Class Mail volume fell by 3.7 percent in FY 2018, the volume loss was not as steep as in FY 2017, when it dropped by 4.1 percent.

Inbound Letter Post did not cover its attributable costs in FY 2018 (absent consideration of additional revenue flows related to Inbound Letter Post, as noted below), but covered a greater proportion of its attributable costs as compared to FY 2017. As has been noted in past ACRs, the product's financial performance stems from its unique pricing regime. Currently, the Postal Service does not independently determine the prices for processing and delivery of foreign origin mail. Rather, these prices are presently set according to a Universal Postal Union (UPU) terminal dues formula established in the Universal Postal Convention. The Postal Service has been collaborating with other federal agencies, including the Department of State, which has lead responsibility for representation of the United States in the UPU, to improve cost coverage on Inbound Letter Post mail. It is important to keep in mind, however, that the pre-UPU Istanbul-Congress rates were in effect during the first quarter of FY 2018. The new Convention cycle effective in January 2018 includes progressive annual increases that will become effective in January of the next three calendar years (2019, 2020, and 2021). The January 1, 2018 and January 1, 2019 increases in terminal dues should improve the cost coverage for this product for FY 2019, and the Postal Service is also working with the Administration to move to a pricing regime of self-declared rates for Inbound Letter Post mail.

As the Postal Service has previously stated, the Inbound Letter Post product in section 1130 of the Mail Classification Schedule (MCS) does not include the entirety of revenue flows related to Inbound Letter Post. If that revenue were considered, Inbound Letter Post would cover its attributable costs, as is demonstrated in the table included in USPS-FY2018-NP9, which includes not only revenue attributable to the Inbound Letter Post product (MCS section 1130), but also Inbound International Registered Mail (part of MCS section 1510.2), the PRIME Exprès Service Agreement (MCS section 1602.4), the PRIME Tracked Service Agreement (MCS section 1602.6), Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 (MCS section 1602.3), and the PRIME Registered Service Agreement (MCS section 1602.5).[15]

Also, concerning additional reporting requirements related to Inbound Letter Post, in accordance with the Commission's Order No. 4827 in Docket No. RM2018-8,[16] the Postal Service has investigated the feasibility of and obstacles to developing an improved revenue distribution for dispatch format revenue (distributing dispatch format

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[15] As the Postal Service noted in PRC Docket No. RM2018-2, "any modification of ACR reporting requirements related to Mail Classification Schedule ('MCS') Section 1130 Inbound Letter Post that does not address the entirety of Postal Service revenue for inbound letter post will encourage the use of data that support an incomplete and inaccurate evaluation of the financial performance of inbound letter post…. [A]n effective assessment of the financial performance of inbound letter post must include volume from negotiated agreements and all sources of supplemental revenue for inbound letter post. The Postal Service receives inbound letter post revenue from numerous sources, including supplemental UPU remuneration for signature confirmation and tracking (or remuneration through PRIME for tracking) on registered items;[] PRIME multilateral agreements (extra payments for tracking);[] negotiated rates under bilateral agreements;[] air conveyance dues from some countries; and base terminal dues…. As explained in the Postal Service's response to Commission Information Request No. 1 in Docket No. PI2018-1,[] the Commission's review of the financial performance of Inbound Letter Post in the ACR docket should include not only revenue attributable to the Inbound Letter Post product (MCS section 1130), but also Inbound International Registered Mail (part of MCS section 1510.2), the PRIME Expres Service Agreement (MCS section 1602.4), the PRIME Tracked Service Agreement (MCS section 1602.6), Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 (MCS section 1602.3), and the PRIME Registered Service Agreement (MCS section 1602.5)." United States Postal Service Comments Regarding Order No. 4706, PRC Docket No. RM2018-2 (Aug. 17, 2018), at 9-11.

[16] Order No. 4827 at 18, 21.

revenue to item formats based on the revenue per piece and revenue per pound for those mail flows where terminal dues are calculated on a per-item and per-kilogram basis), and the improved revenue distribution is incorporated in USPS-FY18-NP2.

As for the recently established requirement in 39 C.F.R. Section 3050.21(l) that, for the Inbound Letter Post product, the Postal Service "provide revenue, volume, attributable cost, and contribution data by Universal Postal Union country group and by shape for the [year] preceding the fiscal year subject to review and [for] each of the preceding four fiscal years,"[17] the Postal Service provides revenue, volume, attributable cost, and contribution data by Universal Postal Union country group and by shape for FY 2017 and FY 2018, as well as revenue, volume, attributable cost, and contribution data by Universal Postal Union country group for FY 2014, FY 2015, and FY 2016, in USPS-FY18-NP9.[18]

2. Workshare Discounts and Passthroughs

There were no First-Class Mail workshare discounts with passthroughs above 100 percent in FY 2018.

3. First-Class Mail Promotions

One Calendar Year (CY) 2017 First-Class Mail Promotion extended into FY 2018. In addition, during the first three months of FY 2018, mailers were able to redeem credits earned from the CY 2017 Earned Value Reply Mail Promotion. Each promotional offering is discussed in turn below.

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[17] Order No. 4836 at 29.

[18] Order No. 4943, Order Granting Partial Waiver, PRC Docket No. ACR2018 (Dec. 21, 2018), at 2.

a. Personalized Color Transpromo Promotion

The CY 2017 Personalized Color Transpromo Promotion (July 1 to December 31, 2017) provided participating mailers an upfront two-percent postage discount on bills and statements mailed as First-Class Mail presort or automation letters. To qualify, mailpieces were required to feature marketing messages in dynamic/variable color print. Mailpieces from mailers who participated in the promotion in previous years were also required to include personalized messaging. Between October 1, 2017 and December 31, 2017, the Postal Service issued $6.0 million in discounts for 0.9 billion First-Class Mail pieces.

b. Earned Value Reply Mail Promotion

The CY 2017 Earned Value Reply Mail Promotion (January 1 to June 30, 2017) provided participating mailers a five-cent postage credit for each First-Class Mail Business Reply Mail (BRM) and Courtesy Reply Mail (CRM) piece returned to the mailer during the promotion period. At the end of the CY 2017 promotion period, the Postal Service issued approximately $51.8 million in credits for roughly 1.1 billion BRM and CRM pieces. Up until December 31, 2017, mailers were able to apply their credits to mailings of First-Class Mail presort and automation letters, cards, and flats, and USPS Marketing Mail letters and flats. Between October 1, 2017 and December 31, 2017, approximately $2.8 million worth of credits were used on First-Class Mail.

B. USPS Marketing Mail

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for USPS Marketing Mail products appear below.

Table 2: USPS Marketing Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue ($million)	Attributable Cost ($million)	Contribution ($million)	Revenue/ Piece ($)	Cost/ Piece ($)	Unit Contribution ($)	Cost Coverage (%)
HD/SAT Letters	7,265	$1,145	$560	$594	$0.159	$0.077	$0.082	206.01%
HD/Sat Flats & Parcels	11,592	$2,028	$1,400	$628	$0.175	$0.121	$0.054	144.88%
Carrier Route	7,034	$1,848	$1,703	$145	$0.263	$0.242	$0.021	108.49%
Letters	46,517	$9,656	$4,963	$4,693	$0.208	$0.107	$0.101	194.57%
Flats	4,079	$1,649	$2,403	-$753	$0.404	$0.589	-$0.185	68.65%
Parcels	35	$42	$73	-$31	$1.219	$2.119	-$0.900	57.53%
Every Door Direct Mail Retail	713	$127	$47	$79	$0.178	$0.067	$0.111	266.86%
Marketing Mail NSAs	68	$14	$14	$1	$0.207	$0.199	$0.008	104.09%
Marketing Mail Fees		$36						
Total Marketing Mail (incl. fees)	77,303	$16,554	$11,624	$4,930	$0.214	$0.150	$0.064	142.42%

As shown above, most USPS Marketing Mail products, other than USPS Marketing Mail Parcels and USPS Marketing Mail Flats, covered their attributable costs in FY 2018. As a class, USPS Marketing Mail covered its attributable costs and contributed significantly to institutional costs.

Under Section 3626(a)(6), when the Postal Service adjusts USPS Marketing Mail prices, the estimated average revenue per piece for USPS Marketing Mail sent by nonprofit mailers must equal, as nearly as practicable, 60 percent of the estimated average revenue per piece for USPS Marketing Mail sent by commercial customers. For FY 2018, the ratio was 59.40 percent.[19]

[19] In conformance with section 3626(a)(6), the prices approved in the three most recent market dominant price cases were designed to result in a ratio of 60.0 percent. Order No. 4875, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, PRC Docket No. R2019-1 (Nov. 13, 2018), at 39; Order No. 4215, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, PRC Docket No. R2018-1 (Nov. 9, 2017), at 44; Order No. 3610, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification

a. USPS Marketing Mail Parcels

USPS Marketing Mail Parcels covered 57.5 percent of its attributable costs in FY 2018, down from 64.5 percent in FY 2017. While revenue per piece increased 5.4 percent in FY 2018, going from $1.156 to $1.219, cost per piece increased significantly higher, climbing by 18.2 percent, from $1.793 to $2.119. The increase in revenue was due, in part, to the increase in the average per-piece weight of parcels, which went from 5.6 ounces to 6.0 ounces, or around 6 percent.

With regard to the increase in cost per piece, two mail mix changes in FY 2018 are likely the cause: more origin entry compared to other closer to destination entry points, and a trend away from finer presort levels. Overall, Parcels volume declined by 14.6 percent in FY 2018 compared to FY 2017, with volume trends at each entry point and presort level varying considerably. While Destination Delivery Unit (DDU) and Destination Sectional Center Facility (DSCF) volume declined, by approximately 41 percent and 20 percent, respectively, volume entered at Origin increased by 5 percent. As shown in Table 3, Origin-entered Parcels comprised the largest proportion of total Parcels volume in FY 2018, which was not the case in FY 2017. At the same time and as shown in Table 4, Parcels experienced significant variance at each presort level: whereas 5-Digit and SCF experienced a large drop off of approximately 27 percent, Network Distribution Center (NDC) presort volume increased by nearly 15 percent. As a result of these mail mix changes, between FY 2017 and FY 2018, Cost Segment 3

Changes, PRC Docket No. R2017-1 (Nov. 15, 2016), at 42 (Order No. 3610). However, as the Commission has repeatedly acknowledged, changes in the mix of mail after price changes make it difficult to precisely attain the 60 percent relationship required by law. *See, e.g.*, FY 2017 ACD, at 43; Annual Compliance Determination Report, Fiscal Year 2016 (Mar. 28, 2017) [hereinafter "FY 2016 ACD"], at 41.

(Mail Processing), which comprises almost 60 percent of the overall increase in Parcels unit cost, increased by 26 percent, and Cost Segment 14 (Transportation), which accounts for approximately 7 percent of the overall increase in Parcels unit cost, increased by 16 percent.

Table 3: Parcels Volume by Entry Point in FY 2018 Compared to FY 2017

	FY2017	FY2018	% Change
Origin	11,687,211	12,293,657	5.2%
DNDC	9,245,432	7,999,369	-13.5%
DSCF	13,276,637	10,611,134	-20.1%
DDU	6,372,390	3,745,477	-41.2%
TOTAL	**40,581,670**	**34,649,637**	**-14.6%**

Table 4: Parcels Volume by Presort Level in FY 2018 Compared to FY 2017

	FY2017	FY2018	FY2016
Mixed NDC	9,429,880	8,801,448	-6.7%
NDC	7,337,788	8,428,585	14.9%
SCF	7,928,977	5,822,226	-26.6%
5-Digit	15,885,025	11,597,378	-27.0%
TOTAL	**40,581,670**	**34,649,637**	**-14.6%**

The Postal Service remains committed to improving Parcels cost coverage through above-average price increases. In Docket No. R2019-1, the Postal Service increased Parcels prices by 2.691 percent, 8.4 percent higher than the class average increase of 2.482 percent. This was consistent with the trend over the last several years of increasing the product's prices higher than the class average, as demonstrated below.

Table 5: Parcels Price Increases Compared to Overall USPS Marketing Mail Increases

Docket No.	(A) Parcels Percent Price Increase	(B) Overall USPS MM Price Increase	(A) as Percent of (B)
R2013-10	1.820%	1.607%	113.2%
R2015-4	9.295%	1.926%	482.6%
R2017-1	1.583%	0.900%	175.9%
R2018-1	2.768%	1.936%	143.0%
R2019-1	2.691%	2.482%	108.4%

Lastly, in response to the Commission's Parcels recommendation in the FY 2017 ACD,[20] the Postal Service notes that all planned improvements discussed in the Annual Report on Service Performance should contribute to the Postal Service's ongoing efforts to improve parcel processing.[21] Moreover, the addition of bins on the Automated Parcel and Bundle Sorter (APBS) during FY 2018 will likely contribute to these improvement efforts.[22] As was the case last year, parcel-shaped pieces were a relatively small fraction of total USPS Marketing Mail volume compared with letter-shaped and flat-shaped pieces, and the opportunities to achieve substantial overall cost improvements were correspondingly more limited.

b. USPS Marketing Mail Flats

USPS Marketing Mail Flats covered 68.6 percent of its attributable costs in FY 2018, down 5.4 percentage points from FY 2017. Per-piece revenue rose over the previous year, increasing by 5.1 percent, but this was unfortunately offset by a 13.4 percent increase in per-piece cost.

The increase in cost was likely due in part to movement of Flats volume to High Density Flats. Based on feedback from industry representatives, which is supported by volume trends, flats volume has migrated from the Flats and Carrier Route products into High Density Flats because of comailing. As shown in Table 6, in FY 2018 compared to FY 2017, the overall volume trend for flat-shaped pieces was negative; the only exception was significant growth in High Density Flats of 20 percent.

[20] FY 2017 ACD at 63.

[21] *See* USPS-FY18-29, Annual Report on Service Performance for Market Dominant Products.

[22] This operational improvement is discussed in section II.B.3.b.i.

Table 6: Volume of Flat Products and Categories in FY 2018 Compared to FY 2017

	FY2017	FY2018	% Change
Flats	4,944,063,469	4,078,767,616	-17.5%
CR Flats	7,095,280,147	6,998,018,225	-1.4%
HD Flats	1,485,750,963	1,782,505,384	20.0%
HD Plus Flats	687,171,003	654,321,505	-4.8%
Saturation Flats	9,058,196,547	9,154,032,186	1.1%
Total	**23,270,462,129**	**22,667,644,916**	**-2.6%**

Moreover, volume trends by entry point suggest that the migration from Flats into High Density is predominantly occurring at DSCF entry. Over the last two years, DSCF-entered Flats have decreased steadily, from 64.1 percent in FY 2016, to 57.8 percent in FY 2017 and 51.7 percent in FY 2018. In contrast, 82.1 percent of High Density Flats were entered at the DSCF in FY 2016, which increased to 86.3 percent in FY 2017 and 89.3 percent in FY 2018. These volume trends make clear that the various flat-shaped offerings serve the same customer segments. Therefore, the Postal Service intends to evaluate combining Flats, Carrier Route Flats, and High Density Flats into a single Non-Saturation Flats product.

As discussed in more detail in section II.B.3., Commission Flats Directives, the Postal Service remains committed to raising the product's cost coverage, and plans to recommend to the Governors an increase in Flats prices of at least 1.05 times the Consumer Price Index – All Urban Consumers (CPI) in the next market dominant rate case.[23]

[23] If the Postal Service were to pursue creating a combined Non-Saturation Flats product, this plan could change.

2. Workshare Discounts and Passthroughs

In FY 2018, 14 USPS Marketing Mail passthroughs exceeded 100 percent, down from 22 passthroughs in FY 2017.

a. Letters

Five workshare passthroughs for USPS Marketing Mail Letters exceeded 100 percent in FY 2018: Destination Network Distribution Center (DNDC) Dropship Letters, DSCF Dropship Letters, Automation Mixed Automated Area Distribution Center (AADC) Letters, Nonautomation 3-Digit Nonmachinable Letters, and Nonautomation 5-Digit Nonmachinable Letters.

i. DNDC and DSCF Dropship Letters

The FY 2018 passthroughs for DNDC and DSCF dropship letters were 126.3 percent and 134.8 percent, respectively, a drop from 152.9 percent and 161.9 percent, respectively, in FY 2017. When Docket No. R2019-1 prices take effect in January of 2019, these passthroughs will decrease to 115.8 percent for DNDC, and 121.7 percent for DSCF. In Docket Nos. R2017-1, R2018-1, and R2019-1, the Commission accepted the Postal Service's reliance on 39 U.S.C. § 3622(e)(2)(B) to justify these passthroughs, contingent on the Postal Service's adherence to a plan to reduce the passthroughs by 10 percentage points in each market dominant rate case.[24] The Postal Service continues to justify these passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B); it plans to recommend to the Governors a reduction of at least 10 percentage points in the next market dominant rate case, subject to adequate pricing flexibility, operational efficiencies, and changes in cost avoidance.

[24] Order No. 4875, at 36; Order No. 4215, at 43; Order No. 3610, at 38.

ii. Automation Mixed AADC Letters

The Automation Mixed AADC Letters passthrough was 216.7 percent in FY 2018, compared to 1300.0 percent in FY 2017. This improvement is due to a significant increase in the cost avoidance resulting from the methodology changes approved in Docket No. RM2019-1.[25] When Docket No. R2019-1 prices take effect, the Automation Mixed AADC Letters passthrough will fall further to 183.3 percent, with a discount of 1.1 cents. Because this barcoding discount encourages mailers to apply an Intelligent Mail Barcode (IMb) to their mailpieces, which is valuable to the efficient operation of the Postal Service,[26] the Postal Service justifies this passthrough pursuant to Section 3622(e)(2)(D).

iii. Nonautomation 3-Digit Nonmachinable Letters

The Nonautomation 3-Digit Nonmachinable Letters passthrough was 104.5 percent in FY 2018. In Docket No. R2019-1, the Postal Service reduced the discount from 2.3 cents to 2.2 cents, to match the FY 2017 cost avoidance. When Docket No. R2019-1 prices take effect, the discount will match the cost avoidance, lowering this passthrough to exactly 100 percent. Therefore, the Postal Service believes no further action is necessary to bring this passthrough into compliance with the statute.

iv. Nonautomation 5-Digit Nonmachinable Letters

The Nonautomation 5-Digit Nonmachinable Letters passthrough was 101.4 percent in FY 2018. In Docket No. R2019-1, the Postal Service reduced the discount

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[25] *See* Order No. 4894, Order on Analytical Principles Used in Periodic Reporting, PRC Docket No. RM2019-1 (Nov. 28, 2018), at 8 (describing impact of modifications 1, 2 and 3 on the Automation Mixed AADC Letters cost avoidance and passthrough).

[26] *See* 39 U.S.C. § 3622(c)(13).

from 7.1 cents to 6.8 cents, to match the FY 2017 cost avoidance. When Docket No. R2019-1 prices take effect, this passthrough will fall to 97.1 percent. As a consequence, the Postal Service believes no further action is necessary to bring this passthrough into compliance with the statute.

b. Flats

Out of the seven presorting and prebarcoding passthroughs for USPS Marketing Mail Flats, only two passthroughs were above 100 percent in FY 2018: Automation 3-Digit Flats and Automation Mixed ADC Flats were 103.1 percent and 189.5 percent, respectively.

i. Automation 3-Digit Flats

The Automation 3-Digit Flats passthrough was 103.1 percent in FY 2018. This passthrough was 72.4 percent in FY 2017 and 97.4 percent in Docket No. R2019-1. A 14 percent drop in the cost avoidance, from 7.6 cents to 6.5 cents, is the sole reason this passthrough exceeded 100 percent in FY 2018. Unfortunately, when Docket No. R2019-1 prices take effect, the passthrough will increase to 113.8 percent. The Postal Service intends, in the next market dominant rate case, to recommend to the Governors that they realign the discount with its cost avoidance, or it will cite an appropriate statutory exception.

ii. Automation Mixed ADC Flats

The Automation Mixed ADC Flats passthrough was 189.5 percent in FY 2018, down from 190.0 percent in FY 2017 due to reductions in both the discount and cost avoidance. In Docket No. R2019-1, the Postal Service aligned this discount with the cost avoidance of 2 cents developed in Docket No. ACR2017. Notably, when Docket

No. R2019-1 prices take effect, this passthrough will fall to 105.3 percent. Because this barcoding discount encourages mailers to apply an IMb to their mailpieces, which is valuable to the efficient operation of the Postal Service,[27] the Postal Service justifies this passthrough pursuant to Section 3622(e)(2)(D).

c. Parcels

Three out of eleven USPS Marketing Mail Parcels presorting and prebarcoding passthroughs exceeded 100 percent in FY 2018.

The passthroughs for prebarcoding Mixed Network Distribution Center (NDC) Machinable Barcoded Parcels, prebarcoding Mixed NDC Irregular Barcoded Parcels, and prebarcoding NDC Marketing Barcoded Parcels were 141.5 percent in FY 2018. Under Docket No. R2019-1 prices, these passthroughs will drop to 131.7 percent. These discounts encourage mailers to pre-barcode their parcels, thereby increasing operational efficiency. Accordingly, in Docket Nos. ACR2016, R2018-1, ACR2017, and R2019-1, the Commission accepted the Postal Service's reliance on 39 U.S.C. § 3622(e)(2)(D) to justify these passthroughs, contingent on the Postal Service's adherence to a plan to reduce the passthroughs by 10 percentage points in each market dominant rate case.[28]

The Postal Service continues to justify these passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(D); it plans to recommend to the Governors a reduction in the passthroughs of at least 10 percentage points in the next market dominant rate case,

[27] *See* 39 U.S.C. § 3622(c)(13).

[28] Order No. 4875, at 36; FY 2017 ACD, at 33; Order No. 4215, at 43; FY 2016 ACD, at 32.

subject to adequate pricing flexibility, operational efficiencies, and changes in cost avoidance.

d. Carrier Route Letters, Flats, and Parcels

Two Carrier Route discounts exceeded their cost avoidances in FY 2018: Letters entered at DNDC compared to origin entry; and Letters entered at DSCF entry compared to origin entry.

The passthroughs for Carrier Route DNDC and DSCF dropship letters were 142.1 percent and 152.2 percent, respectively, in FY 2018. Under Docket No. R2019-1 prices, these passthroughs will drop to 131.6 percent and 139.1 percent, respectively. In Docket Nos. ACR2016, R2018-1, ACR2017, and R2019-1, the Commission accepted the Postal Service's reliance on 39 U.S.C. § 3622(e)(2)(B) to justify these passthroughs, contingent on the Postal Service's adherence to a plan to reduce the passthroughs by 10 percentage points in each market dominant rate case.[29] The Postal Service continues to justify these passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B); it plans to recommend to the Governors a reduction in the passthroughs of at least 10 percentage points in the next market dominant rate case, subject to adequate pricing flexibility, operational efficiencies, and changes in cost avoidance.

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

Two dropship Letter discounts associated with High Density and Saturation Letters exceeded avoided costs in FY 2018: DNDC Letters compared to origin entry, and DSCF Letters compared to origin entry.

[29] Order No. 4875, at 36; FY 2017 ACD, at 35; FY 2016 ACD at 34; Order No. 4215 at 43.

The FY 2018 passthroughs for High Density and Saturation DNDC and DSCF dropship letters were 115.8 percent and 121.7 percent, respectively. Under Docket No. R2019-1 prices, these passthroughs will fall to 105.3 and 108.7 percent, respectively. In Docket Nos. ACR2016, R2018-1, ACR2017, and R2019-1, the Commission accepted the Postal Service's reliance on 39 U.S.C. § 3622(e)(2)(B) to justify these passthroughs, contingent on the Postal Service's adherence to a plan to reduce the passthroughs by 10 percentage points in each market dominant rate case.[30] The Postal Service continues to justify these passthroughs pursuant to Section 3622(e)(2)(B); given that the passthroughs will be fewer than ten percentage points from 100 percent of avoided costs, it plans to recommend that the Governors equalize the discounts with their cost avoidances in the next market-dominant rate case, subject to adequate pricing flexibility, operational efficiencies, and changes in cost avoidance.

3. Commission Flats Directives

In the FY 2010 ACD, the Commission articulated a number of directives related to Flats' cost coverage. The Commission generally directed the Postal Service "to increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments, consistent with the price cap requirements, and cost reductions until such time that the revenues for this product exceed attributable costs."[31] More specifically, the Commission directed the Postal Service to report in future ACRs

[30] Order No. 4875, at 36; FY 2017 ACD, at 37; FY 2016 ACD, at 36; Order No. 4215, at 43.

[31] Annual Compliance Determination Report, Fiscal Year 2010, PRC Docket No. ACR2010 (Mar. 29, 2011), at 106 [hereinafter "FY 2010 ACD"]. After resolution of the Postal Service's appeal of certain remedial actions regarding Standard Mail Flats in the FY 2010 ACD, the Commission directed the Postal Service to "respond to the specific remedy adopted by the 2010 ACD by presenting a schedule of future price adjustments for Standard Mail Flats." Order No. 1472, Notice and Order Confirming Termination of Stay, PRC Docket No. ACR2010-R (Sept. 21, 2012), at 3.

on its progress in: increasing Flats prices; implementing operational changes aimed at lowering flats costs; effectuating costing methodology improvements; and phasing out the subsidy of Flats. The Postal Services addresses each of these directives in turn below.

a. Schedule of Above-Average Price Increases

The Commission's FY 2010 ACD directed the Postal Service to present a schedule of above-average CPI price increases for Flats in each subsequent ACR and Notice of Market Dominant Price Adjustment.[32] Since then, the Postal Service has presented and adhered to a schedule of above-average price increases for Flats. The schedule was updated most recently in Docket No. R2019-1, as shown below.[33]

Table 7: Schedule of Flats Price Increases

Year	Planned Flats Price Increase
2019	CPI-U * 1.05
2020	CPI-U * 1.05
2021	CPI-U * 1.05

Further, as Demonstrated in Table 8 below, the Postal Service has surpassed its commitment to increase Flats by 1.05 times CPI in each price adjustment since Docket No. R2013-10.

Table 8: Flats Price Changes Compared to Overall USPS Marketing Mail Authority

Docket No.	(A) Flats Percent Price Increase	(B) Overall USPS MM Pricing Authority	(A) as Percent of (B)
R2013-10	1.810%	1.696%	106.7%
R2015-4	2.549%	1.966%	129.7%
R2017-1	2.522%	0.927%	272.1%
R2018-1	2.167%	2.008%	107.9%
R2019-1	2.621%	2.491%	105.2%

[32] FY 2010 ACD at 107.

[33] United States Postal Service Notice of Market-Dominant Price Change, PRC Docket No. R2019-1 (Oct. 10, 2018), at 16.

b. Information Requests Related to Flats Costs

In the FY 2010 ACD, the Commission directed the Postal Service to provide the following information about USPS Marketing Mail Flats in each subsequent ACR:

1) all operational changes designed to reduce flats costs in the previous fiscal year and an estimation of the financial effects of such changes;

2) all costing methodology improvements made in the previous fiscal year and the estimated financial effects of such changes; and

3) a statement summarizing the historical and current fiscal year subsidy of the flats product; and the estimated timeline for phasing out this subsidy.[34]

The Postal Service provides this information below. The section titled "Operational Changes" responds to directive 1, and the section titled "Costing Methodology Changes and Subsidy of the Flats Product" responds to directives 2 and 3.

i. Operational Changes

Below, the Postal Service describes the new and ongoing steps it took during FY 2018 to make its processing of USPS Marketing Mail Flats and Periodicals mail more efficient. Collectively, these efforts are expected to improve efficiencies and productivities, and contribute to reductions in overall USPS Marketing Mail Flats and Periodicals costs.

Where possible, the Postal Service has developed key metrics to monitor and gauge the operational impact of changes, specifically related to flat mail processing. The metrics described in the following sections are used on a daily basis to identify operational or maintenance issues that may be impacting the overall efficiency of the operations monitored. As situations change, these metrics may be modified or

[34] FY 2010 ACD, at 107.

discontinued and other metrics may be added. In many cases, the operational metrics employed are aggregate in nature, crossing different mail classes and entry make-up.

The Postal Service is still unable to provide an estimate of the financial impacts of these operational initiatives. As the Postal Service has previously explained, the information generated by the Postal Service's existing data systems does not support reliable estimates of the impact of operational initiatives on flats costs.[35] The Postal Service notes that Docket No. RM2018-1, the Commission-initiated proceeding to explore opportunities to enhance the Postal Service's data systems in order to measure the impact of flats costs, remains ongoing.

- **Bundle Operation**

In FY 2018, bundle sortation operations occurred primarily on the Automated Parcel and Bundle Sorter (APBS), Automated Package Processing System (APPS), High Throughput Parcel Sorter (HTPS), and the Small Parcel Sorter System (SPSS). Additionally, a new flats bundle and package sorter was introduced—the Enhanced Package Processing System (EPPS). These machines sort bundles of flats to bins for either delivery or subsequent processing. At some locations, processing bundles to destination requires two runs on a machine – a primary sortation and a secondary sortation.

[35] United States Postal Service FY 2017 Annual Compliance Report, Docket No. ACR2017 (Dec. 29, 2017), at 26; United States Postal Service FY 2016 Annual Compliance Report, Docket No. ACR2016 (Dec. 29, 2016), at 28; Response of the United States Postal Service to Commission Information request No. 1, PRC Docket No. ACR2015 (Nov. 28, 2016); Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, PRC Docket No. ACR2015 (July 26, 2016).

In FY 2018, the Postal Service continued to add sortation bins to the APBS and APPS fleet. Twenty APBS machines collectively received 1,024 bins, and six APPS machines received a total of 426 additional bins. By making additional bins available for the primary sortation, the need for a secondary sortation is reduced or eliminated.[36]

In addition, as noted above, in FY 2018 the Postal Service deployed one EPPS, a high-performing, automated bundle and package sorter capable of processing approximately 25,000 packages (and/or bundles) per hour during peak processing periods. It features automated sorter induction and 440 sort bins. Automated induction eliminates the need to manually singulate and face packages for automated processing, thereby achieving higher productivity than any of the Postal Service’s other package sorting systems.[37]

- **AFSM 100 Operations**

In FY 2018, the total pieces fed through the Automated Flat Sorting Machine (AFSM) 100 operations declined 5.0 percent, while the aggregate productivity value decreased 6.4 percent, when compared to FY 2017. It would appear that the loss of economies of scale related to volume declines has had a negative impact on the productivity values for AFSM 100 operations. In response to these changes, the Postal Service removed 59 AFSM 100 machines from processing plants in FY 2018. Additional removals may be required in the future as the organization adjusts to declining mail volumes.

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[36] For example, assume that a particular sortation requires 200 separations, but that the machine only has 150 bins. As a result, 50 separations require rehandling. The introduction of additional bins eliminates or reduces this extra handling.

[37] The Postal Service intends to add an additional EPPS in FY 2019.

- **Flats Sequencing System (FSS) Scorecard**

The Postal Service continued to measure critical aspects of FSS performance at each processing location during FY 2018. The resulting scorecard is utilized to develop a list of specific sites with the greatest opportunity for improvement. The below table reflects the Postal Service's performance on the key metrics utilized by the scorecard.[38]

Table 9: FSS Scorecard

Performance Metric	FY 18	FY 17
Throughput per hour (pph)	7,708	8,111
Delivery Point Sequence (DPS)	54.2%	54.7%
Mail Pieces At-Risk	4.6%	5.8%
Leakage	21.9%	20.1%

Sources:
Throughput per hour: WebEOR
DPS %: EDW
At-Risk: MIRS

- **Service Performance Diagnostics Tool**

In FY 2018, the Postal Service continued to track and improve the flow of USPS Marketing Mail and Periodicals being processed through the network. In FY 2018, the majority of reports within the Service Performance Diagnostics tool (SPD) were transitioned to the Informed Visibility (IV) system, which leverages data in near real-time to measure and diagnose service, predicts workload, manages inventory, and provides near real-time end-to-end tracking of mail. IV is easy to use and provides better visualization of data to improve the flow of mail through the network. The Work in

[38] Docket No. ACR2016 includes comprehensive descriptions of the DPS percentage metric and Mail Pieces At-Risk percentage, while a thorough overview of the FSS Leakage Visualization report was provided in Docket No. ACR2017. *See* Responses of the United States Postal Service to Chairman's Information Request No. 5, response to Question 5(a) (describing the FSS Leakage Visualization report); United States Postal Service FY 2016 Annual Compliance Report (Dec. 29, 2016), at 29–30 (defining the DPS percentage metric and Mail Pieces At-Risk percentage).

Process (WIP) cycle time measures the time between a mailpiece's arrival at the plant and bundle-to-piece distribution.

The Postal Service continues to monitor WIP cycle time to identify locations and operations where the time between arrival and bundle-to-piece distribution can be improved. The Postal Service is consistently working to optimize its operations and reduce the cycle time between acceptance and processing.

Table 10: Median 5 Day Mail Processing WIP USPS Marketing Mail Flats

Time Period from SPD	Weighted Median (hours)
(FY 17) Week ending 10/01/16 - 09/30/17	52
(FY 18) Week ending 10/01/17 - 09/30/18	56

Table 11: Median 5 Day Mail Processing WIP Periodicals Flats

Time Period from SPD	Weighted Median (hours)
(FY 17) Week ending 10/01/16 - 09/30/17	24
(FY 18) Week ending 10/01/17 - 09/30/18	27

- **Reduce Bundle Breakage**

Bundle breakage results in higher processing costs for the Postal Service, as well as potential damage to mailpieces. When bundles lose their presort integrity prior to being completely processed, the Postal Service must handle the individual pieces, which increases handling costs. The continued effort to reduce bundle breakage benefits both the Postal Service and the mailing industry. The Postal Service continued its commitment to working with the mailing industry, through the Mailers Technical Advisory Committee, to study the causes and impacts of bundle breakage.

As indicated below, the incidence of bundle breakage was 4.80 percent in FY 2018. It is important to note that the figures in Table 12 do not reflect a true comparison of the FY 2017 and FY 2018 rates of bundle breakage. Beginning in Quarter 2 of FY 2018, the Postal Service bolstered its bundle breakage tracking, adding the ability to detect pieces from broken bundles via the SPSS, HTPS, and the AFSM 100.[39] As the Postal Service described in Docket No. ACR2017, the FY 2017 data represent bundles processed on the APPS and APBS using 3-scan logic.[40] While the Postal Service continued to use 3-scan logic in FY 2018, it increased the sources from which data are collected. As a consequence, the reported increase in bundle breakage may be due, at least in part, to the Postal Service's enhanced ability to detect broken bundles.

Table 12: Bundle Breakage

Year	Total Bundles	Broken Bundles	% Broken
FY17	492,575,354	13,882,003	2.82%
FY18	460,468,758	22,081,833	4.80%

Note: Beginning in Q2 of FY 2018, 3-Scan broken bundles included Carrier Route 5-Digit AFSM 100, SPSS, and HTPS broken bundles.

Moreover, in FY 2018, the Postal Service continued to provide information to the highest volume Mail Service Providers (MSPs) and their individual processing plants to identify opportunities to reduce breakage. This information sharing was facilitated by the Postal Service's Bundle Breakage Dashboard, and Bundle Leakage data. Each data source is described in turn below.

In FY 2018, the Postal Service continued using the internal Bundle Breakage Dashboard, which provides individual Postal Service processing plants quick access to

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[39] Bundled flats not requiring primary piece sortation found on the AFSM 100 are detected as broken using 3-scan logic.

[40] Response of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 14, Docket No. ACR2017 (Feb. 12, 2018), at response to Question 4.

bundle breakage data. These data include the total number of bundles processed on each machine (the APPS, APBS, and new in FY 2018, the SPSS, and HTPS) by facility; the percentage of that total identified as broken; and, bundles identified as broken at a facility compared nationally. This information can also be disaggregated by facility type, mail class, entry discount, machine type, MSP, or mail owner. The Postal Service and industry stakeholders continue to use these data to gain insight into root causes of bundle breakage, identify overarching impacts of bundle breakage on service, and investigate top opportunity facilities, locations, and machines in an effort to develop strategies to address bundle breakage.

Additionally, in FY 2018, the Postal Service continued to review Bundle Leakage data, which tracks bundles that bypass bundle processing to provide some insight into improper flows and manual handlings of bundles. In FY 2018, the Postal Service integrated AFSM 100 data into the internal Bundle Breakage Dashboard, and is reviewing the viability of including Bundle Leakage data.

ii. Costing Methodology Changes and Subsidy of the Flats Product

USPS Marketing Mail Flats unit costs reported in the CRA increased from 52 cents in FY 2017 to 58.9 cents in FY 2018. In contrast with previous years, there were no major costing methodology changes implemented for FY 2018 that would be expected to have been material factors in this increase. For example, the expected impact of the adoption of Proposal Seven (reorganization of mail processing cost pools) on Flats costs was estimated (for FY 2017) to be less than one million dollars. Similarly, for Proposal Five from last year (regarding the use of the Time and Attendance Collection System (TACS) for city carrier route group cost pools), approved with a modification by the Commission in February 2018, the estimated unit cost impact of the original proposal on Flats was actually a slight decrease of 0.2 cents.

However, beyond limited changes in costing methodology (as well as operational changes), previous developments likely affected costs for USPS Marketing Mail Flats this year. As described previously in the Preface to USPS-FY15-31, the preparation rules implemented in January 2014 allowed pieces in 5-Digit scheme FSS bundles to claim Standard Mail Carrier Route rates, if they would have been eligible to do so in the absence of the FSS preparation rules. As also explained in the same Preface, marking issues related to this situation warranted costing adjustments that shifted to Carrier Route some costs that would otherwise have been reported as relating to Standard Flats. Those adjustments were in effect for the first three quarters of FY 2015. Because of classification changes made in Docket No. R2015-4, however, beginning May 31, 2015, all pieces in FSS bundles became part of the Standard Mail Flats product.[41] As a consequence of these circumstances, certain pieces that would have been classified as part of Carrier Route in the first three quarters of FY 2015 would, throughout FY 2016, have instead been classified as Standard Mail Flats. Therefore, when comparing the reported unit costs of Standard Mail Flats (and, for that matter, of Carrier Route) in FY 2016 to the reported unit costs in FY 2015, it was necessary to consider the effects of these classification changes.

When pieces move in or out of a mail category, the effect on reported unit costs is primarily a function of whether the subset of pieces that are shifting have higher or

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

lower than average costs, relative to the total set of pieces present before the shift. This is true with respect to both the category from which the pieces shift, as well as the category into which they shift. In terms of evaluating the change in circumstances between 2015 and 2016, more than one billion pieces shifted from Carrier Route (in FY 2015) to Standard Flats (in FY 2016). Those particular pieces would tend to be in the above-average portion of the cost distribution for Carrier Route (since they get distributed as pieces at the FSS operation and whatever operations handle the FSS rejects), but in the below-average portion for Standard Flats (since they have a 5-Digit scheme presort). Moreover, there were a material number of pieces that made this shift, in excess of one billion pieces, as mentioned above. So, in this scenario, it might be expected that shifting these FSS CR flats from Carrier Route flats to Standard Flats could actually reduce unit Mail Processing costs for both products. Looking at the mail processing data for FY 2015 and FY 2016, this indeed seems to have been the case. Therefore, it is quite plausible that some portion of the observed decline in the unit costs of Standard Flats between FY 2015 and FY 2016 was related to the June 2015 mail classification changes.

It is important to recall the events that unfolded in FY 2015-FY 2016 and their potential effects on reported unit costs because, with the classification changes approved in Docket No. R2017-1, those results were likely reversed going from FY 2016 to FY 2017. The Docket No. R2017-1 changes began in January 2017 to move pieces from Standard Mail (now USPS Marketing Mail) Flats back into Carrier Route.[42] Based on the same logic described above, this migration would be expected to increase the

[42] Order No. 3610, at 13-17.

unit costs for both categories to some degree. Reviewing the FY 2016 and FY 2017 Mail Processing unit costs for these two products appears to confirm these circumstances as contributing to the overall observed increase in the unit costs for Flats in FY 2017. The further significance of this development for FY 2018 costs is that, while FY 2017 was only a partial year in terms of the inflationary effect of the reverse shift, FY 2018 was a full year. All else equal, one would expect this to be responsible for some portion of the observed unit cost increase for Flats in FY 2018.

More broadly, the series of events starting in January of 2014 relating to the preparation, marking, and classification of flat-shaped pieces virtually ensured that unit costs trends for the affected products within USPS Marketing Mail would manifest some volatility. That volatility has certainly been manifest in the costs reported for USPS Marketing Mail Flats over this period, further complicating the already difficult task of assessing progress along the dimensions outlined in the FY 2010 ACD regarding cost coverage for this product.

The USPS Marketing Mail Flats' financial shortfall was $753 million in FY 2018, with revenue of $1,649 and cost of $2,403 million, an increase compared to FY 2017, when the shortfall was $669 million.[43] The Postal Service has been making efforts to improve the finances of USPS Marketing Mail Flats above and beyond the minimum requirements set by the Commission. As depicted in Table 8, the Postal Service implemented rate increases in January 2018 for USPS Marketing Mail Flats that were above the pricing authority for USPS Marketing Mail (2.167 percent for Flats, versus 2.008 percent available authority for USPS Marketing Mail), and will be increasing

[43] Revenue of $1,906 million and cost of $2,574 million.

prices for USPS Marketing Mail Flats more than 1.05 times CPI in January of 2019. Although the Postal Service remains committed to taking measures to improve the product's cost coverage, it is not able to provide an estimated timeline for phasing out the Flats subsidy. While the Postal Service has provided a schedule of future above-CPI price increases, the product's unit cost changes year-to-year, and CPI is also unpredictable, particularly over the long term.

4. USPS Marketing Mail Promotions

During FY 2018, the Postal Service offered the Mobile Shopping Promotion, and separately, mailers were able to redeem credits earned from the CY 2017 Earned Value Reply Mail Promotion toward mailings of USPS Marketing Mail letters and flats. Each promotional offering is discussed in turn below.

a. Mobile Shopping Promotion

The CY 2017 Mobile Shopping Promotion (August 1 to December 31, 2017), provided participating mailers an upfront two-percent postage discount on regular and nonprofit USPS Marketing Mail letters and flats. To qualify, mailpieces were required to feature mobile technology (such as open-sourced barcodes, proprietary barcodes or tags, and digital watermarks) that connects customers to either a mobile-optimized shopping site or a social media webpage with a click-to-shop feature. Between October 1, 2017 and December 31, 2017, the Postal Service issued $22.0 million in discounts for 5.0 billion USPS Marketing Mail pieces.

b. Earned Value Reply Mail Promotion

A description of the CY 2017 Earned Value Reply Mail Promotion is provided in Section II.A.3 above. Between October 1, 2017 and December 31, 2017, approximately $2.1 million worth of credits were redeemed on USPS Marketing Mail pieces.

C. Periodicals

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Periodicals products appear below.

Table 13: Periodicals Volume, Revenue, and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attributable Cost ($Million)	Contri-bution ($Million)	Revenue/ Piece ($)	Cost/ Piece ($)	Unit Contribution ($)	Cost Coverage (%)
In-County Periodicals	510	$55.9	$83.3	$(27.4)	$0.110	$0.163	$(0.054)	67.14
Outside County Periodicals	4,483	$1214.4	$1,806.3	$(591.9)	$0.271	$0.403	$(0.132)	67.23
Fees		$6.4	-	-	-	-	-	-
Total Periodicals (incl.fees)	4,993	$1,276.7	$1,890.21	$(613.5)	$0.256	$0.379	$(0.123)	67.54

As shown above, both Periodicals products failed to cover their costs in FY 2018. Cost coverages for the Periodicals class overall decreased from FY 2017 levels, from 69.33 percent to 67.54 percent. The cost coverage of In-County Periodicals slightly decreased from 67.16 percent to 67.14 percent. The cost coverage of Outside County Periodicals declined from 68.81 percent to 67.23 percent.

When examining Periodicals cost coverage, it is important to note that both cost and revenue play a role in this calculation. In this instance, the revenue per piece for Periodicals as a whole slightly decreased from 25.9 cents in FY 2017 to 25.6 cents in FY 2018, or 1.28 percent. At the same time, cost per piece also slightly increased to

37.9 cents from 37.4 cents, or 1.3 percent. The combination of these factors led to the FY 2018 decline in cost coverage.

Certain operational changes made in FY 2018 to address flats processing and efficiency (both for USPS Marketing Mail and Periodicals) are discussed in Section II.B.3.b.i of this Report.

2. Workshare Discounts and Passthroughs

The 3-Digit Automation Letters presort discount was the only discount in the In-County Periodicals product that was above the avoided costs. The passthrough was 166.7 percent. USPS Marketing Mail Letters costs are used as the proxy for Periodicals Letters costs, and, in particular, USPS Marketing Mail AADC Automation Letters are used as a proxy for Periodicals 3-Digit Automation Letters costs. The AADC Automation Letters category reflects the costs for 3-Digit Automation Letters because the 3-Digit Letters category was merged into the Automation Letters category in Docket No. R2017-1.

Eight workshare discounts associated with Outside County Periodicals exceeded 100 percent of avoided costs. These include the presort discounts for Saturation, Machinable Nonautomation 3-Digit/SCF Flats, Machinable Automation 3-Digit/SCF Flats, Nonmachinable Nonautomation 5-Digit Flats, Nonmachinable Automation 5-Digit Flats, ADC Automation Letters, 3-Digit Automation Letters, and 5-Digit Automation Letters. The Postal Service justifies all of these Periodicals discounts pursuant to Section 3622(e)(2)(C), which permits discounts provided in connection with mail matter of educational, cultural, scientific, or informational value to exceed 100 percent of avoided costs.

3. FY 2017 ACD Directive

In the FY 2017 Annual Compliance Determination, the Commission directed the Postal Service to submit an updated report analyzing "how the pricing in Docket No. R2018-1 impacted the cost, contribution, and revenue of Periodicals in FY 2018 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2018."[44] The Postal Service provides its updated report in USPS-FY18-44.

D. Package Services

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Package Services products appear below.

Table 14: Package Services Volume, Revenue, and Cost by Product

Product	Volume (Million)	Revenue ($Million)	Attribu-table Costs ($Million)	Contribu-tion ($Million)	Revenue / Piece ($)	Cost / Piece ($)	Unit Contri-bution ($)	Cost Coverage (%)
Bound Printed Matter Flats	265.4	197.7	133.0	64.7	0.745	0.501	0.244	148.59
Bound Printed Matter Parcels	294.8	318.3	292.4	25.9	1.080	0.992	0.088	108.84
Media Mail/ Library Mail	79.0	276.3	360.4	(84.1)	3.499	4.564	(1.065)	76.67
Alaska Bypass	1.3	32.9	18.7	14.2	26.167	14.885	11.282	175.80
Fees		2.8						
Total Package Services (incl. fees)	640.4	827.9	805.5	22.4	1.293	1.258	0.035	102.78

With the exception of Media Mail/Library Mail, all Package Services products covered their attributable costs in FY 2018. Overall, the Package Services class had a cost coverage of 102.8 percent, decreasing slightly from 103.5 percent in FY 2017.[45]

44 FY 2017 ACD, at 24.

45 FY 2017 cost coverage from Appendix A to Financial Analysis of United States Postal Service Financial Results and 10-K Statement (April 5, 2018).

The cost coverage for Bound Printed Matter (BPM) Parcels decreased by 1.7 percentage points to 108.8 percent. The cost coverage for Alaska Bypass decreased by 17.6 percentage points to 175.8 percent. The cost coverage for BPM Flats decreased by 3.5 percentage points to 148.6 percent.

Media Mail/Library Mail had a cost coverage of 76.7 percent, up one percentage point from 75.7 percent in FY 2017. The increase in cost coverage is a combination of a decreased cost per piece of 4.7 cents and an increased revenue per piece of 0.7 cents. The Docket No. R2019-1 price increase for the product is 2.954 percent, above the average for the class. The Postal Service intends to recommend to the Governors that they continue applying above-average price increases to improve Media Mail/Library Mail cost coverage.

2. Workshare Discounts and Passthroughs

a. Media Mail / Library Mail

All Media Mail/Library Mail passthroughs were under 100 percent.

b. BPM Flats and BPM Parcels

All BPM Flats and Parcels passthroughs were under 100 percent.

E. Special Services

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Special Services appear in the table that follows on the next page.

Table 15: Special Services Volume, Revenue, and Cost by Service/Product

Service/Product	Volume (Million)	Revenue ($Million)	Attributable Cost ($Million)	Contribution ($Million)	Revenue /Piece ($)	Cost/ Piece ($)	Unit Contribution ($)	Cost Coverage (%)
Certified Mail	178.7	613.6	530.0	83.7	3.43	2.97	0.47	115.79%
COD	0.4	4.0	2.9	1.1	11.05	7.96	3.08	138.71%
Insurance	17.6	79.1	48.5	30.7	4.49	2.75	1.74	163.29%
Registered Mail	1.8	29.1	18.1	11.0	15.91	9.90	6.01	160.71%
Stamped Envelopes	N/A	12.6*	12.1	0.6	N/A	N/A	N/A	104.96%
Stamped Cards	N/A	0.6	0.2	0.4	N/A	N/A	N/A	285.21%
Other Ancillary Services	N/A	401.7	229.7	171.9	N/A	N/A	N/A	174.86%
Total Ancillary Services	N/A	1,139.3	841.4	297.9	N/A	N/A	N/A	135.41%
Int'l Ancillary Services	25.5	47.1	41.0	6.1	1.84	1.61	0.24	114.85%
Caller Service	N/A	88.5	26.3	62.2	N/A	N/A	N/A	336.23%
Address Management Services	N/A	16.1	5.4	10.7	N/A	N/A	N/A	295.94%
Credit Card Authentication**	17.7	17.7	2.2	15.5	1.00	0.12	0.87	802.35%
Customized Postage	0.0	0.0	0.1	-0.1	N/A	N/A	N/A	0.00%
Money Orders	83.4	158.5	146.7	11.9	1.90	1.76	0.14	108.09%
Post Office Box Service	N/A	287.5	254.6	32.8	N/A	N/A	N/A	112.90%
Stamp Fulfillment Services	N/A	3.9	4.4	-0.6	N/A	N/A	N/A	87.41%
Total Special Services Mail	N/A	1,758.6	1,342.9	415.7	N/A	N/A	N/A	130.95%

* Includes revenue from shipping fees.
**See USPS-FY18-4 for Volume, and USPS-FY18-NP26 for revenue adjustments after revenue-sharing with third-party partners.

2. Cost Coverages

One Special Service failed to cover its costs in FY 2018: Stamp Fulfillment Services. Customized Postage also is shown above with costs greater than revenue, but, as explained below, should not be treated as failing to meet its attributable costs. One component of International Ancillary Services, Inbound Registered Mail, also merits discussion.

a. Stamp Fulfillment Services

Stamp Fulfillment Services (SFS) had costs of $4.4 million in FY 2018, but listed revenues of only $3.9 million, resulting in a cost coverage of 87 percent. While revenues remained relatively flat from FY 2017 to FY 2018, the costs increased by about $0.4 million. In Docket No. R2019-1, the Postal Service increased SFS prices by 3.5 percent, in an effort to increase cost coverage for SFS. This moderate yet higher than average price increase accords with the Commission's comments on SFS in the FY 2012 ACD:

> The costs and revenues associated with the SFS product do 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 costs, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. Thus, it promotes the objectives of reducing costs and increasing efficiency. See 39 U.S.C. 3622(b)(1) and (c)(12).[46]

b. Customized Postage

Table 15 above shows zero revenue for Customized Postage received during FY 2018, which is less than the $100,000 in costs shown in that table. While the Postal Service is reporting zero revenue for FY 2018, the Postal Service is currently preparing a revised authorization for the Customized Postage vendors. Accordingly, the Postal Service has extended the ability of some vendors to print customized postage in the interim. When the new authorization is in place, the Postal Service will collect the applicable fees for the year ending May of 2019 (which includes part of FY 2018). The Postal Service anticipates that revenue from those fees will be collectively sufficient to cover the costs for the years 2018-2019. An additional payment during FY 2019 is expected to cover service provided during the second part of FY 2019, along with much of FY 2020.

[46] Annual Compliance Determination Report, Fiscal Year 2012, PRC Docket No. ACR2012 (Mar. 28, 2013), at 142.

c. International Ancillary Services

The International Ancillary Services product as a whole covered its attributable costs; however, Inbound Registered Mail, which is included within International Ancillary Services, did not cover its costs, but only by a small amount. The Postal Service notes, however, that the additional payment per item for Inbound Registered Mail increased from 0.69 special drawing rights (SDR) to 1.1 SDR in calendar year 2018, and is scheduled to increase to 1.2 SDR in 2019, which should help to improve cost coverage.[47] It should be further noted that the pre-UPU-Istanbul-Congress rates were in effect during the first quarter of FY 2018. In addition, the Postal Service participates in the voluntary supplementary remuneration for inbound registered items, and this too furnishes additional revenue for inbound registered items. Also, during FY 2018, a few more foreign postal operators became parties to the Inbound Market Dominant Registered Service Agreement 1 multilateral agreement, and this creates another separate source of contribution associated with Inbound Registered Mail, from those countries that exchange items under that agreement.[48]

F. Market Dominant Negotiated Service Agreements

1. Domestic Negotiated Service Agreements

There was one domestic market dominant NSA in effect in FY 2018: PHI Acquisitions, Inc. ("PHI"). The agreement was terminated effective June 30, 2018. Full

[47] Universal Postal Convention Article 28, effective January 1, 2018.

[48] *See* Notice of United States Postal Service Providing Updates Concerning Parties to Inbound Market Dominant Exprès Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, Inbound Market Dominant PRIME Tracked Service Agreement 1, PRC Docket Nos. R2011-6, R2016-6, and R2017-3 (Oct. 20, 2017); Notice of United States Postal Service Providing Updates Concerning Parties to Inbound Market Dominant Exprès Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, Inbound Market Dominant PRIME Tracked Service Agreement 1, PRC Docket Nos. R2011-6, R2016-6, and R2017-3 (Oct. 5, 2018).

information regarding the PHI NSA appears in USPS-FY18-30. There were no acquisition or divestiture activities by PHI during Agreement Year 4, and therefore no impact on volume thresholds. From a fiscal year perspective, PHI had FY 2018 NSA volume of 68,455 thousand pieces, total revenue after rebate of $14.2 million, and costs of $13.6 million, resulting in a cost coverage of 104 percent. During FY 2018 and Agreement Year 4, PHI earned a rebate on eligible USPS Marketing Mail volume of $837,138, having surpassed its Quarter 2 thresholds.

Notably, the parties agreed to suspend certain obligations under the agreement for the duration of Quarters 3 and 4 of Agreement Year 4 (January 1, 2018 to June 30, 2018), including the Postal Service's obligation to pay rebates, while they determined whether it was possible to revise the agreement so that, in compliance with Section 3622 of the PAEA, it improves the net financial position of the Postal Service by increasing overall contribution to its institutional costs. [49] Subsequently, the parties agreed to terminate the agreement coincident with the close of Agreement Year 4.

The Commission reviews NSAs from a contract year perspective, and it focuses on the net benefit of an NSA to the Postal Service. As shown in USPS-FY18-30, using the Commission's preferred methodology, the net benefit of the PHI NSA for Agreement Year 4 (July 1, 2017 to June 30, 2018) is estimated to be negative $837,138.[50] The rebate amount paid ($837,138) for Quarter 2 of Agreement Year 4 constitutes the entirety of the net negative financial impact during Agreement Year 4.

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[49] Notice of the United States Postal Service of Temporary Suspension of Agreement, Docket Nos. R2014-6 & MC2014-21 (Dec. 8, 2017).

[50] Notice of the Unites States Postal Service of Termination of Agreement, Docket Nos. R2014-6 & MC2014-21 (June 19, 2018).

Agreement Year 4 thus shows a negative impact to overall contribution, and the Postal Service acknowledges that the NSA did not satisfy 39 U.S.C. § 3622(c)(10)(A) in FY 2018. But as noted earlier, the agreement was terminated at the end of the contract year, so no additional remedial action is warranted.

In FY 2018, the scale of the PHI NSA was sufficiently small to make market disruption unlikely. Thus, the NSA complied with 39 U.S.C. § 3622(c)(10)(B). Further, in compliance with 39 U.S.C. § 3622(c)(10), similar functionally-equivalent NSAs could have been made available to similarly-situated mailers.

2. International Negotiated Service Agreements

In accordance with 39 C.F.R. Section 3050.21(f)(6), the Postal Service provides in USPS-FY18-NP2 "financial or other supporting documentation that demonstrates that non-compensatory market dominant negotiated service agreements improve the net financial position of the Postal Service over default rates or enhance the performance of mail preparation, processing, transportation, or other functions."[51]

[51] *See O*rder No. 4836 at 28.

III. SERVICE PERFORMANCE, CUSTOMER SATISFACTION, AND CONSUMER ACCESS

A. Service Performance

During FY 2010, the Commission issued its final rules on periodic reporting of service performance measurement and customer satisfaction, which are codified at 39 C.F.R. Part 3055.[52] Among other things, Commission Rules 3055.20 through 3055.24 require annual reporting of service performance achievements at the national level for all market dominant products.[53] The Postal Service's report, including information responsive to the criteria listed in Rule 3055.2(b)-(k), is included in USPS-FY18-29.[54]

The Postal Service again set for itself aggressive on-time targets for all market dominant products in FY 2018.[55] For some products and in some districts, these targets have already been met or exceeded. For example, the Postal Service exceeded its targets for a range of products such as USPS Marketing Mail parcels, high density and saturation letters USPS Marketing Mail, Bound Printed Matter parcels, and ancillary

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[52] Order No. 465, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, PRC Docket No. RM2009-11 (May 25, 2010).

[53] Reporting, however, is not required where the Commission has granted a semi-permanent exception or a temporary waiver. *Id.* at 21-23.

[54] Besides the data provided in USPS-FY18-29 as required by Part 3055, the Annual Report on Service Performance for Market Dominant Products within USPS-FY18-29 includes plans for improving the performance of specific products. Plans for improvement are provided not only pursuant to the Commission's rules, but also the FY 2017 Annual Compliance Determination Report. *See, e.g.*, FY 2017 ACD, at 71 (Inbound Letter Post), 146 (First-Class Mail), 153 (Marketing Mail), 160 (P.O. Box Service). In addition to that report on service performance, USPS-FY18-29 also includes a report on methodologies for service performance measurement, in compliance with PRC Order No. 3490, Order Enhancing Service Performance Reporting Requirements and Closing Docket, Docket No. PI2016-1 (Aug. 26, 2016). USPS-FY18-29 additionally includes certain data on First-Class Mail, as requested in the Commission's FY 2017 ACD (at 147-49). The non-public portion of those data on First-Class Mail in response to the FY 2017 ACD (at 147-49) is submitted within USPS-FY18-NP30. Reporting on Inbound Letter Post service performance as requested in the FY 2017 ACD (at 71) is also provided.

[55] In FY 2018, the Postal Service did not change market dominant product service standards for any class of mail on a nationwide or substantially nationwide basis.

and most other Special Services. The Postal Service maintained its performance levels for Periodicals products from last year, when it had achieved improvements over its performance in FY 2016. Likewise, though performance results for Inbound Letter Post were slightly lower than last year, they remained an improvement over FY 2016.

Notwithstanding those achievements, there were instances where target scores have not been met at the national level. Service performance results declined in some categories in FY 2018 compared to prior years as the Postal Service worked to stabilize operations by aligning the right resources to activities to meet both service performance targets and cost savings objectives. The Postal Service's targets are intended to guide longer-term improvement and are based on the continued evolution of Intelligent Mail barcode systems and on customers' participation in data collection, which enables performance measurement at the necessary levels. The reasons why national scores have not been met, and specific plans for improvement, are discussed in detail in USPS-FY18-29.

Though its targets are aggressive, the Postal Service does not accept declines in performance as a matter of course. To the contrary, the Postal Service is seeking to improve its performance in all categories moving forward on a continuous basis. It will seek to devise new strategies for service performance improvement as a whole, but especially in areas where it has failed to meet its stretch targets or has experienced declines in its individual product results. The Postal Service will continue to implement operational, technological, and employee training initiatives to improve the mail delivery process. This will include improved software to generate better daily operational plans, the development and deployment of more precise tools, such as Informed Visibility, to scan and track mail at each step of the delivery process, and augmented use of visualization tools, such as the Run Plan Generator ("RPG"), the freight house visualization tool, and huddle boards. These tools should also promote and enhance open team communication. Other operational changes will include increasing the amount of advanced mail (mail processed ahead of schedule – *e.g.,* making 3-day delivery into 2-day delivery and 2-day delivery into 1-day delivery), improving cycle time, and scheduling additional audits and reviews. Increased emphasis is being placed on dispatch discipline in FY 2019, and the Postal Service will redouble its efforts to boost service performance results.

B. Customer Satisfaction with Market Dominant Products

Section 3652(a)(2)(B)(ii) requires the Postal Service to provide measures of the degree of customer satisfaction with the service provided for its market dominant products, also known as mailing services. The Postal Service significantly revamped its processes for measuring customer satisfaction and thereby substantially revised the methodology for calculating the Customer Insights composite in FY 2018. The goal of these changes in methodology, plus other steps described below, is to enhance the Postal Service's understanding about the satisfaction of its customers and ultimately improve their satisfaction in FY 2019.

1. Overview

The Customer Experience and Market Insights (CEMI) group[56] was responsible for survey measurement of the level of customer satisfaction with market dominant

[56] During FY 2018, the Customer Experience and Market Insights group was reassigned from Consumer and Industry Affairs to Marketing.

products during FY 2018 for Postal Service customers. Surveys were administered across all four quarters of the year for three customer groupings: Residential, Small/Medium Business, and Large Business customers.

2. Background

The Customer Insights (CI) Composite index provides a comprehensive view of the customer experience across a variety of channels that customers use to interact with the Postal Service (e.g. retail, delivery, contact center, etc.). In FY 2018, the Postal Service expanded the CI Composite to be more inclusive of business customer sentiment and digital channels by adding new surveys to the index and changing the weighting of the surveys. Additionally, the Postal Service changed the operative questions for each of the CI Composite surveys from FY 2017 to FY 2018 to better capture customers' overall sentiment with the Postal Service as a result of their experiences with specific channels and touchpoints. In FY 2018, the Postal Service continued combining only the top two box scores of *Very Satisfied* and *Mostly Satisfied,* in accordance with general industry standards for measuring customer satisfaction. The scores reported for market dominant products in FY 2018 result from combining only these *Very Satisfied* and *Mostly Satisfied* ratings.

3. Survey Modifications

In FY 2018, four of the surveys (Delivery, Business Service Network (BSN), Customer Care Center (CCC), and Enterprise Customer Care (eCC)) were changed in some fashion.

First, the Postal Service changed the main Overall Customer Satisfaction (OSAT) question for the Delivery survey. In FY 2017, the survey measured the customer's

OSAT with the customer’s carrier whereas in FY 2018 the survey measured the OSAT with the customer’s recent delivery experience. This approach provides more insight into the overall delivery experience, taking into account the customer’s delivery experience beyond just their specific carrier.

The BSN survey changed as well. In FY 2017, the survey measured the customer’s OSAT with their BSN representative whereas in FY 2018 the survey measured the customer’s OSAT with the BSN. This gives an expanded view of how the Postal Service is resolving customer issues that are serviced in the BSN.

The Customer Care Center OSAT metric remained a composite of OSAT from two different surveys – Live Agent and Interactive Voice Response (IVR), at a 25 percent and 75 percent split, respectively, based on relative call volumes. However, in April 2018, the CCC survey vendor and methodology changed, resulting in shorter surveys. The result was a surge in survey responses. The larger sample size makes the survey data set more representative of true customer sentiment regarding the CCC experience. The Postal Service has used this information to develop action plans to improve the experience, as highlighted in section 5, Survey Results.

For eCC, the Postal Service changed the metric from measuring reopened cases to the OSAT. Although reopened cases is a driver of satisfaction, using the OSAT helped the organization measure the total experience when a customer has an issue with their delivery.

The Customer Insights composite was modified to be more inclusive by including additional customer channels. For FY 2017, the Postal Service only focused on consumer satisfaction with retail, delivery, issue resolution and the customer care centers, and business satisfaction with the BSN. The FY 2018 CI Composite was expanded to include USPS.com for consumer satisfaction and the Business Mail Entry Unit (BMEU) and Large Business Panel for business satisfaction.

Table 16 summarizes the FY 2017 Customer Insights Scores and gives a brief description of each metric. Table 17 summarizes FY 2018 metrics and performance.

Table 16: FY 2017 Customer Insight Scores and Description

National	FY 2017	Metric Description
POS	88.53	Overall customer satisfaction with the post office (Top 2 Box)
Delivery	83.22	A composite score derived from a Carrier and PO Box Survey. The Carrier score was a composite of Residential and Small/Medium Business survey scores, which were each comprised of a composite of four questions.
BSN	96.25	Overall customer satisfaction with the service provided during interactions with a BSN representative (Top 2 Box)
CCC	86.80	Overall customer satisfaction with the CCC Live Agent (Top 2 Box)
eCC	3.78	eCC Reopen Case Rate
CI Composite	88.30	A weighted aggregate of the above surveys

Table 17: FY 2018 Customer Insight Scores and Description

National	FY 2018	Metric Description
POS	87.98	Overall customer satisfaction with the post office (Top 2 Box)
Delivery	80.47	Overall customer satisfaction with the delivery experience (Top 2 Box)
BSN	95.90	Overall customer satisfaction with the BSN (Top 2 Box)
CCC	39.19	A composite of overall customer satisfaction with a CCC live agent and overall customer satisfaction with the CCC IVR system (Both are Top 2 Box)
eCC	36.73	Overall customer satisfaction with quality of service in response to an eCC case/issue (Top 2 Box)
BMEU	95.33	Overall customer satisfaction with the BMEU experience (Top 2 Box)
USPS.com	57.54	Overall customer satisfaction with the USPS.com website (Top 2 Box)
LBP	72.34	Overall business customer satisfaction with recent experience using USPS (Top 2 Box)
CI Composite	67.47	A weighted aggregate of the above surveys

4. Capturing Business Sentiment: Methodology

For the purposes of the requested analysis on customer satisfaction with market dominant products, the Postal Service leveraged data specifically from the Delivery and Large Business Panel surveys. For the Delivery survey: in FY 2018, Residential and Small/Medium Business customers were randomly selected, contacted by mail, and offered the opportunity to complete an online or phone survey. Residential and Small/Medium businesses were sampled sufficiently to ensure, at the District level, a minimum precision level of +/- 5 percentage points, at the 90 percent level of confidence per postal quarter.

The LBP Survey is a relational panel survey which measures business customer satisfaction for large businesses with 250 or more employees. The survey is managed by a third-party vendor who manages customers who sign up to participate in the panel. The survey is conducted quarterly – in November 2017, February 2018, May 2018 and August 2018. The survey consists of 14 evaluation questions and two open-ended customer supplied responses.

To measure customer experience with market dominant products, residential and small business customers (via the Delivery survey) and large business customers (via the Large Business Panel survey) were asked to rate their product satisfaction using a six-point scale: *Very Satisfied*, *Mostly Satisfied*, *Somewhat Satisfied*, *Somewhat Dissatisfied*, *Mostly Dissatisfied*, and *Very Dissatisfied*. Respondents were also given the option of marking "*Don't Use Product*" and those that responded in this manner were not included in the calculations for satisfaction with market dominant products.

Customers who indicated that they did not use a product or were not familiar with a product were excluded from the calculated satisfaction ratings.

5. Survey Results – FY 2018 Scores

National	FY 2018
POS	87.98
Delivery	80.47
BSN	95.90
CCC	39.19
eCC	36.73
BMEU	95.33
USPS.com	57.54
LBP	72.34
CI Composite	67.47

The Point-of-Service (POS) survey overall satisfaction score decreased 0.55 point from FY 2017 to FY 2018. To address service in this area, in FY 2018, the Postal Service completely redesigned its training for new retail employees. The new training focuses on creating a customer-centric environment. It is also a very interactive training, in which the employee is able to "learn by doing" in a controlled environment. In FY 2019, this training will be used to develop refresher training for current retail employees.

Because of the methodology changes discussed in Section III.B.3, the Delivery survey performance score for FY 2018 differs from the results in FY 2017. The FY 2017 measurement was a reflection of the customer's experience with the delivery carrier specifically, whereas the FY 2018 survey attempted to measure satisfaction with the overall delivery experience, including but not limited to satisfaction with the delivery carrier. However, when comparing FY 2017 and FY 2018, the OSAT with recent delivery experience increased 5.87 points as shown in the table below. In FY 2018, the Postal Service continued its efforts to improve the delivery experience. Some of the key areas of focus were on “Where’s my Package” (WIMP) issues, tracking language on usps.com, and roll-out of Informed Delivery®.

Table 18: Customer Experience and Market Research Delivery Survey Responses

Delivery Residential and Small Business	FY 2017 Total	FY 2018 Total
OSAT	74.60	80.47
Mail or packages are delivered to the correct address.	80.93	81.58
Mail or packages are delivered in good condition.	89.69	88.85
Letter carriers are friendly and courteous.	83.35	86.40
The PO Box is meeting my needs.	86.00	87.78
Packages are delivered on time based on expected day of delivery.	81.42	83.96
Tracking information for packages is accurate.	79.39	85.40
Instructions for what to do after receiving a missed delivery notice are clear	65.79	74.96

Because of the methodology changes discussed in Section III.B.3, the BSN OSAT for FY 2018 differs from the results in FY 2017. The FY 2017 measurement was limited to the customer’s experience with the BSN representative specifically, whereas the FY 2018 survey attempted to measure satisfaction with the BSN experience overall, which could include but is not limited to interactions with the BSN representative. The current drivers of the BSN OSAT is satisfaction with resolution of a customer’s issue, representative understands the customer’s business, and representative follows through on promised actions and kept the customer informed on the progress towards resolution of issue. Analyzing the survey results provided the Postal Service with insights needed to improve overall satisfaction. Therefore, in FY 2018, the Postal Service developed and implemented a package tracking tool that integrated information from multiple systems. This quickly gives the BSN representative an assessment of the status of the package to improve response time to customers. The Postal Service will expand the use of this tracking tool in 2019.

The CCC OSAT ended FY 2018 at 39.19 percent. The FY2018 CCC survey analysis revealed that 66.50 percent of IVR tracking calls and 65.90 percent of live agent tracking calls are not resolved on the first attempt, which is driving overall satisfaction downwards. To address this issue, the Postal Service invested in upgrading IVR speech recognition and menu enhancements. This resulted in a 12 percent increase in speech recognition. During the year, the customer care centers also conducted new training for agents handling stamp calls, which arise when customers place orders for stamps to be delivered to their home or business. Additionally, new training was enhanced for newly hired care center agents. The call centers also implemented training to improve call quality for the agents, supervisors, and analysts. By using data and analytics to proactively drive performance and customer feedback to identify consumer pain points, the Postal Service was able to identify opportunities to improve the customer experience.

The eCC overall satisfaction was measured in FY 2017, even though it was not used in the CI composite. When comparing FY 2017 to FY 2018, there was a slight improvement in performance.[57] This was driven by the focus on making first contact with the customer within 24 hours. This attribute of the survey increased 10 points, from FY 2017 to FY 2018. In FY 2019, the Postal Service will focus on first contact within 24 hours and case resolution. BMEU customer satisfaction ended FY 2018 at 95.33

[57] In FY 2017, overall customer satisfaction with quality of service in response to an eCC case/issue was measured but not included in the FY 2017 ACR. The overall customer satisfaction figure for FY 2017 was 35.83.

percent. The Postal Service has launched new initiatives to provide world class customer experience and centralize support for commercial customers. BMEUs have undergone extensive training and certification processes to become Business Solutions Centers (BSCs). In addition, the Postal Service is piloting a Mailing and Shipping Solutions Center (MSSC) to provide centralized support, first contact solutions, and standardized responses across the country. The customer satisfaction is measured through surveys based on their experience with the BSC or MSSC. These initiatives enable and empower acceptance employees to provide world class customer experience, which is reflected through the overall satisfaction survey scores of 95.61 percent for the BSC's and 96.44 percent for the MSSC. To further enhance customer experience and leverage technology, the Postal Service developed automated solutions for package pricing and payment methods. Automated Returns leverages upgraded Package Processing Equipment to capture package attributes to expedite processing and enable consistent accuracy in pricing. The Enterprise Payment System allows customers to pay for Postal Service products and services through a single online account. The new system allows customers to pay and manage services online with enhanced security features, centralized balance, and account management. Other features include mobile check deposit, which allows the depositing of funds into a trust account using the camera on the customer's mobile device. These ongoing efforts to empower Postal Service employees and develop automated solutions continue to drive customer-centric culture within commercial mail entry channels.

USPS.com customer satisfaction ended FY 2018 at 57.54 percent. The current drivers of the USPS.com OSAT include quality of website information, functionality of website tools, website look and readability, and website performance and lag. The Postal Service made enhancements to search engine functionality, the Postal Store, and applied a consistent user interface across many of the webpages. At the end of FY 2018, the Postal Service launched a new frequently asked questions page to make it easier for customers to self-help. These recent changes have been developed and activated to improve the level of customer satisfaction in using USPS.com.

6. FY 2018 Ratings for Market Dominant Products

The table below shows a breakdown of the customer satisfaction results for market dominant products in FY 2017 and FY 2018.

Table 19: Customer Satisfaction with Market Dominant Products (Mailing Services)

Market Dominant Products (Mailing Services)	*Residential % Rated Very/Mostly Satisfied*		*Small / Medium Business % Rated Very/Mostly Satisfied*		*Large Business % Rated Very/Mostly Satisfied*	
	FY 2017	*FY 2018*	*FY 2017*	*FY 2018*	*FY 2017*	*FY 2018*
First-Class Mail	*89.05*	*87.04*	*84.38*	*83.88*	*77.97*	*72.48*
Periodicals	*85.66*	*83.88*	*82.32*	*81.96*	*70.56*	*65.84*
*USPS Marketing Mail**	*83.13*	*76.9*	*80.32*	*77.67*	*71.69*	*64.5*
*USPS Retail Ground***	*86.82*	*84.45*	*82.94*	*82.47*	*70.3*	*66.86*
Media Mail	*86.04*	*83.21*	*85.1*	*83.31*	*69.15*	*64.87*
Library Mail	*87.28*	*81.24*	*85.98*	*82.89*	*66.41*	*61.89*
Single Piece International	*85.18*	*81.95*	*82.69*	*80.67*	*69.98*	*66.4*
*Bound Printed Matter****	*(--*)*	*(--*)*	*82.77*		*67.7*	

** Formerly Standard Mail*
*** Formerly Standard Post*
**** FY18 data for Bound Printed Matter is unavailable*

While the majority of customers across all segments continue to report being very or mostly satisfied with the Postal Service's mailing services, Residential and Small/Medium business segments experienced minor declines in customer satisfaction results.

The Large Business segment experienced a larger decline, averaging an approximately 5 percent decline in satisfaction across all market dominant products. The Postal Service has identified factors influencing overall customer and product satisfaction results in the Large Business segment.

It is difficult for the Postal Service to assess what drove the service declines between FY 2015 and FY 2017. In FY 2018, the Postal Service conducted two assessments to understand the differences between FY 2017 and FY 2018. In the first assessment, the organization recognized that numbers for both fielding of surveys and survey respondents increased throughout that time frame as shown in the following table.

	FY 2015	FY 2016	FY 2017	FY 2018
Number of Times Survey was Fielded	1	2	2	4
Number of Survey Respondents	835	1621	1647	3380

The Postal Service recognizes that the larger sample size makes the survey data set more representative of true customer sentiment regarding their experience.

For the second assessment, the Postal Service performed a preliminary driver's analysis of the Large Business Survey shown below. However, the analysis did not thoroughly examine satisfaction by product type. That said, it is reasonable to assume that the top three drivers could be influencing customer satisfaction across all products.

LBP: Drivers of Overall Satisfaction

Drivers	Driver Score[1]	Relative Importance[2]
1. Building customer relationships	69	26
2. Ease of contacting a representative	65	16
3. Issue/claim resolution	67	18
4. Service and product offerings	76	17
5. Payment options	79	12
6. Tracking and scan information	79	11

Source: MaritzCX Large Business Survey. Date Range: November 2017 through February 2018. N = 1,415.
[1] Percent responded in top three boxes for driver question.
[2] Relative importance accounts for the percentage of variation in OSAT.

In FY 2018, the Postal Service developed several initiatives focused on key drivers, such as streamlining the claims process for large business customers, making it easier to receive a refund for unused labels. In addition, the recent initiatives for the BSN and eCC should also improve Large Business Panel results.

The Postal Service recognizes that it must perform further research to understand how large business customers' experience with each product type is driving overall satisfaction. This continued research is expected to improve the organization's customer satisfaction through targeted delivery efforts while enhancing its ability to accurately measure customer sentiment through consistent survey administration and the use of best-in-class measurement tools.

In FY 2019, the Postal Service will continue its efforts to improve customer satisfaction. The key initiatives focus on reducing customer wait times at the customer care centers, developing refresher training for retail employees, improving mail delivery accuracy, continuing efforts on the BMEU, and enhancing the consumer receiving experience. These initiatives will focus on using data to understand customer insights and develop proactive, actionable solutions.

C. Consumer Access to Postal Services

Information regarding Post Offices, collection boxes, wait time in line, and delivery points is contained in USPS-FY18-33. The Postal Service closed 52 Postal Service operated retail facilities in FY 2018; *see* additional discussion on suspended retail units below.

At the end of FY 2018, there were 26,365 Post Offices and 4,959 stations, branches, and carrier annexes. At the end of FY 2018, there were 2,240 Contract Postal Units (CPUs), 743 Village Post Offices (VPOs), 465 Community Post Offices (CPOs), and 5,865 Approved Shipper active locations. Nationally, there were 143,977 collection boxes available at the end of FY 2018, compared to 146,252 at the beginning of FY 2018. Average wait time in line decreased at the national level from 2 minutes 28 seconds in FY 2017, to 2 minutes 11 seconds in FY 2018. This is the second year in a row that the national wait time in line average has decreased, which illustrates the Postal Service's ongoing commitment to its customers and making postal services more convenient to the Nation's public.

1. Contractor-Operated Retail Facilities Data

In the Commission's FY 2017 ACD, the Commission stated that the Postal Service needed to maintain consistency in its various reports in its FY 2018 filings, and directed the Postal Service to:

> ensure that information provided on retail facilities and delivery points is consistent among the FY 2018 *Annual Report to Congress*, FY 2018 ACR, and past CHIR responses. If there are any discrepancies, the Postal Service must identify them in the FY 2018 ACR.[58]

[58] FY 2017 ACD, at 162.

The Postal Service has identified differences in the number of contractor-operated retail facilities (i.e., CPUs, VPOs, and CPOs) reported in its FY 2018 *Annual Report to Congress* (*ARC*), as compared to the number of retail facilities reported in the FY 2017 ACR Library Reference USPS–FY17–33, and Chairman's Information Request (CHIR) responses.[59] The figures being reported in these sources and this docket are the most current, up-to-date totals at the time of each respective filing.

Discrepancies in contractor-operated retail facilities data arise due to reporting practices. Specifically, the Contract Postal Unit Technology (CPUT) is one of the databases the Postal Service utilizes to maintain data on current, active contracts with CPU, VPO, and CPO suppliers. When a CPU, VPO, and/or CPO contract is awarded, terminated, suspended, or deactivated, it is entered into CPUT by District personnel. As explained in response to CHIR No. 7, Question 1, field personnel may report CPU, VPO, and/or CPO closings after the actual closing of a facility and some closings may first be reported in the new fiscal year, but are processed as occurring in the prior fiscal year.[60] As such, the total active number of CPUs, VPOs, and/or CPOs can be adjusted upward or downward, which may account for differences reflected in the totals reported in the Postal Service's filings. The totals can and do periodically change throughout the year, and changes occasionally do occur after the Postal Service has reported such totals.

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[59] *Compare* FY 2018 *Annual Report to Congress* at 11 with Library Reference USPS–FY17–33, Excel file "Post.Office.FY2017.xls," tab "Post Offices;" and Responses to CHIR No. 17, question 4, Table V-25.

[60] *See* Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 7, PRC Docket No. ACR2017 (Jan. 30, 2018), question 1 (January 30, 2018 Response to CHIR No. 7).

2. Post Offices Suspension Status

In 2016, the Commission expressed concerns with the number of Post Offices in suspension status. The Postal Service calculated 662 offices in suspension status needing final resolution. At the end of FY 2017, the Postal Service provided the Commission with a plan and timeline to address those concerns and work towards resolving any outstanding issues. This revised projected schedule was as follows:

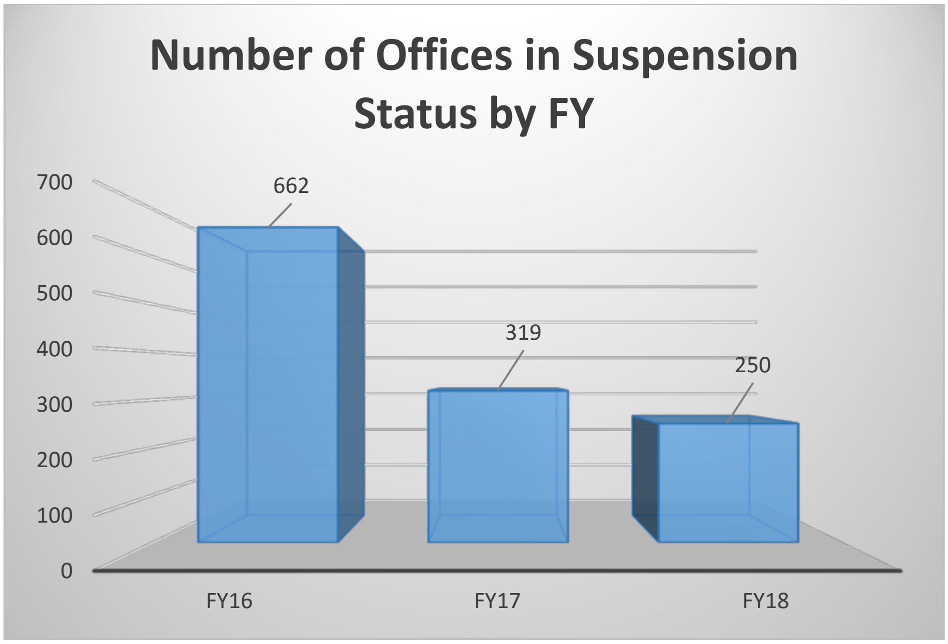
Projected Suspension Resolution Timeline

- FY 2018, Quarter 1: 16
- FY 2018, Quarter 2: 23
- FY 2018, Quarter 3: 60
- FY 2018, Quarter 4: 70
- FY 2019, Quarter 1: 70
- FY 2019, Quarter 2: 70
- FY 2019, Quarter 3: 69.[61]

Throughout FY 2017, Postal Service Headquarters and field personnel made significant progress to address the 662 offices in suspension status. Management addressed, resolved, and removed 343 offices from the original list. This represents a 52 percent reduction of suspended post offices identified in 2016.

As these efforts continued in FY 2018, an additional 69 post offices were addressed, resolved, and removed from the original list. This increased the total resolution number to 412 and completion percentage to 62 percent. To date, there are 250 post offices remaining from the original 2016 list. The FY 2018 Q4 Report to the Commission is summarized below:

[61] United States Postal Service FY 2017 Annual Compliance Report, Docket No. ACR2017 (Dec. 29, 2017), at 65.



- Total Number of Offices in Suspension Status EOY FY16: **662**
- Process Completed and/or Re-Opened FY17 - FY18: **412** (62%)
- Remaining Suspension Status EOY FY18: **250**

The Postal Service Headquarters team implemented the Change Suspension Discontinuance Center (CSDC) in 2012, which provides a process and tracking system for this effort. Utilizing the CSDC process has allowed the Postal Service to achieve these reductions as well as continue to work on new requests as they arise.

In FY 2018, the Postal Service fell short of its goals to close out suspended Post Offices as outlined to the Commission in the FY 2017 ACR. Headquarters and field personnel encountered several challenges that impacted the ability to address, resolve, and complete additional offices in suspension status. These include the following two sources, which are described in more detail below:

- Resources:
  - Ninety percent (90%) turnover of Field Performance staff since January 2018 – this includes the manager position;

- Remaining staff and detailed personnel took on role on an “ad hoc” basis, while maintaining additional priorities for the group; and
- Delivery & Retail Operations staffing restructuring was pending implementation.

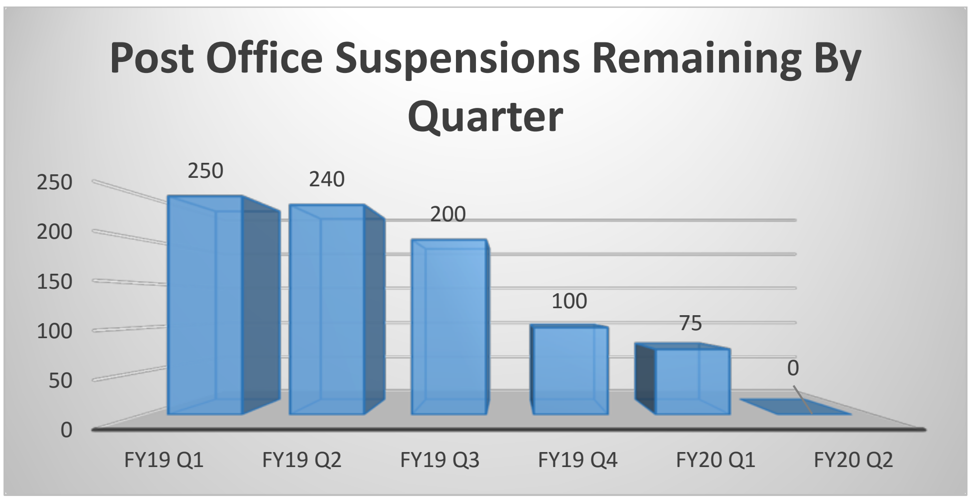
- Incomplete docket information from the field:
  - Documentation prior to October 1, 2017 was not readily available;
  - 80 offices that were identified to be in suspension status prior to 2012, when CSDC was implemented, had little or no documentation;
  - Requirement for extensive research and coordination with Headquarters, Area Coordinators, and District personnel to complete a docket; and
  - Turnover and attrition of field area and district coordinators contributes to the need to commit additional time to complete processes, thereby extending the timeline.

To overcome these challenges, in FY 2019, the Postal Service plans to implement the following changes:

- Resources
  - Implement staffing changes as per the new Delivery & Retail Operations structure announced on December 4, 2018;
  - Post positions as soon as they are available to Field Performance;
  - Dedicate two positions to CSDC and Handbook PO-101 (discontinuance) efforts; and
  - Commit at least three (3) Headquarters Field Performance positions as of Q3 to be focused on FY 2019 Suspension and Discontinuance efforts.

- Incomplete docket information from the field
    - Prepare and distribute an educational session on CSDC systems and Handbook PO-101 procedures for field personnel in Q2 and Q3; and
    - Update and enhance ongoing tracking/status reporting for both Headquarters and field senior officers for awareness and required actions.

The above steps will prepare the Postal Service to pursue a revised schedule for clearing suspended offices as follows:



Additionally, the Postal Service will investigate a streamlined process for the 80 offices that have been in a suspension status prior to 2012, potentially expediting the above schedule and completing the process for the original 662 offices by FY 2020 Q1.

IV. COMPETITIVE PRODUCTS

A. Product-by-Product Costs, Revenues, and Volumes

For FY 2018, cost, revenues, and volumes for competitive products of general applicability are shown directly in the CRA and ICRA. In the public CRA, competitive products are disaggregated into six groups – Total Priority Mail Express, Total (non-Express) Priority Mail, Total First-Class Package Service, Total Ground, Total International Competitive, and Total Domestic Competitive Services. The constituent products for each of those groups are listed in a table in the attached Application of the United States Postal Service for Nonpublic Treatment of Materials (Attachment Two). Those groups are further disaggregated in the Nonpublic CRA (USPS-FY18-NP11). For competitive products not of general applicability, available data on international customized mailing agreements (ICMs) for FY 2018 are presented in the ICRA materials within USPS-FY18-NP2. For domestic competitive products not of general applicability, information is provided in USPS-FY18-NP27.

B. Section 3633 Standards

This section addresses compliance with the competitive product pricing standards of section 3633, which have been implemented by the Commission at 39 C.F.R. Section 3015.7.

1. Subsection 3633(a)(1)

Subsection 3633(a)(1) requires that competitive products not be cross-subsidized by market dominant products. The Commission's regulations define the most appropriate test for this standard as the incremental cost test for the aggregation of competitive products.[62] Under this test, if the aggregate revenues from competitive products equal or exceed the aggregate incremental costs of competitive products, then competitive products overall have not been cross-subsidized by market dominant products.

In ACRs for years prior to FY 2017, the Postal Service presented what was termed a “hybrid” estimate of incremental costs, in which an estimate of the aggregate incremental costs of domestic competitive products (including group specific costs) was added to an estimate of the volume variable plus product specific costs of international competitive products. As it did last year, however, the Postal Service this year is replacing the “hybrid” approach with a single direct estimate of the group incremental costs of all competitive products, domestic and international. In Docket No. RM2018-6, this new procedure was approved as part of Proposal Three in Order No. 4719 (July 19, 2018).

The group incremental cost estimate for domestic competitive products, the group incremental cost estimate for international competitive products, and the group incremental cost estimate for the group of all competitive products – fully documented in USPS-FY18-NP10 – are presented below. Note that the estimate for all competitive products is calculated separately from those for domestic and international, and thus is not merely the sum of those two estimates.

[62] *See* 39 C.F.R. § 3015.7(a).

Table 20

FY 2018 INCREMENTAL COST CALCULATION FOR TOTAL COMPETITIVE PRODUCTS				
	Volume Variable & Product Specific Cost	Group Specific	Group Inframarginal	Group Incremental
Total Domestic Competitive Incremental	$ 14,004,273	$ 22,300	$ 387,972	$ 14,414,545
Total International Competitive Incremental	$ 1,034,463		$ 410	$ 1,034,874
Total Competitive	$ 15,038,737	$ 22,300	$ 414,844	$ 15,475,880

Note: The Group Inframarginal for Total Competitive are estimated separately, and they (and thus the Total Competitive Incremental) are not the sum of the previous two rows. Costs are in $(000).

The total competitive group incremental cost of $15.476 billion is well below total competitive products revenue of $23.057 billion (shown on page 3 of USPS-FY18-1). Therefore, based on these estimates, it is clear that competitive products in FY 2018 were not cross-subsidized by market dominant products, and thus were in compliance with subsection 3633(a)(1).

2. Subsection 3633(a)(2)

Subsection 3633(a)(2) requires that each competitive product cover its costs (i.e., maintain a cost coverage of at least 100 percent). As discussed above, the CRA Reports for FY 2018 presented in USPS-FY18-1 and USPS-FY18-NP11 show product-level attributable costs for each domestic product as the sum of volume variable costs, product specific costs, and the inframarginal costs estimated as part of the incremental costs for that product. Similarly, using the proxy methodology approved in Order No. 4719 (July 19, 2018) as another part of Proposal Three, corresponding attributable cost estimates for domestic competitive NSA products are presented in USPS-FY18-NP27. For international products, however, attributable costs continue to reflect, as in prior years, the sum of volume variable and product specific costs. As shown in the Nonpublic CRA (USPS-FY18-NP11), USPS-FY18-NP27, and the ICRA (USPS-FY18-

NP2), nearly every domestic and international competitive product maintained a cost coverage of at least 100 percent. The limited exceptions are discussed below.

a. Domestic Competitive Products

There were two domestic NSAs that did not cover their costs. Of these, one has been terminated. The remaining one – Priority Mail Contract 433 (Docket No. CP2018-215) – is being monitored closely by the Postal Service. This contract was recently the subject of Chairman's Information Request No. 2 in Docket No. CP2018-215, to which the Postal Service responded on December 13, 2018. The Postal Service will continue to monitor contract performance and renegotiate pricing if necessary.

In addition, there were three domestic NSAs – Priority Mail Express, Priority Mail and First-Class Package Service Contract 9 (Docket No. CP2016-103), Priority Mail and First-Class Package Service Contract 85 (Docket No. CP2018-274), and Priority Mail Express, Priority Mail, and First-Class Package Service Contract 43 (Docket No. CP2018-276) – that had one of their multiple components not cover its costs. However, each of these NSAs as a whole covered its costs.

b. International Competitive Products

The Postal Service offers the following observations on international competitive products for which revenues did not exceed attributable costs.

First, the International Priority Airmail (IPA) product did not cover its costs. However, almost all IPA is included in competitive international negotiated service agreements that are reported within the competitive International Negotiated Service Agreements categories (NSA IPA). The remaining volume for IPA which is reported in the IPA product (non-NSA IPA) continues to be small. The costs reported in the ICRA for the small residual portions of IPA that constitute the IPA product (non-NSA IPA) are obtained by calculating the costs for negotiated service agreements, along with drop ship cost savings, and then deducting those costs from total IPA costs. As a result, there is no direct observation of costs for the IPA product (non-NSA IPA). Therefore, any variances in the cost estimates for NSA IPA will have a magnified effect on costs for the IPA product (non-NSA IPA) and whether the IPA product (non-NSA IPA) covers its attributable costs. In January 2017, the Postal Service raised prices for the IPA product (non-NSA IPA) by 3.8 percent, including a 3.9 percent increase in prices for IPA M-Bags,[63] which was followed by a 3.9 percent increase on January 21, 2018.[64] Also, prices for the IPA product (non-NSA IPA) are scheduled to increase precipitously, by 19.9 percent on January 27, 2019,[65] which should improve the cost coverage for the IPA product (non-NSA IPA) for FY 2019, and moving forward.

Second, the inbound component of International Money Transfer Service (IMTS) was reported to be below cost in FY 2018. In Order No. 2825, the Commission approved Proposal Five, which established a non-In-Office Cost System (IOCS) methodology to distribute IMTS costs to IMTS - Outbound and IMTS - Inbound based on transaction volume. One of the reasons behind the methodology change was that in some fiscal years, the Postal Service was not able to distribute costs to IMTS - Inbound

[63] Order No. 3622, Order Approving Price Adjustments for Competitive Products, PRC Docket No. CP2017-20 (Nov. 18, 2016), at 3.

[64] Order No. 4208, Order Approving Price Adjustments for Competitive Products, PRC Docket No. CP2018-8 (Nov. 7, 2017), at 3.

[65] Order No. 4876, Order Approving Price Adjustments for Competitive Products, PRC Docket No. CP2019-3 (Nov. 13, 2018), at 3.

due to the lack of Inbound IOCS tallies.[66] Again, in FY 2018, there were no IMTS - Inbound tallies, and although the distribution between IMTS - Outbound and IMTS - Inbound was accomplished by transaction volume, there were only four IOCS tallies in FY 2018 for the IMTS - Outbound and IMTS - Inbound products. As a result, IMTS costing remains subject to variation.

The way to address cost coverage issues with IMTS – Inbound is by termination of IMTS-Inbound agreements. As discussed in the ACR2017 docket, the Postal Service sent correspondence to the Department of State requesting a delegation of authority from the Department of State under the Circular 175 process to terminate the agreements that comprise the IMTS - Inbound product.[67] The Postal Service awaits the State Department's response to that request and intends to take further action once a decision on delegated authority is made.

Third, Outbound International Insurance did not cover attributable costs. In the FY 2017 ACR, the Postal Service noted that "[o]ne reason for this may be that claims for Priority Mail International (PMI), for which no fee is paid, are assigned to the Outbound International Insurance product, rather than to the PMI product."[68] In Docket No. RM2018-9, the Commission approved the Postal Service's request to adopt revisions in methodological procedures concerning the attribution of international insurance indemnities (Proposal Six), which resulted in some decrease in indemnity

[66] Order No. 2825, Order Approving Analytical Principles used in Periodic Reporting (Proposal Five), PRC Docket No. RM2015-13 (Nov. 19, 2015).

[67] *See* Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2017 Annual Compliance Determination, PRC Docket No. ACR 2017 (July 26, 2018).

[68] FY 2017 ACR, at 71.

costs in FY 2018. In response to Order No. 4798 in that docket,[69] the Postal Service provides in USPS-FY18-NP5, a revised ICRA technical description that lays out the methodology used to attribute Outbound International Insurance and Inbound International Insurance indemnity costs in accordance with Proposal Six. In addition, it should be noted that prices in the first quarter of FY 2018 predate the price change implemented in January 2018, when the Postal Service raised prices on PMEI and PMI insurance by 4.0 percent and 3.9 percent, respectively. Insurance prices are set to rise precipitously in January 2019, in excess of 20 percent, which should further improve the financial performance of the product.

Fourth, although all competitive international negotiated service agreement categories covered their attributable costs in FY 2018, the data for six contracts submitted with this report indicate that one Global Expedited Package Services (GEPS) 3 contract, three GEPS 7 contracts, one GEPS 8 contract, and one Global Plus 1 contract did not cover their attributable costs. Five of these six contracts have expired or are about to expire. The GEPS 3 contract expired on December 31, 2017, and nearly covered its attributable costs. Two of the three GEPS 7 contracts expired on November 30, 2017 and November 30, 2018, and one of them had relatively little volume. The third GEPS 7 contract was recently extended to February 28, 2019, and nearly covered its attributable costs. The GEPS 8 contract, for which there was very little volume, expired on July 31, 2018. The Global Plus 1 contract, for which there was very little volume, is scheduled to expire on December 31, 2018. The Postal Service

[69] Order No. 4798, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), PRC Docket No. RM2018-9 (Aug. 28, 2018), at 7.

has identified some concerns regarding the accuracy of results reported for these six contracts with regard to whether they covered their costs, and is reviewing the available data concerning them to determine if any updates are appropriate.

3. Subsection 3633(a)(3)

Subsection 3633(a)(3) states that competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. In its regulations, the Commission has determined that an appropriate minimum contribution is 5.5 percent of total institutional costs.[70] Page 3 of USPS-FY18-1 shows total institutional costs of $30.724 billion.[71] Applying the 5.5 percent to that figure yields a target contribution of $1.690 billion. Page 3 of USPS-FY18-1 shows total competitive product attributable costs of $15.476 billion (consisting of $14.871 billion of volume variable costs, $0.1678 billion of product specific costs, $0.4148 billion of group inframarginal costs, and $0.0223 billion of group specific costs), and total competitive product revenue of $23.057 billion. Subtracting the former from the latter results in total competitive product contribution of $7.581 billion. Even taking into account the competitive market test net contribution figure of -$0.2 million reported in USPS-FY18-NP27, the overall net competitive contribution amount remains at $7.581 billion, which is 24.7 percent, or nearly one-quarter, of total institutional costs, an

[70] *See* 39 C.F.R. § 3015.7(c). The Commission is presently conducting a new review of this minimum contribution requirement in Docket No. RM2017-1.

[71] Total institutional costs are derived as the difference between total accrued costs and total attributable costs. In last year's ACD, the Commission specified the precise components of total attributable costs to be used for calculating this difference. FY 2017 ACD, at 10. As discussed further in the Preface to USPS-FY18-1, the measure of total attributable costs indicated above reflects the components specified by the Commission in the FY 2017 ACD.

amount well in excess of the 5.5 percent requirement. Thus, the subsection 3633(a)(3) requirement was met in FY 2018.

C. Priority Mail Express International Discount

In response to the Commission's request in Docket No. CP2017-20 concerning the monitoring of the discount for some Priority Mail Express International items at retail, the Postal Service provides an analysis of the Priority Mail Express International discount's effect in a separate workpaper included in USPS-FY18-NP9, along with a list of destination countries and weight steps for which the Postal Service offered the Priority Mail Express International discount.[72]

D. ECOMPRO Requirements

In Order No. 4792, the Commission directed the Postal Service to "report separately the revenue, pieces, and weight of ECOMPRO pieces for each country in future Annual Compliance Reports."[73] In response, the Postal Service has included this information in USPS-FY18-NP9.

E. ACD Directive

In its FY 2016 ACD, the Commission directed the Postal Service to "identify each NSA product that had no mailpieces shipped under the contract when it files future ACRs."[74] In response, the Postal Service has included this information in USPS-FY18-NP27 (for domestic NSAs) and USPS-FY18-NP2 (for international NSAs).

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[72] *See* Order No. 3622, Order Approving Price Adjustments for Competitive Products, PRC Docket No. CP2017-20 (Nov. 18, 2016), at 13.

[73] *See* Order No. 4792, Order Approving Changes in Prices not of General Applicability for Certain Inbound Parcel Post (at UPU Rates), PRC Docket No. CP2018-286 (Aug. 23, 2018), at 7.

[74] FY 2016 ACD, at 83.

V. MARKET TESTS AND NONPOSTAL SERVICES

A. Market Dominant Market Tests

In FY 2018, there were no market tests of experimental products offered under the provisions of section 3641 that were categorized as market dominant.

B. Competitive Market Tests

Customized Delivery and GEM Merchant Solution were the only competitive market tests of experimental products authorized under the provisions of section 3641 in FY 2018. Information for these market tests is provided under seal in USPS-FY18-NP27. The Postal Service does not have a method for estimating the quality of service of its competitive experimental products. The Postal Service does not believe that the offering of these competitive experimental products created an inappropriate competitive advantage for the Postal Service or any mailer.

C. Nonpostal Services

FY 2018 revenue, cost, and volume data for the two market dominant nonpostal service products are provided below.

Market Dominant			FY 2018
1	**Alliances with the Private Sector to Defray Costs**		
	[includes MoverSource nonpostal service]		
		Revenue	$ 36,958,863
		Expense	1,778,511
		Net Income (Loss)	$ 35,180,352
		Volume	N/A
2	**Philatelic Sales***		
		Revenue	$ 8,972,007.00
		Expense	$ 7,839,176.13
		Net Income (Loss)	$ 1,132,830.87
		Volume	2,486,376
	*Revenue and expense are for fulfillment only		

Comparable data for the seven competitive nonpostal services in effect and active in FY 2018 are provided in the Preface to USPS-FY18-NP27.

VI. NONPUBLIC ANNEX

Section 3652(f)(1) contemplates the use of a nonpublic annex for documents or other materials that the Postal Service considers exempt from public disclosure, pursuant to 39 U.S.C. § 410(c) and 5 U.S.C. § 552(b). In particular, section 410(c)(2) exempts from mandatory disclosure "information of a commercial nature…which under good business practice would not be publicly disclosed." Accordingly, such information is contained in this Report's nonpublic annex.

A complete listing of the contents of the nonpublic annex appears at Attachment One. In general, the nonpublic annex contains the same types of materials that were included in the nonpublic annex in Docket No. ACR2017. Thus, its primary contents are:

(1) versions of the CRA and Cost Segments and Components reports that provide disaggregated information for competitive products, and supporting materials underlying the CRA (such as the CRA "B" workpapers, the CRA model, and files relating to the various costing data systems);

(2) the ICRA, supporting materials underlying the ICRA, and data for international customized agreements with customers;

(3) billing determinants for domestic and international competitive products; and

(4) information on individual domestic competitive product NSAs.

An Application for Nonpublic Treatment of Materials regarding the nonpublic annex appears at Attachment Two.

CONCLUSION

The Postal Service respectfully submits the foregoing Report for FY 2018.

LIST OF APPENDED MATERIALS

PUBLIC FOLDERS

USPS-FY18-1	FY 2018 Public Cost and Revenue Analysis (PCRA) Report
USPS-FY18-2	FY 2018 Public Cost Segments and Components Report
USPS-FY18-3	FY 2018 Discounts and Passthroughs of Workshare Items
USPS-FY18-4	FY 2018 Market Dominant Billing Determinants
USPS-FY18-5	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances)
USPS-FY18-6	General Classification of Accounts (Formerly Handbook F-8)
USPS-FY18-7	Cost Segment 3 Cost Pools & Other Related Information (Public Portion)
USPS-FY18-8	Equipment and Facility Related Costs
USPS-FY18-9	FY 2018 ACR Roadmap Document
USPS-FY18-10	FY 2018 Special Cost Studies Workpapers - Letter Cost Models (First and Marketing Mail)
USPS-FY18-11	FY 2018 Special Cost Studies Workpapers - Flat Cost Models (First and Marketing Mail) & Periodicals Cost Model
USPS-FY18-12	Marketing Mail Parcel Mail Processing Cost Model
USPS-FY18-13	FY 2018 Marketing Mail and Periodicals Destination Entry Cost Models
USPS-FY18-14	Mail Characteristics Study (Public Portion)
USPS-FY18-15	Bound Printed Matter Mail Processing Cost Model and Media Mail – Library Mail Mail Processing Cost Model
USPS-FY18-16	Bound Printed Matter Transportation Cost Model and Bulk Parcel Return Service Cost Model

USPS-FY18-17	2018 Annual Report and Comprehensive Statement of Postal Operations
USPS-FY18-18	FY 2018 ECR Mail Processing Unit Costs
USPS-FY18-19	FY 2018 Delivery Costs By Shape
USPS-FY18-20	FY 2018 Window Service Cost by Shape
USPS-FY18-21	Business Reply Mail Cost Model
USPS-FY18-22	FY 2018 Bound Printed Matter Mail Processing Costs
USPS-FY18-23	MODS Productivity Data
USPS-FY18-24	FY 2018 Non-Operation Specific Piggyback Factors (Public Portion)
USPS-FY18-25	FY 2018 Mail Processing Piggyback Factors (Operation Specific)
USPS-FY18-26	FY 2018 Mail Processing Costs by Shape (Public Portion)
USPS-FY18-27	FY 2018 Nonprofit Mail Cost Approximations
USPS-FY18-28	FY 2018 Special Cost Studies Workpapers – Special Services (Public Portion)
USPS-FY18-29	Annual Report on Service Performance for Market Dominant Products
USPS-FY18-30	FY 2018 Market Dominant NSA Materials
USPS-FY18-31	FY 2018 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version)
USPS-FY18-32	FY 2018 CRA “B” Workpapers (Public Version)
USPS-FY18-33	Consumer Access to Postal Services
USPS-FY18-34	City Carrier Cost System (CCCS) Documentation (Public Version)
USPS-FY18-35	Rural Carrier Cost System (RCCS) Documentation (Public Version)

USPS-FY18-36	Transportation Cost Systems (TRACS) Documentation (Public Version)
USPS-FY18-37	In-Office Cost System (IOCS) Documentation (Public Version)
USPS-FY18-38	USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments
USPS-FY18-39	FY 2018 Competitive Products Fund Reporting Materials
USPS-FY18-40	2018 Rural Mail Count
USPS-FY18-41	International Market Dominant Billing Determinants
USPS-FY18-42	FY 2018 Revenue, Pieces, and Weight Report (Public Version)
USPS-FY18-43	FY 2018 Market Dominant Product Incremental Costs
USPS-FY18-44	Update to Periodicals Pricing Report

NONPUBLIC FOLDERS:

USPS-FY18-NP1	FY 2018 Domestic Competitive Product Billing Determinants
USPS-FY18-NP2	FY 2018 International Cost and Revenue Analysis (ICRA) Report
USPS-FY18-NP3	FY 2018 International Cost Segments and Components Report
USPS-FY18-NP4	FY 2018 ICRA Domestic Processing Model (Cost Matrices, Reports, Control File, & Changes)
USPS-FY18-NP5	FY 2018 ICRA Overview/Technical Description
USPS-FY18-NP6	FY 2018 International Cost Segment Spreadsheets
USPS-FY18-NP7	Cost Segment 3 International Product Costs by Cost Pools (Volume Variable Cost Pools)
USPS-FY18-NP8	FY 2018 International Billing Determinants

USPS-FY18-NP9	FY 2018 Miscellaneous International Data
USPS-FY18-NP10	FY 2018 Competitive Product Incremental and Group Specific Costs
USPS-FY18-NP11	FY 2018 Nonpublic Cost and Revenue Analysis (NPCRA) Report
USPS-FY18-NP12	FY 2018 Nonpublic Cost Segments and Components Report
USPS-FY18-NP13	FY 2018 CRA Model (Model Files, Cost Matrices, and Reports)
USPS-FY18-NP14	FY 2018 CRA "B" Workpapers (Nonpublic Version)
USPS-FY18-NP15	Parcel Select / Parcel Return Service (PRS) Mail Processing Cost Model
USPS-FY18-NP16	Parcel Select / Parcel Return Service (PRS) Transportation Cost Model
USPS-FY18-NP17	Parcel Select / Parcel Return Service (PRS) Cube-Weight Relationship Estimation
USPS-FY18-NP18	Cost Segment 3 Cost Pools & Other Related Information (Nonpublic Portion)
USPS-FY18-NP19	FY 2018 Non-Operation Specific Piggyback Factors (Nonpublic Portion)
USPS-FY18-NP20	FY 2018 Mail Processing Costs by Shape (Nonpublic Portion)
USPS-FY18-NP21	In-Office Cost System (IOCS) Documentation (Nonpublic Version)
USPS-FY18-NP22	City Carrier Cost System (CCCS) Documentation (Nonpublic Version)
USPS-FY18-NP23	Rural Carrier Cost System (RCCS) Documentation (Nonpublic Version)
USPS-FY18-NP24	Transportation Cost Systems (TRACS) Documentation (Nonpublic Version)

USPS-FY18-NP25	Mail Characteristics Study (Nonpublic Portion)
USPS-FY18-NP26	FY 2018 Special Cost Studies Workpapers – Special Services (Nonpublic Portion)
USPS-FY18-NP27	FY 2018 Domestic Competitive NSA & Nonpostals Materials
USPS-FY18-NP28	FY 2018 Revenue, Pieces, and Weight Report (Nonpublic Version)
USPS-FY18-NP29	Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances) (Nonpublic Version)
USPS-FY18-NP30	Service Material (Nonpublic Portions)

ATTACHMENT 2

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NONPUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. Part 3007, the United States Postal Service (Postal Service) hereby applies for nonpublic treatment of the thirty appended folders identified as nonpublic in Attachment One of the FY 2018 Annual Compliance Report (collectively, the “Nonpublic Annex”). As is apparent from the Attachment One list, the majority of the folders in the Nonpublic Annex have a corresponding public folder.

In many instances, a set of material has been divided into one portion that relates to Market Dominant products and another portion that relates to Competitive products. In those instances, the public folder includes the portion of material relating to Market Dominant products, and the nonpublic folder includes the portion of materials relating to Competitive products. In many other instances, two versions of materials are prepared, one that is public and contains aggregated information regarding Competitive products or large groups of Competitive products, and another that is nonpublic and contains information regarding Competitive products that is disaggregated to the product level. In general, except for the six groups of Competitive products for which cost data are shown in the Cost and Revenue Analysis (CRA), all disaggregated cost information relating to Competitive products, and all background data used to develop disaggregated cost information on Competitive products, are filed under seal in the Nonpublic Annex.

(1) The rationale for claiming that the materials are nonpublic, including the specific statutory provision(s) supporting the claim, and an explanation justifying application of the provision(s) to the materials;

The materials designated as nonpublic consist of commercial information concerning postal operations and finances that under good business practice would not be disclosed publicly. Based on its longstanding and deep familiarity with the postal and communications businesses and markets generally, and its knowledge of many firms, including competitors, mailers, and suppliers, the Postal Service does not believe that any commercial enterprise would voluntarily publish information pertaining to the costs, volumes, revenues, and markets for its competitive products, as well as inbound market dominant products for which rates are negotiated with other postal operators. In the Postal Service's view, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3) and (4).[1]

(2) A statement of whether the submitter, any person other than the submitter, or both have a proprietary interest in the information contained within the non-public materials, and the identification(s) specified in paragraphs (b)(2)(i) through (iii) of this section (whichever is applicable);

The Postal Service has a proprietary interest in the information contained within the non-public materials. The Postal Service believes that the only third parties that have a proprietary interest in the materials submitted in connection with the FY 2018 Annual Compliance Report are identified in Appendix 1 to this Application. The Postal

[1] In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1 (Mar. 20, 2009), at 11.

Service also hereby provides notice that it has already informed each third party, in compliance with 39 C.F.R. § 3007.200(b), of the nature and scope of this filing and its right to address its confidentiality concerns directly with the Commission.[2] In addition, because the Postal Service maintains that (i) some competitive negotiated service agreement (NSA) customers' identities are commercially sensitive and should not be publicly disclosed, and (ii) language and cultural barriers may make it difficult for those seeking access to nonpublic information to provide proper notice to the applicable third parties, Postal Service employees who will be responsible for providing notice to these specific third parties are also identified in Appendix 1.

The Postal Service further provides, as identified in Appendix 2 to this Application, a list of those third parties that have a proprietary interest in the materials by nonpublic folder.

(3) A description of the information contained within the materials claimed to be nonpublic in a manner that, without revealing the information at issue, would allow the Commission to thoroughly evaluate the basis for the claim that the information contained within the materials are nonpublic;

The materials in the Nonpublic Annex fall into several categories. The first category is the Nonpublic CRA, and all of the background materials feeding into the Nonpublic CRA. These materials, in general, show cost information at the product level, including disaggregated information for Competitive products. These materials are found in folders USPS-FY18-NP10, USPS-FY18-NP11 - USPS-FY18-NP14, USPS-FY18-NP18 - USPS-FY18-NP25, and USPS-FY18-NP27. Descriptions of the contents

[2] The Postal Service, in conjunction with the United States State Department, has requested that the Universal Postal Union International Bureau (IB) issue a Circular notice to all countries and designated operators informing each of its rights under 39 C.F.R. § 3007.204. This notification was published by the IB on November 19, 2018.

of these folders can be found in the roadmap document, filed at USPS-FY18-9. The roadmap indicates the corresponding public folder which contains information similar to that in each nonpublic folder, except that, in the public folder, the cost information for Competitive products is generally aggregated into one Competitive products row. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

A second category consists of Special Cost Studies materials that provide cost information below the product level for Competitive products. These materials are found in folders USPS-FY18-NP15 - USPS-FY18-NP17, and USPS-FY18-NP26. Again, descriptions of the contents of these folders can be found in the roadmap document, filed at USPS-FY18-9. The roadmap indicates the corresponding public folder which contains information similar to that in the nonpublic folder, except that, in the public folder, the cost information below the product level relates to Market Dominant, rather than Competitive, products. Therefore, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

A third category consists of the International CRA (ICRA) and the supporting documentation. These materials are found in folders USPS-FY18-NP2 - USPS-FY18-NP7 and USPS-FY18-NP9. Collectively, they present the inputs and the analyses used to attribute and distribute costs to International products. In general, the ICRA follows the same basic methodologies used in the CRA – dividing accounting data into cost segments and components, distributing the attributable costs within segments to products, and summing the total attributable costs of a product across segments.

Descriptions of the contents of the individual ICRA-related folders can be found in the roadmap document, USPS-FY18-9. There are no corresponding public folders.

A fourth category is the Competitive product billing determinants. These are found in USPS-FY18-NP1 for domestic Competitive products, and USPS-FY18-NP8 for International products. They are comparable in format to the Market Dominant billing determinants presented in USPS-FY18-4, but include the corresponding information for Competitive products. Again, examination of the corresponding public folder should allow a person to understand the nature of the contents of the nonpublic folder, and evaluate accordingly.

In general, the premise of this application is that, for Competitive products and certain market dominant International products, disaggregated cost data (and detailed volume and revenue data, such as that provided in billing determinants) constitute commercially-sensitive information and should not be publicly disclosed. The Postal Service is therefore placing all such information in the Nonpublic Annex, and filing it under seal. One exception to this approach appears in the CRA. The CRA (USPS-FY18-1) presents some disaggregated data for Competitive products, but those data are not disaggregated down to the product level, as they are in the Nonpublic CRA (USPS-FY18-NP11). Instead, in the CRA, the Postal Service has aggregated data for Competitive products into six product groups. Those groups are Total Priority Mail Express, Total First-Class Package Service, Total (non-Express) Priority, Total Ground, Total Competitive International, and Total Domestic Competitive Services. (The product rows in the Nonpublic CRA that are rolled up into each of the six Competitive product group rows in the CRA are shown in the table below.) At this level of disaggregation, the Postal Service has been unable to identify any of its major competitors that are publicly disclosing a potentially greater amount of disaggregated competitive cost data. The Postal Service maintains that the further disaggregation shown in the Nonpublic CRA should thus appropriately remain confidential. The Postal Service believes that the approach jointly embodied in its CRA and Nonpublic CRA prudently maximizes the amount of information available to the public, keeping such information as detailed as possible without prompting the competitive concerns outlined in the following section.

FY2018 Public-Nonpublic Crosswalk Table

Category in Public Version CRA	Categories Rolled in from Nonpublic Version CRA
Total Priority Mail Express	Domestic Priority Mail Express Domestic Priority Mail Express NSAs
Total First-Class Package Service	First-Class Package Service First-Class Package Service NSAs
Total Priority Mail	Domestic Priority Mail Domestic Priority Mail NSAs Priority Mail Fees
Total Ground	Parcel Select Mail Parcel Select NSAs Parcel Return Service Mail Parcel Return Service NSAs Standard Post
Total Competitive International	Outbound International Expedited Services Inbound EMS Outbound Priority Mail International Inbound Parcel Post (at UPU Rates) First-Class Package International Service International Priority Airmail (IPA) International Surface Airlift (ISAL) International Direct Sacks M-Bags Outbound International NSA Mail Inbound International NSA Mail International Mail Fees International Money Transfer Service International Ancillary Services

Category in Public Version CRA	Categories Rolled in from Nonpublic Version CRA
Total Domestic Competitive Services	Premium Forwarding Service Address Enhancement Services Greeting Cards, Gift Cards, and Stationery Shipping and Mailing Supplies Post Office Box Service Other Ancillary Services

(4) Particular identification of the nature and extent of the harm alleged and the likelihood of each harm alleged to result from disclosure;

If the information the Postal Service determined to be protected from disclosure due to its commercially sensitive nature were to be disclosed publicly, the Postal Service considers it quite likely that it would suffer commercial harm. This information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. In this regard, the Postal Service is not aware of any business with which it competes (or in any other commercial enterprise), either within industries engaged in the carriage and delivery of materials and hard copy messages, or those engaged in communications generally, that would disclose publicly information and data of comparable nature and detail.

The protected materials consist of comprehensive analytical tools and reports employed by the Postal Service for several purposes in its operations and finances. Most prominently, in the context of the ACR, they enable the Postal Service to address the issues mandated in 39 U.S.C. § 3652(a) having to do with the costs, revenues, rates, and quality of service of competitive postal products. Furthermore, many of the materials outlined in section (3) above consist of sub-reports, workpapers, and other documentation used to create the basic reports in the CRA and ICRA. These materials share the protected status and confidential nature of the basic reports, since they provide the building blocks that permit compilation of the data and statistics and would permit competitors to gain the same types of knowledge, understanding, and insights at finer levels of detail. The Postal Service believes that this information would lead to competitive harm, if publicly disclosed.

As explained below, the data and information considered to be nonpublic can be classified in several general groupings: product cost information; general product volume and revenue information; product billing determinants; and information pertaining to service and pricing agreements with particular mailers or suppliers (NSAs). The following describes generally the expected harms from each of these classes of information. The explanations also include a separate discussion of international mail products, and their relatively distinct characteristics that arise from the structure of international business, including the involvement of foreign postal operators and international organizations.

Cost Information

Information relating to the costs of producing products is generally considered to be among the most sensitive commercial information. The CRA and ICRA present data and statistics for products that would provide competitors with valuable information, enabling them to better understand the Postal Service's cost structures, operational capabilities, and pricing and marketing strategies. This confidential information includes per-piece costs in several analytical categories (attributable costs, volume variable costs, and product-specific costs), as well as cost contribution and cost coverage (margin) by product. Such information would be extremely valuable to competitors in assessing the strengths and weaknesses of various postal products. Armed with detailed product cost information, competitors would be able to better identify and understand areas where they could adapt their own operations to be more competitive with postal products and better assess how to price and market their own products in such a way as to target the Postal Service's weaknesses and compensate for its strengths in producing and marketing various products. Furthermore, information contained in the various sub-reports, workpapers, and other documentation that feed the reports would provide an even more refined knowledge of the Postal Service's costs, cost structures, and capabilities. In this regard, the structure of the Postal Service's analytical tools and reports is well known among the postal community from years of exposure in general rate cases under the former regulatory regime. Postal costs are recorded in elaborate systems of general ledger accounts. These are grouped into various functional and other categories (cost segments and components) for further analysis and ultimate allocation and distribution to individual products. The level of detail contained in the sub-reports and workpapers is highly refined and would enable competitors, and existing and potential customers with whom the Postal Service might negotiate particular contract rates, to gain competitive or negotiating advantages that could lead to suppressing potential financial gains from the sale of postal products or the diversion of business away from the Postal Service to competitors. Either of these results would constitute serious commercial harm.

Volume and Revenue Information

Competitors could use the product-specific revenue, pieces, and weight information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal

Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with potential customers, who would be able to ascertain critical information about relevant product trends (*e.g.*, average revenue per piece, average weight per piece). Finally, as explained in greater detail below, disclosure would expose certain foreign postal operators and other customers to the same competitive harms, to the extent that a category is associated with a single customer or a small group of customers. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed nonpublicly.

Billing Determinants

Billing determinants present a special category of volume and revenue information that would enable highly refined understanding of individual products aligned specifically to their individual price structures. In this regard, billing determinants present a picture of each product's experience, analyzed according to the different mail characteristics that comprise the elements of the product's price structure. Detailed billing determinants, especially combined with specific product cost information, would enable competitors to better analyze the strengths and weaknesses of individual products, including specific elements of the markets for them, such as advantages in certain weight categories and distance zones. This information would provide insights into how competitors might adapt their operations and product offerings, alter their pricing, and target their marketing to take business away from the Postal Service.

Armed with this type of information, competitors would likely focus their marketing and price cutting efforts on the Postal Service's most profitable products. This would lead to erosion of contribution for these products through lost sales and/or the need to lower prices to remain competitive. Postal product cost and contribution information would provide suppliers of postal transportation and other services with information they could use to seek higher rates for services they provide. This would lead to higher postal costs and loss of contribution. Although the extent of the commercial harm is difficult to quantify, even small changes in market share, prices, or costs could lead to millions of dollars in lost revenue, higher costs, and lower margins. It is highly likely that if this information were made public, the Postal Service's competitors and suppliers would take advantage of it almost immediately.

Negotiated Service Agreements

The utility of the sensitive information in billing determinants and other materials would be particularly enhanced with regard to NSA product information relating to particular customers. First, revealing any customer identifying information would enable competitors to focus marketing efforts on current postal customers that have been cultivated through the Postal Service's efforts and resources. The Postal Service considers it highly probable that, if this information were made public, the Postal Service's competitors would take immediate advantage of it. Many NSAs include a provision allowing the mailer to terminate the contract without cause by providing at least 30 calendar days' notice. Therefore, there is a substantial likelihood of losing the customers to a competitor that targets them with lower pricing.

Other NSA-related information consists of mailing profiles. This information, if disclosed from any source within the CRA or ICRA, would offer competitors invaluable insight into the types of customers to whom the Postal Service is offering each type of competitive NSA. Even without identifying individual mailers, competitors would be able to direct their sales and marketing efforts at the customer segment that the Postal Service has had the most success at attracting. This would undermine both existing customer relationships and the potential for other new NSA customers.

A similar rationale applies to information showing product revenue, volume according to weight, pricing, and insured value levels, as well as adjustment factor calculations based on product revenues. This information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. Competitors could use the information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed nonpublicly.

Commercially sensitive information related to NSAs is included in the agreements and their annexes, and in related financial work papers. Typically, these materials are filed under seal or redacted when the agreements are established as products. Since the Commission's rules governing confidentiality have taken effect, the Postal Service has filed applications for nonpublic status with each agreement. The reasoning expressed in those applications supports and is consistent with the discussion here.

Information derived from these documents is included in some of the materials filed in the Nonpublic Annex here. This information may include prices, product cost, contribution, or cost coverage. It also may concern customer mailing profiles, product volume, weight and revenue distribution, and product insured-value distribution. Competitors for the services covered by these agreements consist of domestic and international transportation and delivery firms and even foreign postal operators, which could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. Competitors could also use the information to assess offers made by the Postal Service to customers for any possible comparative vulnerabilities and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Customers could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted material.

Potential customers, including foreign postal operators, could deduce from the rates provided in individual pricing agreements, in work papers, or in a Governors' Decision, whether additional margin for net profit exists. From this information, each customer or foreign postal operator could attempt to negotiate ever-decreasing prices or incentives, such that the Postal Service's ability to negotiate competitive yet financially sound rates would be compromised.

Information derived from financial work papers supporting NSAs can include costs, assumptions used in pricing formulas and decisions, formulas and negotiated prices, mailer profile information, projections of variables, and cost coverage and contingency rates that have been included to account for market fluctuations and exchange risks. All of this information is highly confidential in the business world. If this information were made public, the Postal Service's competitors would have the advantage of being able to assess the Postal Service's costs and pricing and determine the absolute floor for Postal Service pricing, in light of statutory, regulatory, or policy constraints. Competitors would be able to take advantage of the information to offer lower pricing to postal customers, while subsidizing any losses with profits from other customers. Such competitors could include foreign posts, which in some instances are not required to use the Postal Service for delivery of parcels destined to the United States. Additionally, foreign postal operators or other potential customers could use costing information to their advantage in negotiating the terms of their own agreements with the Postal Service. Eventually, this could freeze the Postal Service out of the relevant markets.

International Product Information

The Postal Service believes that the same vulnerabilities and harms discussed above that would result from the disclosure of the cost, volume, and billing determinant information would also generally apply to international product information designated as nonpublic. In particular, the harms resulting from disclosure of competitive information in the CRA would also result from disclosure of similar information, workpapers, and supporting documentation related to the ICRA. International mail products and business, however, exhibit operational and pricing distinctions not always shared by domestic counterparts. In particular, international products may be either inbound or outbound and, in some instances, are affected by bilateral and multilateral agreements among foreign postal operators. In some cases, particular lines within the ICRA reflect agreements with a single foreign postal operator. The public disclosure of this information would likely lead to limitations on the negotiating positions of both the Postal Service and the other foreign postal operator in similar agreements they might wish to negotiate with other foreign postal operators. The same is true where a counterparty to an alliance is a private entity rather than a foreign postal operator: for example, disclosure of statistical, billing, and cost information about GXG could limit the ability of FedEx Express to negotiate effectively, and could allow competitors to analyze the traffic for competitive advantage against FedEx Express. Further, the outbound letter monopoly has been largely suspended by virtue of 39 C.F.R. § 320.8, thereby contributing to the intensity of competition in this market. The more disaggregated nature of the product information in the international context and the relatively smaller numbers associated with them make the international data particularly vulnerable to analysis and use by competitors.

Facility-Specific Performance Information

Competitors could use the facility-specific performance information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. If the facility-specific performance data were available publicly, then competitors could target locations with relatively weaker performance and could focus sales and marketing efforts in those locations to the Postal Service's detriment. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed nonpublicly.

(5) At least one specific hypothetical, illustrative example of each alleged harm;

The following restates the harms discussed above and presents at least one hypothetical situation illustrating the consequences of disclosure.

Harm: Competitors, mailers, and suppliers could use cost, revenue, and volume summary data and statistics in the CRA and the ICRA, disaggregated by individual product and by NSA category, to gain knowledge and insights about the relative strengths and weaknesses of the Postal Service's competitive product lines. That refined understanding would, in turn, give competitors advantages in seeking to divert business from the Postal Service and to gain new business for which the Postal Service might compete. Mailers and suppliers would be able to negotiate favorable deals with the Postal Service more effectively. As a result, the Postal Service would experience losses of existing and new business, or erosion of contributions and margins.

Hypothetical: The CRA and ICRA provide data by product that indicate total revenues, attributable costs, volume variable costs, product specific costs, and per-piece attributable costs, contribution, and cost coverage (margin). These data are broken out by individual product and separated between products purchased through public schedules and those purchased through contract rates (NSAs). Hypothetically, this information is made public. Competitors use it to gain a refined understanding of the relative strengths and weaknesses of the Postal Service's product lines (domestic and international), the individual strengths and weaknesses of particular products, and the degree to which products are sold through public schedules, compared to contract pricing arrangements. Financial analysts for the competitors relay their assessments to colleagues in the competitors' marketing and investment divisions. This information provides a better foundation to enable competing firms to make decisions regarding investments and product design in their own product lines. Based on such assessments, for example, firms that have individual products for domestic express service (overnight), international express service, or package service comparable to

Priority Mail determine that they have potential for competitive gain against the Postal Service in these areas and, accordingly, decide to allocate investments in improved operations, supplier arrangements, and technologies to improve their competitive positions. To the extent that these decisions actually make the firms more competitive, the Postal Service loses existing or new business.

Hypothetical: Cost, contribution, and/or cost coverage information is released to the public and becomes available to a competitor. The competitor, which could be a foreign postal operator operating in the United States, assesses the profitability of certain services based on the data released. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service has substantial contribution, thereby hindering the Postal Service's ability to keep these customers' business.

Hypothetical: Cost, contribution, and/or cost coverage information is released to the public and becomes available to a supplier of materials, transportation, or other services. Suppliers are made aware of expected contribution margins by product and are better able to assess the relative strengths and weaknesses of the Postal Service's product lines. With this information, suppliers, including foreign postal operators in the case of international products, decide to increase the rates they charge the Postal Service to provide transportation and/or other services or become more resistant to negotiating favorable prices for their goods and services.

Hypothetical: Cost information is disclosed to the public. Mailers who seek to negotiate individual contract rates with the Postal Service gain a better understanding of the average or unit costs of particular products, as well as the relative and absolute strengths and weaknesses of particular product lines. This information enables the mailers to negotiate contract rates with the Postal Service more effectively than in the absence of such information. Similar disclosures result in advantages for foreign postal operators or other competitive entities in international mail.

Harm: The various companion reports, sub-reports, workpapers, special cost and other studies, and documentation contained in the Nonpublic Annex would provide detailed and refined knowledge and understanding of the individual costs, cost structures, contributions, and cost coverages (margins) of individual postal products and contract pricing agreements. These materials, which produce and support the summary data and statistics contained in the CRA and ICRA, would provide highly detailed information regarding operational procedures used to produce the products, the costs and relative efficiencies of operations and sub-operations, and the amount and character of overhead, including the relative proportions of volume variable and overhead costs. Companion reports and sub-reports provide detailed functional analyses of Postal Service costs within a framework that is well-understood, or easily learned, from information in the Public Annex, or from familiarity with or research into past postal rate cases. Public disclosure would therefore be tantamount to publishing virtually every detail regarding the relative costs and efficiencies of providing postal competitive products. This information would provide blueprints for competitors, suppliers, and mailers who might seek to negotiate favorable contract rates. The information would better enable them to make favorable operational, investment, pricing, and marketing decisions in relationships with the Postal Service. The results would be loss of existing or future business for the Postal Service, or the erosion of total revenues, contributions, margins, and overall financial stability.

Hypothetical: The Cost Segments and Components reports of the CRA and ICRA are disclosed to the public. These reports group costs recorded in postal accounts according to various functional categories. The costs are distributed by postal product. The hypothetical disclosure provides competitors with a detailed understanding of the cost structures of each competitive postal product, the relative strengths and weaknesses of each product from cost perspectives, and the flexibilities available to the Postal Service within the legal framework applicable to postal prices. The refined understanding resulting from disclosure enables competitors to make decisions that would compensate for Postal Service strengths and capitalize on its weaknesses. These decisions might involve design of competing firms' own products, alternative price structures, operational procedures, and marketing strategies. They could also involve formulation of negotiating approaches and strategies by existing and potential suppliers of goods and services used in producing postal products, and the formulation of more informed negotiating positions by mailers seeking to enter into favorable contract rate arrangements with the Postal Service. Such competitive advantages lead to diversion of business away from the Postal Service or reduction of potential contribution from individual contracts.

Hypothetical: Cost distribution models, cost estimation models, and several sub-reports feeding into the CRA and ICRA are disclosed to the public. These materials provide highly refined information that would improve understanding of product cost structures and the behavior of postal costs. Certain cost reports, such as those outlining in detail the application of specific cost pools by mail processing operation in estimating product costs, provide detailed knowledge of operational procedures employed by the Postal Service in offering products and services. This information enhances competitors' abilities to make informed decisions about investment in capital and technologies used to produce their own competing products. For example, knowledge of inflexibilities in processing Priority Mail, or in transportation used to convey Parcel Return Service, leads competitors to explore more efficient processing of competing products or to negotiate more competitive transportation contracts used for competing products. Over time, annual disclosures of such information enable competitors (or suppliers and mailers) to identify and understand trends in cost behavior that better inform their decision-making. Such developments lead to an erosion of the Postal Service's competitive position and a loss of business or contribution.

Hypothetical: Information in certain reports and documentation of special cost and other studies (*e.g.*, Parcel Return Service cost models) is disclosed publicly. Such information provides a better understanding of the Postal Service's customer base for particular products. For instance, data from mail characteristics studies enables competitors to formulate a profile of the Postal Service's customer base for certain products. This information better enables competitors to devise marketing and sales strategies that target the most vulnerable markets for particular postal products. More effective marketing by competitors leads to reduced sales by the Postal Service and an erosion of contributions and margins.

Hypothetical: Cost models and sub-reports feeding the CRA and ICRA reports are disclosed to the public. Detailed knowledge of the Postal Service's cost estimation, cost distribution, and special study models and procedures provides competitors, as well as mailers who seek favorable contract rates, with tools that enhance their abilities to analyze postal costs and operations. Large, sophisticated firms who have competed with the Postal Service for long periods of time have been exposed to them before and likely have developed their own sophisticated analytical tools and therefore might not benefit as much from these models; however, the hypothetical availability of this information decreases barriers to entry in certain competitive markets and creates new competitors that erode the Postal Service's customer base.

Harm: Competitors could use disaggregated product volume, weight, and revenue distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Disaggregated revenue, volume, and weights contained in the Nonpublic Annex are disclosed to the public. Another delivery service's employee monitors the filing of this information and passes it along to the firm's sales and marketing functions. The competitor assesses the profitability of certain services on a per-piece or per-pound basis or the Postal Service's relative concentration in certain service offerings. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service appears to have made headway, hindering the Postal Service's ability to reach out effectively to these customers.

This example applies even more strongly for information split between NSA mail and other mail in the same category, because the competitor can assess the profitability and market strengths of the Postal Service's offerings to a small subset of NSA customers, thereby gaining somewhat more particularized insight into the characteristics of customers that the Postal Service specifically targets with its own contractual sales efforts.

Harm: Customers, including foreign postal operators, and suppliers could use disaggregated product volume, weight, and revenue distribution information to undermine the Postal Service's leverage in negotiations.

Hypothetical: Disaggregated revenue, volume, and weight information in the Nonpublic Annex is released to the public. A foreign postal operator's employee monitors the filing of this information and passes the information along to its international postal relations functions. The foreign postal operator assesses the Postal

Service's average per-item or per-pound revenue for categories about which it is negotiating with the Postal Service, with particular focus on categories known to be included in bilaterals with other foreign postal operators (*e.g.*, letter post, air and surface parcels, and EMS). Accurately or not, the foreign postal operator uses the average revenue information as a justification for pricing demands in negotiations, refusing to accept a higher price without steeper concessions than the Postal Service might otherwise have been able to foreclose. The Postal Service's ability to negotiate the best value from the bargain suffers as a result. This hypothetical applies with equal force for customers other than foreign postal operators, for NSA mail and non-NSA mail that can be made subject to an NSA (*e.g.*, International Priority Airmail, which can be included in Global Plus 1 NSAs), and for alliances with suppliers such as FedEx Express with respect to GXG.

Harm: Public disclosure of information in the report would be used by competitors of the NSA customers to their detriment.

Hypothetical: A competitor of a Postal Service NSA customer obtains unredacted versions of the billing determinants for domestic and international products, including NSAs and ICMs. It analyzes the work papers to assess the customer's underlying costs and uses that information to identify lower cost alternatives to compete against the Postal Service customer. Likewise, suppliers of goods and services to the NSA customer can use the detailed information to their advantage in negotiations with the NSA customer.

Harm: Public disclosure of information contained in the Nonpublic Annex associated with international delivery services provided in combination with specific third parties would be used by those parties' competitors to their detriment.

Hypothetical: A competitor of Canada Post Corporation, such as a competing international delivery service, obtains information contained in the Nonpublic Annex. The competitor analyzes the information to assess the average per-piece and per-pound revenue for Inbound International Letter-Post NSA Mail, Expedited Parcels and EMS which correspond to Canada Post's average per-piece and per-pound cost for U.S. delivery of its pertinent products. The competitor uses that information to assess the market potential and, as a baseline, to negotiate with U.S. customs brokers and freight companies to develop lower-cost alternatives and undermine Canada Post's market offerings. The same scenario could apply with respect to comparable information, such as settlement charges due or payable, for other foreign postal operators or for FedEx Express concerning Global Express Guaranteed (GXG).

Harm: Competitors could use customer mailing profiles, product volume, weight, and revenue distributions, and product insured-value distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Customer mailing profile information in the Nonpublic Annex is released to the public. Another delivery service's employee monitors the filing of this information and passes the information along to its sales and marketing functions. The competitor assesses the typical size, mailing volume, and content characteristics of Postal Service NSA customers. The competitor then targets its advertising and sales efforts at actual or potential customers with similar profiles, hindering the Postal Service's ability to reach out effectively to these customers.

This hypothetical would apply even for more generic product-level data, from which one could calculate the distribution of the Postal Service's overall customer base in terms of item weight, revenue, or value (in the case of international insurance). For these reasons, release of any of the nonpublic information would pose actual commercial harm to the Postal Service, regardless of the information's present favorability.

Harm: Revealing customer identifying information associated with competitive domestic and international NSAs would enable competitors to target the customers for sales and marketing purposes.

Hypothetical: The identities of customers with which prices are established in NSAs are revealed to the public. Another expedited delivery service passes along the information to its sales function. The competitor's sales representatives quickly contact the Postal Service's customers and offer them lower rates or other incentives to terminate their contracts with the Postal Service in favor of using the competitor's services. Lost sales undermine the Postal Service's revenues.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, disclosure of information that would reveal prices associated with particular pricing agreements would provide competing domestic and foreign postal operators, or other potential customers, extraordinary negotiating power to extract lower rates from the Postal Service.

Hypothetical: Customer A's negotiated rates are disclosed publicly. Customer B sees the rates and determines that there may be some additional profit margin between the rates provided to Customer A and the statutory cost coverage that the Postal Service must produce in order for the agreement to be added to the competitive products list. Customer B, which was offered rates identical to those published in Customer A's agreement, then uses the publicly available rate information to insist that it must receive lower rates than those the Postal Service has offered it, or it will not use the Postal Service for its expedited package service delivery needs.

Alternatively, Customer B attempts to extract lower rates only for those destinations for which it believes the Postal Service is the low-cost provider among all service providers. The Postal Service may agree to this demand in order to keep the customer's business overall, which it believes will still satisfy total cost coverage for the agreement. Then, the Customer would use other providers for destinations other than those for which it extracted lower rates. This would affect the Postal Service's overall projected cost coverage for the agreement, so that it no longer would meet its cost coverage requirement. Although the Postal Service could terminate the contract when it first recognized that the mailer's practice and projected profile were at variance, the costs associated with establishing the contract, including filing it with the Postal Regulatory Commission, would be sunk costs that would have a negative impact on the product overall.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, public disclosure of information contained in underlying financial analyses would be used by competitors and customers to the detriment of the Postal Service.

Hypothetical: A competing package delivery service obtains a copy of information contained in unredacted versions of financial work papers associated with particular agreements. It analyzes information contained in the work papers to determine what the Postal Service would have to charge its customers in order to comply with business or legal considerations, including meeting its minimum statutory obligations regarding cost coverage and contribution to institutional costs. It then sets its own rates for products similar to those that the Postal Service offers its customers below that threshold and markets its purported ability to beat the Postal Service on price for domestic or international delivery services. By sustaining this below-market strategy for a relatively short period of time, the competitor, or a group of the Postal Service's competitors acting in a similar fashion, freeze the Postal Service out of one or more relevant delivery markets. Even if the competing providers do not manage wholly to freeze out the Postal Service, they significantly cut into the revenue streams upon which the Postal Service relies to finance provision of universal service.

Harm: In billing determinants and supporting documentation pertaining to domestic and international competitive NSAs, public disclosure of product volume, weight, revenue distribution, and product insured-value distribution would enable competitors to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: For Inbound Air Parcel Post, a competing package delivery service determines what the Postal Service would need to charge its customers (which may include foreign postal operators) to meet its minimum statutory obligations for cost coverage and contribution to institutional costs. The competing package delivery service then sets its own rates for products similar to those the Postal Service offers other postal operators under that threshold and markets its ability to beat the Postal Service's price for inbound air parcels. By sustaining this below-market strategy for a relatively short period of time, the competitor, or a group of the Postal Service's competitors acting in a likewise fashion, freezes the Postal Service out of the inbound air parcel delivery market.

Hypothetical: For negotiated Inbound Competitive Services, another postal operator sees a negotiated price and concludes that there may be some additional profit margin between the rates provided to a counterparty and the statutory cost coverage that the

Postal Service must produce in order for the agreement to be added to the competitive products list. That postal operator then negotiates lower prices with the Postal Service on its own behalf or uses its knowledge to offer postal customers lower prices than they currently receive. Either or both ways, the Postal Service loses market share and contribution.

Harm: Competitors could use facility-specific performance information to gain knowledge and insights about the relative strengths and weaknesses of the Postal Service's service performance. That refined understanding would, in turn, give competitors advantages in seeking to divert business from the Postal Service and to gain new business for which the Postal Service might compete. As a result, the Postal Service would experience losses of existing and new business, or erosion of contributions and margins.

Hypothetical: Facility-specific performance information is released to the public and becomes available to a competitor. The competitor assesses opportunities to provide certain services in new markets based on the data released. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service has relatively weaker performance, thereby hindering the Postal Service's ability to keep these customers' business.

Harm: Competitors could use revenue information, disaggregated by shape and country group, to gain knowledge and insights about the relative strengths and weaknesses of the Postal Service's business related to Inbound Letter Post mail with certain shapes in particular country groups. That refined understanding would, in turn, give competitors advantages in seeking to divert business from the Postal Service and to gain new business for which the Postal Service might compete, and in allocating resources in a more efficient manner. As a result, the Postal Service and at least one foreign postal operator would experience losses of existing and new business, and erosion of contributions and margins.

Hypothetical: The disaggregated Inbound Letter Post information is disclosed publicly. Participants in the shipping and delivery industries, particularly those that offer or are considering offering services between the markets where the foreign postal operator

("FPO") operates and the United States, review this information. These participants reasonably assume that the FPO accounts for almost all of the revenue reported for its country group, and that a considerable amount of this revenue is attributable to letter post packets. With this industry knowledge and commercially sensitive information, participants would be able to determine the size of the Postal Service's share in the relevant market. Operators of Extraterritorial Offices of Exchange ("ETOEs") worldwide and private companies could use this information to focus their sales efforts in the relevant market, resulting in competitive harm to the Postal Service and the FPO.

Hypothetical: Because in at least one country group a single group member is responsible for a significant percentage of the revenue in the country group, the revenue attributable to a single foreign postal operator could be determined from the disaggregated Inbound Letter Post information. Hypothetically, this information is made public. Competitors use it to gain a refined understanding of the revenue opportunities for products with certain shapes, in certain foreign markets. Financial analysts for the competitors relay their assessments to colleagues in the competitors' marketing and investment divisions. This information provides a better foundation to enable competing firms to make decisions regarding investments and product design in their own product lines. Based on such assessments, for example, firms that have a minimal or no presence in certain markets determine that they have potential for competitive gain against the Postal Service and other foreign posts in these areas and, accordingly, decide to allocate investments in improved operations, supplier arrangements, and technologies to improve their competitive positions in those markets. To the extent that these decisions actually make the firms more competitive, the Postal Service loses existing or new business.

Hypothetical: The disaggregated Inbound Letter Post information is released to the public and becomes available to a competitor. The competitor, which could be a foreign postal operator, assesses the financial performance of products with a certain shape based on the information released. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments associated with certain-shaped products where the Postal Service has substantial revenue, thereby hindering the Postal Service's ability to keep this business.

Hypothetical: The disaggregated Inbound Letter Post information is released to the public and becomes available to a supplier of transportation or other services. From this information, suppliers determine approximate volume and contribution by product in certain markets, and are better able to assess the economic opportunities for transportation between certain markets. With this information, suppliers decide to increase the rates they charge the Postal Service or foreign postal operators to provide transportation and/or other services between certain markets, or become more resistant to negotiating favorable prices for their goods and services.

Harm: Public disclosure of nonpublic information associated with international delivery services provided in combination with specific third parties would be used by those parties' competitors to their detriment.

Hypothetical: A competitor of the FPO, such as a competing international delivery service, obtains the nonpublic information. The competitor analyzes the information to assess the average per-piece and per-pound revenue for Inbound Letter Post mail which corresponds to the FPO's average per-piece and per-pound cost for U.S. delivery of its pertinent products. The competitor uses that information to assess the market potential and, as a baseline, to negotiate with U.S. customs brokers and freight companies to develop lower-cost alternatives and undermine the FPO's market offerings.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the portions of the materials filed nonpublicly and relating to competitive products should be withheld from persons involved in competitive decision-making in the relevant markets for competitive delivery products (including private sector integrators and foreign postal operators), as well as their consultants and attorneys. Additionally, the Postal Service believes that actual or potential customers of the Postal Service for these or similar products should not be provided access to the nonpublic materials.

(7) The length of time for which nonpublic treatment is alleged to be necessary with justification thereof; and

The Commission's regulations provide that nonpublic materials shall lose nonpublic status ten years after the date of filing with the Commission, unless otherwise provided by the Commission. 39 C.F.R. § 3007.401(a). However, because the nonpublic materials are related to relationships with customers that often continue for decades, or at least beyond ten years, and include information that is relevant to Postal Service decisions that will be made more than ten years after the date of filing, the Postal Service intends to oppose requests for disclosure of these materials pursuant to 39 C.F.R. § 3007.401(b-c).

(8) Any other factors or reasons relevant to support the application.

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for nonpublic treatment of the Nonpublic Annex of the FY 2018 ACR.

Appendix 1 to Application for Nonpublic Treatment
List of Impacted Third Parties and Contact Information

Impacted Third Party Number	Contact Information
1	New Zealand Post Limited Rachael Manson Global Business Director +64 21 988 866 Rachael.Manson@nzpost.co.nz
2	Hongkong Post Ms. Elaine Chik Senior Manager, International Business, Business Development Division +852 2921 2006 elaine_chik@hkpo.gov.hk
3	Deutsche Post AG Birgit Bünnigmann, Head of Direct Entry +49 228 182 21513, birgit.buennigmann@deutschepost.de Ivo Wisser, Product Manager Direct Entry +49 228 182 24105, i.wisser@deutschepost.de
4	Royal Mail Guy Fischer, Director, Overseas Contracts & Policy +44 7703104937 guy.fischer@parcelforce.co.uk Robert Woods Regional Director, Rest of the World

Impacted Third Party Number	Contact Information
5	China Post Group Ms. Wu Yan, Deputy Director of International Postal Affairs International Cooperation Department China Post Group +86 13 621 256 616 wuyan@ems.com.cn
6	BBVA Bancomer USA, Inc. Aurora Garza Hagan, CEO 281-765-1525 aurora.garza@bbvabancomerusa.com
7	Korea Post Ms. Juhyeon Jeon Assistant director +82 44 200 8282 Email: obeanus@korea.kr
8	Australian Postal Corporation Michael Cope, Head of International Relations, International Postal +61 (0)2 93198750 michael.cope@auspost.com
9	KPG Vincent Mougey, Manager, New International Opportunities 202-268-3437 Vincent.J.Mougey@usps.gov Allie Schneider Laakso Business Solutions Specialist 202-268-2262 Allison.S.Laakso@usps.gov

Impacted Third Party Number	Contact Information
10	Domestic Competitive NSA Customers Elizabeth A. Reed, Attorney, Pricing and Product Support 202-268-3179 elizabeth.a.reed@usps.gov
11	International Competitive NSA Customers Christopher Meyerson, Attorney, Global Business 202-268-7820 christopher.c.meyerson@usps.gov Kyle Coppin, Attorney, Global Business 202-268-2368 Kyle.R.Coppin@usps.gov
12	FedEx Express James H. Ferguson, Corporate Vice President 901-434-8600 jhferguson1@fedex.com
13	Canada Post Corporation Ewa Kowalski, Director International Mail Settlement and USPS Relations 1 (613) 734-6201 ewa.kowalski@canadapost.ca Rajeev Venugopal, General Manager International Relations, 1 (613) 734-3000x55941, raj.venugopal@canadapost.ca

Impacted Third Party Number	Contact Information
14	Correos de Mexico – Gerardo Jesus Gonzalez Arizmendi Dirección Corporativa de Planeación Estratégica Subdirector de Asuntos Internacionales gga@sepomex.gob.mx +52 (55) 5130-4109 Tacuba No.1, Centro Piso 3 06002, México, D.F. MEXICO Correos de México Jimmy Ortiz, Manager, International Postal Relations 202-268-6356 jimmy.ortiz@usps.gov
15	UPU Designated Operators Contact information for all UPU Designated Operators is available at: http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN
16	EMS Operators List of EMS Operators is available at: http://www.ems.post/members-ems-cooperative Contact information for EMS Operators is available at: http://pls.upu.int/pls/ap/addr_public.display_addr?p_language=AN

Appendix 2 to Application for Nonpublic Treatment
List of Impacted Parties by Non-Public Folder

Folder	Impacted Third Parties Identified by Party Number in Appendix 1
FY17-NP1	10, 11, 12
FY17-NP2	1, 2, 3, 4, 5, 7, 8, 11, 12, 13, 14, 15, 16
FY17-NP3	12, 13
FY17-NP4	12, 13
FY17-NP5	6
FY17-NP6	12, 13
FY17-NP7	12, 13
FY17-NP8	12
FY17-NP9	12, 13
FY17-NP10	N/A
FY17-NP11	N/A
FY17-NP12	N/A
FY17-NP13	N/A
FY17-NP14	12, 13
FY17-NP15	N/A
FY17-NP16	N/A
FY17-NP17	N/A
FY17-NP18	N/A
FY17-NP19	N/A
FY17-NP20	N/A
FY17-NP21	N/A
FY17-NP22	N/A
FY17-NP23	N/A
FY17-NP24	N/A
FY17-NP25	N/A
FY17-NP26	N/A
FY17-NP27	10
FY17-NP28	2, 3, 4, 5, 7, 8, 12, 13, 15, 16
FY17-NP29	N/A
FY17-NP30	N/A