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POSTAL REGULATORY COMMISSION

Annual Compliance Determination Report

Fiscal Year 2023

March 28, 2024

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EXECUTIVE SUMMARY

This Report reviews the Postal Service's *Annual Compliance Report* (ACR) in Fiscal Year (FY) 2023,[1] fulfilling the Commission's responsibility to produce an annual assessment of Postal Service rates and service mandated by 39 U.S.C. §§ 3653 and 3705. It is based on information the Postal Service is required to provide within 90 days after the close of the fiscal year and on comments subsequently received from the public. Commission findings and directives are identified in italics in each chapter and summarized in Appendix A.

Consistent with the approach adopted in past years, the *Annual Compliance Determination* (ACD) focuses on compliance issues as defined in 39 U.S.C. §§ 3653(b)(1), (b)(2), and 3705(e). These statutory subsections require the Commission to make determinations on whether any rates and fees in effect during FY 2023 were not in compliance with chapter 36 and 37 of Title 39 of the United States Code and whether any service standards in effect during FY 2023 were not met. A financial analysis is expanded in the report titled *Financial Analysis of United States Postal Service Financial Results and 10-K Statement 2023* that will be issued later this spring. The Commission will also issue a separate report on the Postal Service's *FY 2023 Annual Performance Report and FY 2024 Performance Plan*.

Notable Commission findings and determinations for FY 2023 are:

- **Market Dominant Rate and Fee Compliance.** In Chapter II, the Commission determines that all rates implemented in FY 2023 complied with all rate authority provisions. The Commission notes that all workshare discounts in effect in FY 2023 were in compliance at the time they were introduced in rate adjustment proceedings based on the most recent avoided costs available at the time of each rate adjustment filing. The Postal Service is required to bring any current discounts that are out of compliance with relevant regulations based on the new FY 2023 avoided costs into compliance in the next Market Dominant rate adjustment.
- **Market Dominant Non-Compensatory Classes and Products.** In Chapter III, the Commission finds that the Postal Service lost $1.34 billion in FY 2023 from non-compensatory classes and products. Periodicals was the only non-compensatory class, and both products within that class were non-compensatory. Other non-compensatory products included USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, and Media Mail/Library Mail. With regards to the Periodicals class, the Commission reiterates its longstanding finding that despite cost-reduction initiatives and the maximization of its pricing authority, the costs of these products continue to rise, and slight increases in unit revenue are not enough to mitigate the products' cost increases and improve cost coverage. As it relates to USPS Marketing Mail Flats, and USPS Marketing Mail Carrier Route, and Media Mail/Library Mail, the

[1] United States Postal Service, FY 2023 *Annual Compliance Report*, December 29, 2023 (FY 2023 ACR).

Commission finds that all three products failed to cover their attributable costs and directs the Postal Service to increase the price for each product by at least 2 percentage points above the class average in each generally applicable Market Dominant rate proceeding.

- **Competitive Products.** In Chapter IV, the Commission finds that revenues for four Competitive products with rates of general applicability did not cover attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2). As it relates to the Postal Service's interagency agreements (IAAs), the Commission finds that the Postal Service's IAAs provided a net contribution to the Postal Service in compliance with 39 U.S.C. § 3704.
- **Service Performance.** In Chapter V, the Commission finds that 15 out of 27 Market Dominant products/categories failed to meet their service performance targets and directs the Postal Service to take corrective action to improve performance. Further, of the 22 Market Dominant products, 11 were non-compliant. The Postal Service met its service performance targets for the remaining 11 Market Dominant products. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for all non-compliant products in FY 2024. The Commission has specifically developed directives that are designed to elicit information and data from the Postal Service regarding service performance for non-compliant products and the steps that the Postal Service will take to restore service performance for those products in FY 2024. These directives include continued Postal Service reporting of specific information developed from its internal metrics within 90 days of the issuance of this ACD and as part of the Postal Service's FY 2024 ACR.

CHAPTER I. INTRODUCTION

A. Statutory Context

United States Code Title 39 Section 3652 requires the Postal Service to file certain reports with the Commission regarding Postal Service costs, revenues, rates, and service during the prior fiscal year, including the Postal Service's ACR.[2] Section 3653(b) requires the Commission to review the Postal Service's ACR and issue an ACD evaluating whether rates or fees were non-compliant with the applicable provisions of chapter 36 of Title 39 of the United States Code (or regulations issued thereunder) and whether any service standards were not met in the fiscal year under review. 39 U.S.C. § 3653(b). The Postal Service Reform Act of 2022 (PSRA)[3] expanded the Postal Service's annual reporting requirements to include costs, revenues, rates, and quality of service for nonpostal services for the fiscal year under review.[4] The PSRA requires the Commission to review this reporting and determine whether the activities complied with applicable provisions of chapter 37 of Title 39 of the United States Code.[5]

The provisions of chapters 36 and 37 of Title 39 of the United States Code establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service. This ACD focuses on the requirements appearing in 39 U.S.C. §§ 3653(b)(1), 3653(b)(2), and 3705(e). The Commission addresses only matters that have been challenged by commenters or otherwise present compliance issues.

Consistent with past practice, the Commission plans to issue its analysis of the Postal Service's financial results and Form 10-K later in FY 2024.[6] Similarly, the Commission will continue publishing a separate analysis evaluating the Postal Service's performance plans and program performance report pursuant to 39 U.S.C. § 3653(d).[7]

[2] The ACR is filed in accordance with the provisions appearing in 39 U.S.C. § 3652(a) through (f). In conjunction with filing the ACR, the Postal Service must also file its most recent *Comprehensive Statement on Postal Operations*, its FY 2023 *Performance Plan*, and its FY 2022 *Performance Report*. 39 U.S.C. § 3652(g).

[3] Pub. L. 117-108, 136 Stat. 1127 (2022).

[4] *See* 39 U.S.C. § 3705(a).

[5] *See* 39 U.S.C. § 3705(e); *see* 39 U.S.C. § 3652(a).

[6] *See, e.g.*, Docket No. ACR2022, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement*, May 17, 2023 (FY 2022 Financial Analysis).

[7] *See* Docket No. ACR2022, Notice Requesting Comments on the Postal Service FY 2022 Annual Performance Report and FY 2023 Annual Performance Plan, January 11, 2023 (Order No. 6407). Initial and reply comment deadlines were established as March 15, 2023, and March 29, 2023, respectively. Order No. 6407 at 3-4.

B. Timeline and Review of Report

The Postal Service must file the ACR no later than 90 days after the end of each fiscal year (*i.e.*, 90 days after September 30). Upon receipt of the ACR, the Commission provides an opportunity for public comment on the Postal Service's submissions.[8] For the fiscal year under review, the Commission must make a written determination within 90 days of the Postal Service's filing, identifying any rates or fees that were not in compliance with applicable provisions of chapters 36 and 37 of Title 39 or related regulations and whether any service standards were not met. 39 U.S.C. § 3653(b); 39 U.S.C. § 3705(e). In making this determination, the Commission shall take such action as it deems appropriate. 39 U.S.C. § 3653(c); 39 U.S.C. § 3705(e)(3). The Postal Service filed the FY 2022 ACR on December 29, 2023; thus, the Commission must issue this ACD no later than March 28, 2024.

C. Focus of the ACR

The focus of the ACR is to "analyze costs, revenues, rates, and quality of service, using such methodologies as the Commission shall by regulation prescribe, and in sufficient detail to demonstrate that all products during such year complied with all applicable requirements of this title…." 39 U.S.C. § 3652(a)(1).

For Market Dominant products, the Postal Service must include product information, volumes, and measures of quality of service, including the speed of delivery, reliability, and the degree of customer satisfaction. 39 U.S.C. § 3652(a)(2); 39 C.F.R. pt. 3055. For workshare discounts, the Postal Service must report the per-item cost it avoided through the activity performed by the mailer, the percentage of the per-item cost avoided that the current discount represents, and the per-item contribution to institutional costs. 39 U.S.C. § 3652(b).

For Competitive products, the Postal Service must demonstrate that all Competitive products complied with 39 U.S.C. § 3633, which prohibits the subsidization of Competitive products by Market Dominant products and requires that each Competitive product covers its attributable costs and that Competitive products collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. *See* 39 U.S.C. § 3633(a).

[8] 39 U.S.C. § 3653(a). Additionally, the Commission is required to appoint an officer of the Commission who shall represent the interests of the public. *Id.*; *see* 39 U.S.C. § 505.

For nonpostal services in effect during the fiscal year under review, the Postal Service must demonstrate compliance with the applicable provisions of chapter 37 of Title 39 of the United States Code. *See* 39 U.S.C. § 3705(e)(2).[9]

By regulation, in developing periodic reports such as the ACR, the Postal Service must use only accepted analytical principles. *See* 39 C.F.R. § 3050.10. Accepted analytical principles refer to economic, mathematical, or statistical theories, precepts, or assumptions that were applied by the Commission in its most recent ACD, unless different analytical principles were subsequently accepted by the Commission in a final rule. 39 C.F.R. § 3050.1(a), (c).

In this proceeding, the Postal Service relies upon five approved methodology changes.[10] The Postal Service discusses the effect of methodology changes to FY 2023 ACR library references in Library Reference USPS-FY23-9 (Roadmap Document).[11]

D. Organization of the FY 2023 ACD

In Chapter II, the Commission discusses compliance with the system of ratemaking for Market Dominant products, which includes workshare discount compliance with applicable requirements. Chapter III focuses on other compliance issues related to Market Dominant products' rates and fees, including non-compensatory classes and products. Chapter IV covers compliance issues related to the rates and fees of Competitive products, as well as PSRA-required reporting on nonpostal services. In Chapter V, the Commission discusses service performance, customer access, and customer satisfaction.

There are four appendices to this ACD. Appendix A contains Commission directives in this ACD. Appendix B contains a list of comments filed in this proceeding and their citations, organized by commenter. Appendix C contains a list of Commission Information Requests (CIRs), Chairman's Information Requests (CHIRs), the Postal Service's responses to the information requests, and the citations to these filings, organized in numerical order. Appendix D contains an index of acronyms and abbreviations used in this ACD.

[9] For agreements with an agency of any State government, local government, or tribal government to provide property or nonpostal services to the public on behalf of such agencies for non-commercial purposes entered into under 39 U.S.C. § 3703, the Postal Service must include costs, revenues, rates, and quality of service for each agreement or substantially similar set of agreements. 39 U.S.C. § 3705(a)(1). For the Postal Service's program to provide property and nonpostal services to other Government agencies within the meaning of 39 U.S.C. § 411 the Postal Service must include costs, revenues, rates, and quality of service for the program as a whole established under 39 U.S.C. § 3704. 39 U.S.C. § 3705(a)(1).

[10] Docket No. RM2023-4, Order on Analytical Principles Used in Periodic Reporting (Proposal One), April 6, 2023 (Order No. 6474); Docket No. RM2023-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), Directing the Postal Service's Participation in Further Proceedings, and Providing Notice of Filing Attachment Under Seal, August 31, 2023 (Order No. 6659); Docket No. RM2023-8, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Three), August 9, 2023 (Order No. 6608); Docket No. RM2023-9, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Four), November 2, 2023 (Order No. 6771); Docket No. RM2023-10, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 16, 2023 (Order No. 6798). The Postal Service relies, in part, on accepted analytical principles approved in Docket No. RM2023-7; however, the docket remains pending and may result in further changes to accepted analytical principles. *See generally* Order No. 6659.

[11] Library Reference USPS-FY23-9, December 29, 2023, PDF file "USPS-FY23-9 Roadmap.pdf," at 124-81 (Roadmap Document).

E. Procedural History

Prior to the filing of its FY 2023 ACR, the Postal Service filed a motion requesting a temporary waiver of 39 C.F.R. § 3050.10 with respect to reporting disaggregated costs for the USPS Ground Advantage product.[12] The Commission issued an order taking the Motion under advisement.[13] The Commission responds to the Postal Service's motion and discusses the data reported for USPS Ground Advantage in more detail in Chapter IV. *See* Chapter IV, *infra*.

On December 29, 2023, the Postal Service filed its FY 2023 ACR, covering October 1, 2022, through September 30, 2023. *See* FY 2023 ACR. The ACR includes extensive narrative and substantial detailed public and non-public information contained in library references. The library references include the Cost and Revenue Analysis (CRA), the International Cost and Revenue Analysis (ICRA), cost models supporting workshare discounts, and billing determinants. The library references also include the Postal Service's Roadmap Document to the FY 2023 ACR, which contains a brief description of each library reference, a summary of material changes in methodology, and a discussion of obsolescence in accordance with 39 C.F.R. § 3050.12. *See* Roadmap Document, *supra* note 11. The Postal Service concurrently filed its FY 2023 *Annual Report* and FY 2023 *Comprehensive Statement on Postal Service Operations* as part of Library Reference USPS-FY23-17.[14]

On January 2, 2024, the Commission issued an order establishing Docket No. ACR2023 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing January 30, 2024, and February 13, 2024, as the deadlines for comments and reply comments, respectively.[15]

F. Confidentiality

Commission rules require the Postal Service, when it files non-public materials with the Commission, to file an application for non-public treatment which must clearly identify all non-public materials and fulfill the burden of persuasion that the materials should be withheld from the public. 39 C.F.R. §§ 3011.200(a), 3011.201. The FY 2023 ACR includes such an application with respect to certain Competitive and international products. FY 2023 ACR, Attachment 2.

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[12] *See* Motion of the United States Postal Service for Waiver of Rule 3050.10 with Respect to Disaggregated Ground Advantage Costs, December 8, 2023 (Motion for Waiver).

[13] Order Taking Under Advisement Postal Service Motion for Waiver of Rule 39 C.F.R. § 3050.10 Regarding Disaggregated USPS Ground Advantage Cost Information, December 22, 2023 (Order No. 6894).

[14] Library Reference USPS-FY23-17, December 29, 2023, PDF file "FY2023.Annual.Report.to.Congress.pdf" (FY 2023 Annual Report).

[15] *See* Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, January 2, 2024, at 5-6 (Order No. 6909). On January 10, 2024, the Commission established separate comment deadlines for the Postal Service's FY 2023 annual performance report (FY 2023 Report) and FY 2024 annual performance plan (FY 2024 Plan). Notice Requesting Comments on the Postal Service FY 2023 Annual Performance Report and FY 2024 Annual Performance Plan, January 10, 2024, at 3-4 (Order No. 6932).

G. Requests for Additional Information

Fourteen CHIRs were issued with respect to the ACR beginning on January 5, 2024. *See generally* Appendix C. The Postal Service responded to the CHIRs.[16] In addition, one CIR was issued on February 8, 2024. *See generally* Appendix C.

On January 16, 2024, the National Postal Policy Council (NPPC) filed a motion for issuance of information requests, which the Commission issued on January 17, 2024.[17]

On February 2, 2024, the Postal Service filed two motions requesting reconsideration of two CHIR questions. Motion for Reconsideration, Question 6; Motion for Reconsideration, Question 18. In both instances, the Postal Service sought the reconsideration and withdrawal of questions. *See generally id*. The Commission responded to the Motion for Reconsideration, Question 6 by issuing CIR No. 1. *See generally* CIR No. 1. The Commission responded to the Motion for Reconsideration, Question 18 by issuing Order No. 6971, which denied the Postal Service's motion in part by reducing the number of Post Office suspensions it sought information on and extending the time allowed for a Postal Service response.[18]

[16] *See generally id*.

[17] National Postal Policy Counsel Motion for Issuance of Information Request, January 16, 2024; *see also* CHIR No. 3.

[18] Order Denying Motion for Reconsideration in Part and Granting an Extension of Time, February 13, 2024 (Order No. 6971).

CHAPTER II. MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

A. Introduction

The system for regulating rates and classes for Market Dominant products was modified in FY 2021 as new regulations went into effect on January 14, 2021, which included new rate authority mechanisms and new requirements for workshare discounts.[19] Chapter II discusses the class-level price cap and workshare discounts. Key findings are as follows:

- at the time of Commission approval, all rate increases in FY 2023 complied with all relevant regulations;
- at the time of Commission approval, all workshare discounts in effect in FY 2023 complied with all relevant workshare regulations; and
- the Postal Service must bring all current workshare discounts that are not equal to their FY 2023 avoided costs into compliance with relevant workshare regulations in the next rate adjustment proceeding.

B. The Class-Level Price Cap

The new regulations as set out in Order No. 5763 provide for multiple forms of rate authority. 39 C.F.R. § 3030.127(a). In particular, in addition to rate authority based on the change in consumer price index for all urban consumers (CPI-U) and any unused banked rate authority, which existed prior to the Commission's issuance of Order No. 5763[20], the maximum rate adjustment authority available to the Postal Service for each Market Dominant class under the new regulations also includes:

- density rate authority (39 C.F.R. part 3030, subpart D), which grants additional rate authority to the Postal Service based on unit cost increases caused by the decline in mail density as the Postal Service delivers fewer mail pieces to more delivery points;
- retirement obligation rate authority (39 C.F.R. part 3030, subpart E), which grants additional authority based on specific retirement liabilities as a driver of the Postal Service's net losses beyond the Postal Service's control; and

[19] Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020 (Order No. 5763).

[20] CPI-U based rate authority (39 C.F.R. part 3030, subpart C) grants the authority to the Postal Service to raise rates based on monthly changes in the CPI-U as published by the Bureau of Labor Statistics, and banked rate authority (39 C.F.R. part 3030, subpart H) includes unused rate adjustment authority accumulated for future use pursuant to certain rules.

- when applicable, non-compensatory class rate authority (39 C.F.R. part 3030, subpart G), which grants an additional 2 percentage points of rate authority for classes where costs of all products exceed revenues of all products. *Id*.; Order No. 5763 at 72, 100, 189-91.[21]

The Commission approved two omnibus rate adjustments that went into effect during FY 2023.[22] The first was approved in Docket No. R2023-1 on November 28, 2022, and went into effect on January 22, 2023. The second one was approved in Docket No. R2023-2 on May 31, 2023, and went into effect on July 9, 2023.[23] In Docket No. R2023-1, all of the rate authority newly available to the Postal Service was due to the CPI-U authority. In Docket No. R2023-2, most of the rate authority available to the Postal Service was due to CPI-U authority.[24] Figure II-1 shows the amount of rate authority by type available to the Postal Service in each of these dockets.

At the time of Commission approval, all rates implemented in FY 2023 complied with all rate authority provisions, in accordance with 39 C.F.R. §§ 3030.127 and 3030.128.[25]

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[21] Density rate authority, retirement obligation rate authority, and non-compensatory class rate authority are available to the Postal Service only once annually and must be included in the calculation of the maximum rate adjustment authority in the first generally applicable rate adjustment after the authority becomes available. *See* 39 C.F.R. §§ 3030.160(c), 3030.181(c), 3030.222(b). In FY 2023, those authorities became available April 3, 2023. *See* Docket No. ACR2022, Determination of Available Market Dominant Rate Authority, April 3, 2023 (Order No. 6472).

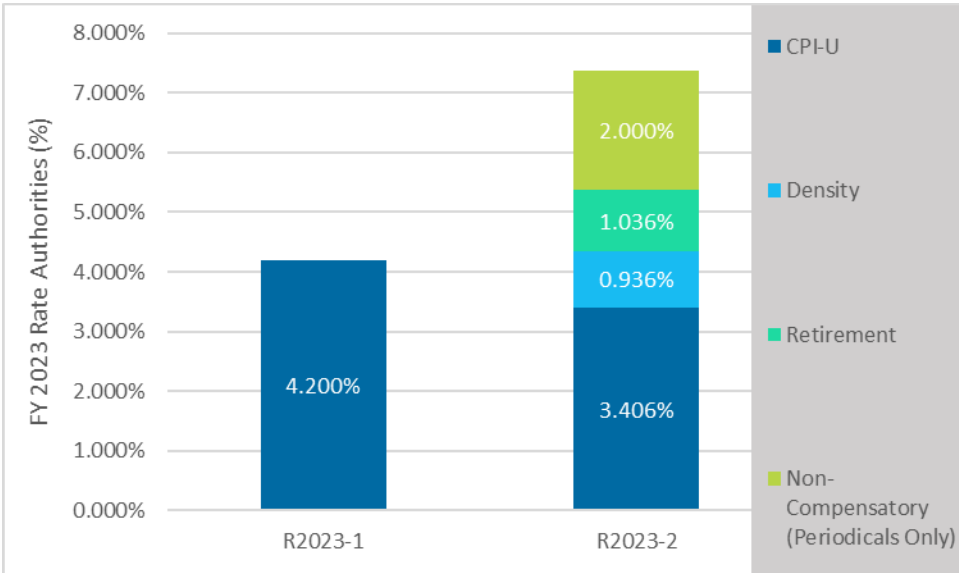
[22] *See* Docket No. R2023-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 28, 2022 (Order No. 6341); Docket No. R2023-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, May 31, 2023 (Order No. 6526). Docket No. R2023-2 was the first rate adjustment after Order No. 6472 and, accordingly, used the newly available density, retirement obligation, and non-compensatory class rate authorities. Docket No. R2023-1 included only newly available rate authority from the CPI-U rate authority and banked authority.

[23] Additionally, on August 11, 2023, the Postal Service filed an incentives-only rate case in Docket No. R2023-3 that proposed volume-based incentives for First-Class Mail and USPS Marketing Mail only. Docket No. R2023-3, United States Postal Service Notice of Market Dominant Price Change Creating Two Incentives, August 11, 2023. The Commission approved these incentives on September 27, 2023. Docket No. R2023-3, Order on Market Dominant Price Change Creating Two Incentives, September 27, 2023 (Order No. 6713). Because these promotional rates do not go into effect until January 1, 2024, they do not fall within the fiscal year under review in the current ACD. The Commission notes that since these incentives lowered rates for certain pieces of mail and the Postal Service at the time of filing did not seek to include the promotional volume in the price cap calculation to generate additional rate adjustment authority based on the incentives, the price cap was not implicated in Docket No. R2023-3. The Commission further notes that on October 6, 2023, the Postal Service filed a rate adjustment affecting all Market Dominant classes of mail. *See* Docket No. R2024-1, United States Postal Service Notice of Market-Dominant Price Change, October 6, 2023 (Docket No. R2024-1, Notice). The Commission approved these rates on November 22, 2023, to go into effect January 21, 2024. Docket No. R2024-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 22, 2023 (Order No. 6814). The rates approved in Docket No. R2024-1 do not fall in the fiscal year under review within the FY 2023 ACD.

[24] The Commission utilizes a 12-month rolling average methodology for calculating CPI-U changes. *See* 39 C.F.R. § 3030.128. In FY 2022 (October 1, 2021 - September 30, 2022), CPI-U increased 7.92 percent. In FY 2023 (October 1, 2022 - September 30, 2023), CPI-U increased 5.06 percent.

[25] *See* Order No. 6341 at 2; Order No. 6526 at 2.

Figure II-1
Available Rate Authority by Case



Source: *See* Docket No. R2023-1, Library References PRC-LR-R2023-1-1 through PRC-LR-R2023-1-5, November 28, 2022; Docket No. R2023-2, Library References PRC-LR-R2023-2-1 through PRC-LR-R2023-2-5, May 31, 2023. Non-compensatory authority only applies to classes of mail found to be non-compensatory as determined by the Commission. 39 C.F.R. § 3030.220. For FY 2023, the only non-compensatory class was Periodicals. Order No. 6341 at 75-76; Order No. 6526 at 91-92. Banked authority differs by class based on the difference between the total authority available to the Postal Service under each type of rate authority in prior rate adjustment proceedings and how much the Postal Service's elected to use for each class in those proceedings and is not shown in this graph.

The Association for Postal Commerce (PostCom) and NPPC express concern with the Postal Service's use of its rate authority and its potential impact on volume declines. PostCom Comments at 1-4; NPPC Comments at 1-2, 7.

PostCom argues that semi-annual rate increases and the Postal Service's "exercise of full pricing authority" have accelerated volume declines. PostCom Comments at 2. PostCom asserts that the Postal Service "remains intent" on increasing rates every 6 months, and states that rates will likely increase this July by "approximately [7] percent – [9] percent for users of flats - without any empirical information about the rate increase implemented last week." *Id.* at 1. PostCom contends that the Commission's regulations require the Postal Service to demonstrate the degree to which its products "promote the public policy objectives set out in title 39 of the United States Code." *Id.* at 2 (citing 39 C.F.R. § 3050.20(a)). PostCom argues that the FY 2023 ACR provides little indication that the Postal Service has engaged in practices that "create predictability and stability in rates" or that its products "assure adequate revenues, including retained earnings, to maintain financial stability." PostCom Comments at 2 (citing 39 U.S.C. § 3622(b)(2), (b)(5)). PostCom asserts that the Commission should determine that the Postal Service is not in compliance with the requirements of 39 U.S.C. chapter 36 and prevent it from exercising any rate authority until it can demonstrate compliance. PostCom Comments at 4.

NPPC states that the ACR "shows a Postal Service that, despite sustained record high rates and near-record revenues, has profound issues with excessive costs, continues to suffer sharp volume declines, and is struggling to improve service." NPPC Comments at 1. NPPC contends that total operating expenses rose to a record high, but at the same time "volumes fell to a level not seen this century." *Id.* NPPC argues that this "is not a strategy for long-term stability." *Id.*

The Postal Service argues that PostCom's proposal to prevent the Postal Service from exercising any rate authority until it can demonstrate compliance with 39 U.S.C. chapter 36 "would be truly extraordinary." Postal Service Reply Comments at 2-3. The Postal Service states that this proceeding is to determine whether rates and fees in effect during the fiscal year were compliant with applicable statutes and regulations. *Id.* at 2. The Postal Service argues that the Commission has addressed the objectives in 39 U.S.C. § 3622(b) in the Commission's design of a ratemaking system, and that the Postal Service is not required "to justify...individual prices vis-à-vis those objectives. *Id.* at 3.

As noted above, all rates implemented in FY 2023 complied with all Commission rate authority provisions. The Commission agrees with the Postal Service that the reconsideration of its Market Dominant rate regulations is outside the scope of this annual compliance review; thus, the Commission is unable to grant the relief that PostCom proposes.

The Commission is, however, troubled by ongoing volume declines and acknowledges concerns about the potential impact of rate increases on volume. Market Dominant volume declined from 120.4 billion pieces in FY 2022 to 109.5 billion pieces in FY 2023.[26] In particular, USPS Marketing Mail volume declined from 67.1 billion pieces in FY 2022 to 59.4 billion pieces in FY 2023.[27] In conclusion, from FY 2022 to FY 2023, Market Dominant volume declined by 10.9 billion pieces, with USPS Marketing Mail contributing to 70.2 percent of that decline, with a volume loss of 7.7 billion pieces.

The regulations set forth in Order No. 5763 that provide for multiple forms of rate authority have been in effect for 3 years. *See* Order No. 5763 at 1, 370. The Commission previously stated that it would perform a 5-year review (or sooner) of the regulations following their effective date. Order No. 5763 at 267. The consistent, year-over-year volume declines, however, as well as stakeholder concerns regarding a wide variety of issues related to Market Dominant rate changes, have prompted the Commission to commit to opening a proceeding to consider these issues and the potential effects of its Market Dominant rate regulations. Order No. 6814 at 2, 18.

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[26] *See* United States Postal Service, Fiscal Year 2023 Notice of Rate Authority Calculations, December 29, 2023, Excel file "FY23.Rate.Authorities.Workbooks.xlsx," tab "Density Rate Authority."

[27] *Compare* Docket No. ACR2022, Library Reference USPS-FY22-1, December 29, 2022, Excel file "Public_FY22CRAReport.xlsx," *with* Library Reference USPS-FY23-1, December 29, 2023, Excel file "Public_FY23CRAReport.xlsx."

C. Workshare Discounts

1. Introduction

Workshare discounts provide reduced prices for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform such as presorting, barcoding, handling, or transportation and relieves the Postal Service of the cost of performing those activities. These workshare discounts are based on the avoided costs that result from the mailer performing the activity instead of the Postal Service.

A passthrough represents the relationship between the amount of the workshare discount and the avoided cost, calculated by dividing the workshare discount by its avoided cost and expressing the result as a percentage.[28] When a workshare discount equals avoided cost, the passthrough is 100 percent. If a workshare discount is less than the avoided cost, then the passthrough is below 100 percent. Conversely, if a workshare discount is greater than the avoided cost, then the passthrough is above 100 percent.

2. Workshare Discount Regulations

The Commission's regulations contain several pricing requirements for workshare discounts that must be complied with in each rate adjustment proceeding. *See* 39 C.F.R. pt. 3030, subpt. J. Workshare discounts are primarily regulated through rate adjustment proceedings, and only workshare discounts consistent with the regulations are approved by the Commission and permitted to go into effect.[29]

The Commission's regulations provide that, based on the avoided costs established in the most recent ACD, workshare discounts set above avoided costs cannot be increased, workshare discounts set below avoided costs cannot be decreased, and workshare discounts with 100 percent passthroughs cannot be changed. 39 C.F.R. § 3030.282. Additionally, workshare discounts cannot be set above or below their avoided costs in a rate adjustment proceeding unless a specific exemption applies. *Id.* §§ 3030.283, 3030.284.

A workshare discount that exceeds its avoided cost is only permissible if one of the following exceptions applies: (1) the proposed workshare discount is associated with a new postal service, a change to an existing postal service, or a new workshare initiative; (2) the proposed workshare discount is a minimum of 20 percent less than the existing workshare discount; or (3) the proposed workshare discount is provided in connection

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[28] For example, if the Postal Service offers a discount of $0.020 for mailers to apply a barcode to their mail, and this barcoding allows the Postal Service to avoid $0.022 in cost, then the worksharing passthrough is calculated as $0.02/$0.022 = 0.909 or a passthrough of 90.9 percent. Both the workshare discount and the avoided cost should be rounded to three decimal places (i.e., the nearest thousandth or $0.001). The passthrough percentage should be rounded to one decimal place.

[29] *See, e.g.,* Order No. 6526 at 6-7, 53, 70, 95, 107 (approving workshare discounts proposed by the Postal Service as consistent with applicable regulations).

with a subclass of mail, consisting exclusively of mail matter of educational, cultural, scientific, or informational (ECSI) value. *Id.* § 3030.283(a)-(c), (e). In order for the ECSI exception to apply, the Postal Service must provide additional supporting information with its rate adjustment filing. *Id.* § 3030.285(c).

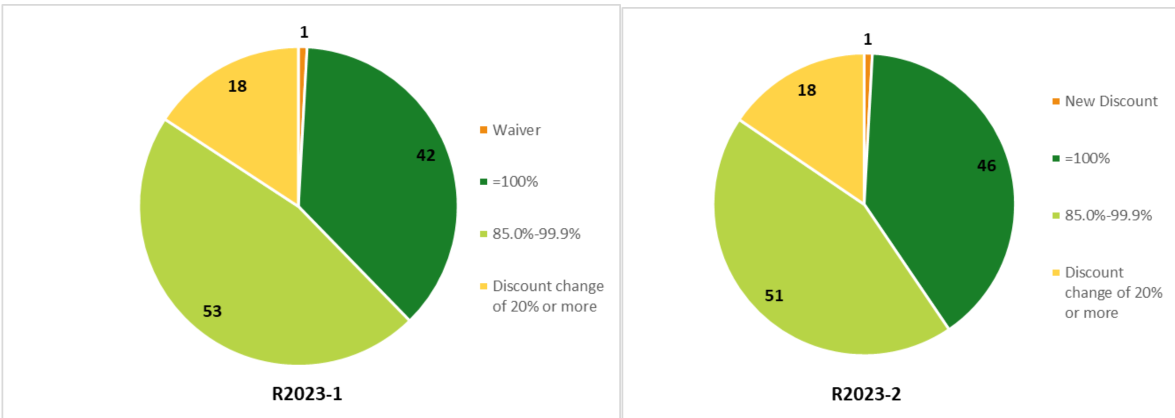
In addition, a workshare discount that exceeds avoided cost will be permitted if the Commission has granted a waiver of the application of 39 C.F.R. § 3030.283 pursuant to 39 C.F.R. § 3030.286. *Id.* § 3030.283(d). For a workshare discount that exceeds avoided cost, the application for waiver will be granted only if at least one provision appearing in 39 U.S.C. § 3622(e)(2)(A) through (e)(2)(D) or 39 U.S.C. § 3622(e)(3)(A) through (e)(3)(B) applies. *Id.* § 3030.286(f). Such provisions consider, among other things, preventing a loss of volume and reduction in contribution, phasing out discount gaps over time to mitigate rate shock, and avoiding an impediment to the efficient operation of the Postal Service. In Docket No. R2023-1, the USPS Marketing Mail Carrier Route Flats dropshipped at the destination delivery unit (DDU) workshare discount was permitted to exceed its avoided cost because the Postal Service received an advanced waiver from the Commission under the exception in 39 C.F.R. § 3030.283(d). Order No. 6341 at 60-61.[30] In Docket No. R2023-2, no workshare discount set above avoided cost received a waiver and all discounts complied with applicable regulations.

A workshare discount that is less than its avoided cost is only permissible if one of the following exceptions applies: (1) the proposed workshare discount is associated with a new postal service, a change to an existing postal service, or a new workshare initiative; (2) the proposed workshare discount is a minimum of 20 percent more than the existing workshare discount; or (3) the percentage passthrough for the proposed workshare discount is at least 85 percent. *Id.* § 3030.284(a)-(c), (e). In addition, a workshare discount that is less than its avoided cost will be permitted if the Commission has granted a waiver of the application of 39 C.F.R. § 3030.284 pursuant to 39 C.F.R. § 3030.286. *Id.* § 3030.284(d). For a workshare discount that is less than its avoided cost, the application for waiver will be granted only if setting the workshare discount closer or equal to its avoided cost would impede the efficient operation of the Postal Service or if increasing or eliminating the workshare discount for a non-compensatory product would result in a further increase in the rates paid by mailers not able to take advantage of the discount. *Id.* § 3030.286(g). In Docket Nos. R2023-1 and R2023-2, no workshare discounts less than avoided costs received a waiver and all discounts complied with the applicable regulations.

[30] In Docket No. RM2022-12, the Commission granted the Postal Service's waiver for USPS Marketing Mail Carrier Route Flats dropshipped at the DDU. Docket No. RM2022-12, Order Approving Postal Service Application for Waiver Under 39 C.F.R. § 3030.286, August 30, 2022 (Order No. 6261). Subsequently, in Docket No. RM2023-4, the Commission approved the Postal Service's proposed methodological changes to remedy the issue from Docket No. RM2022-12. *See* Order No. 6474. Similar methodological issues persist for USPS Marketing Mail Parcels dropshipped at the DDU and resulted in two passthroughs above 100 percent in Docket No. R2023-2; however, the Postal Service complied with 39 C.F.R. § 3030.283(c). *See* Order No. 6526 at 69-70.

Figure II-2 shows the total number of workshare discount passthroughs by compliance type at the time of filing for Docket Nos. R2023-1 and R2023-2.

Figure II-2
Workshare Discount Passthrough Compliance by Case



At the time of Commission approval, and as represented by Figure II-2, all workshare discounts in effect in FY 2023 complied with all workshare provisions, in accordance with 39 C.F.R. §§ 3030.282, 3030.283, and 3030.284.

3. Comments on Workshare Discounts

The Public Representative provides a summary of the number of workshare discounts that were below 85 percent, between 85 and 100 percent, and over 100 percent in both FY 2022 and FY 2023. PR Comments at 20-21. The Public Representative states that although there are several workshare discounts in FY 2023 with passthroughs less than 85 percent as well as greater than 100 percent, the Public Representative acknowledges the Postal Service's explanation that mail processing cost avoidance models may fluctuate for a variety of reasons. *Id.* at 21. The Public Representative states that the Postal Service has brought workshare discounts into compliance with the Commission's regulations in prior Market Dominant rate cases, and that he expects it will do so in the future. *Id.* The Public Representative also notes that, in some instances, passthrough percentages "can be quite volatile," and fluctuate considerably from year to year. *Id.* at 23. The Public Representative observes that the costs for small-volume products are particularly subject to change. *Id.* at 23-24.

NPPC states that many passthroughs in First-Class Mail and USPS Marketing Mail "did not comply with the law and Commission regulations." NPPC Comments at 7. NPPC acknowledges that in most instances the passthroughs changed because the avoided costs increased. *Id.* NPPC states that the Postal Service recognizes that it will need to adjust those workshare discounts in its next rate adjustment proceeding. *Id.*

PostCom expresses concern with the number of passthroughs that are below 100 percent, and in particular, the number of those that are below 85 percent. PostCom Comments at 5. PostCom contends that, in the aggregate, the Postal Service continues to send inefficient price signals. *Id.* PostCom states that although the 85 percent floor "may encourage improved pricing efficiency to some extent," the Postal Service continues to "inappropriately favor passthroughs well below 100 percent of avoided costs." *Id.* at 6. Further, PostCom criticizes a "mechanistic approach" in setting workshare discounts that "presumes that all customers can make the same cost versus service tradeoffs." *Id.* PostCom contends, instead, that customers choosing destination entry might be buying greater service reliability than those choosing origin entry. *Id.* PostCom argues that "an unnecessarily oversimplified approach" in setting workshare discounts does not recognize this reality. *Id.*

Pitney Bowes Inc. (Pitney Bowes) argues that the FY 2023 ACR confirms that the Commission's workshare discount rules are "having a positive effect," but that "further refinements" are necessary to maximize incentives and achieve pricing and operational efficiency. Pitney Bowes Comments at 1. As an example, Pitney Bowes points to the discount for First-Class Mail 5-Digit Automation Letters in effect at the end of FY 2023, which it states was 79.6 percent of the FY 2023 avoided costs. *Id.* Pitney Bowes argues that the 95.2 percent passthrough set in Docket No. R2024-1, although an increase from 92.9 percent passthrough, was an insufficient adjustment in view of the "significant increase (16.7 percent) in the cost avoidance." *Id.* at 2. Pitney Bowes also encourages the Commission to improve the workshare discount rules by narrowing the permissible "safe harbor" and setting discounts based on forward-looking cost avoidance estimates. *Id.*

The News/Media Alliance (N/MA) asserts that 23 passthroughs in Periodicals were below 85 percent as a result of the FY 2023 ACR updated avoided costs. N/MA Comments at 6. N/MA argues that this suggests that the Postal Service has not used pricing signals effectively to encourage worksharing in the Periodicals class. *Id.* N/MA argues that it "merits noting" that although the Postal Service set the Basic Carrier Route discount at 97.4 percent of FY 2022 avoided costs in Docket No. R2024-1, that passthrough fell to 79.5 percent as a result of updated avoided costs in the FY 2023 ACR. *Id.* N/MA acknowledges that the Postal Service will increase the 23 workshare discounts in the next rate case and encourages the Commission to urge the Postal Service to set the passthroughs as close to 100 percent as feasible. *Id.* at 6-7.

The American Catalog Mailers Association, Inc. (ACMA) notes that a passthrough set at 100 percent causes the cost coverage of an underwater product to decline. ACMA Comments at 12. ACMA asserts that this is one of the reasons for cost coverage declines in USPS Marketing Mail Flats. *Id.*

The Postal Service argues that the Commission "has long been aware of the iterative nature" of workshare discount compliance, where workshare discounts are adjusted based on cost avoidances in the annual compliance review but are thereafter subject to change.

Postal Service Reply Comments at 17. The Postal Service argues that PostCom and N/MA's suggestions that low passthrough percentages in the FY 2023 ACR are indicative of a "cynical...strategy" are "grossly overblown." *Id.* The Postal Service argues that it "dutifully adjusted workshare discounts" in FY 2023 based upon the Commission's regulations, and that it intends to do so in FY 2024. *Id.* The Postal Service further acknowledges that cost avoidances in small mail categories are subject to "high degrees of variation" and are sensitive to any data-collection anomalies. *Id.* Finally, the Postal Service contends that Pitney Bowes' proposal to narrow the "safe harbor" or to base workshare discounts on cost-avoidance estimates is outside the scope of this annual compliance review. *Id.* at 18.

4. Commission Analysis

In response to commenters' concerns about the Postal Service sending efficient price signals, the Commission reiterates that at the time of approval in rate adjustment proceedings, Docket No. R2023-1 and Docket No. R2023-2, all workshare discounts in effect in FY 2023 complied with all workshare provisions, in accordance with 39 C.F.R. §§ 3030.282, 3030.283, 3030.284. *See* Figure II-2, *supra*. The Postal Service does not have the opportunity to bring workshare discounts that have fallen out of compliance with Commission regulations as a result of updated avoided costs filed in the FY 2023 ACR into compliance until the next rate adjustment proceeding. The Postal Service is required to do so at that time. The Commission encourages the Postal Service to not only bring workshare discounts into compliance with Commission regulations, but to also bring passthroughs closer to 100 percent.

The Commission agrees with the Public Representative that a few workshare discounts are quite volatile and can fluctuate from year to year. These include five workshare dropship discounts for USPS Marketing Mail Parcels, which still have a per-piece and per-pound avoided cost structure. The Commission has encouraged the Postal Service to consider changing the passthrough methodology for USPS Marketing Mail Parcels so that it is based solely on a per-piece avoided cost structure, matching the workshare dropship discounts for USPS Marketing Mail Letters and Flats.[31] The remaining two volatile workshare dropship discounts are for USPS Marketing Mail Letters, where the discounts are so small that any fluctuation results in a large change to the discounts. In addition, the Commission is concerned with the avoided cost calculations for USPS Marketing Mail High Density Letters, which historically has had a very low passthrough.[32]

[31] Order No. 6474 at 13; *see* Docket No. RM2024-3, Chairman's Information Request No. 1, February 14, 2024, question 5.

[32] In response to CHIR No. 2, question 32, the Postal Service acknowledges significant increases in measured cost avoidances for USPS Marketing Mail High Density Letters and states that they result from variability in the In-Office Cost System (IOCS) mail processing tallies for its benchmark product, USPS Marketing Mail Carrier Route Letters. January 19 Response to CHIR No. 2, question 32. The Postal Service states that it found "non-sampling errors" affecting the unit cost estimates, but also notes that this particular cost avoidance is subject to considerable sampling variability. *Id.* The Postal Service states that it has "identified remedies, including changes to data collector training and IOCS tally editing rules" that it expects will mitigate the recent anomalous increases for USPS Marketing Mail Carrier Route Letters costs in FY 2024. *Id*. The Postal Service also suggests that it may be appropriate to examine these issues and potential solutions in another docket. *Id*. The Commission requested additional information to further explore these issues and will consider whether a rulemaking is necessary to address the anomalies after FY 2024. *See* CHIR No. 9, question 10.

Additionally, with respect to commenters' concerns with the 85 percent passthrough floor, the Commission acknowledged in Docket No. RM2017-3 that the 85 percent passthrough floor prescribed in 39 C.F.R. § 3030.284(e) was less restrictive than many other workshare discount requirements, but explained that the exception "strikes an appropriate balance between improving pricing efficiency and providing sufficient pricing flexibility." Order No. 5763 at 212. The Commission also noted that if over time, the Postal Service was not taking steps to move workshare discounts toward 100 percent passthroughs, the Commission would reconsider the rules on workshare discounts as part of its plan to review the modified ratemaking system in 5 years. *Id.* at 212-13, 267.

As noted above, the Commission has committed to opening a proceeding to consider stakeholders' concerns about a wide variety of Market Dominant rate issues. Comments on the workshare discount system and related regulations would be more appropriate in that proceeding.

In addition to the workshare compliance review in rate adjustment proceedings, the Commission considers compliance for workshare discounts in the ACD. For purposes of determining workshare discount compliance for FY 2023 in the ACD, the Commission identifies which workshare discounts in the previous fiscal year resulted in passthroughs that either exceeded 100 percent or fell below 85 percent. Order No. 5337 at 207; Order No. 5763 at 199. In addition, the Commission identifies those workshare discounts that were equal to their avoided costs. *Id.* Section 3653(b)(1) of Title 39 requires the Commission to base its determination on the rates and fees "in effect" during FY 2023.[33] The rates in effect at the end of FY 2023 are those approved in Docket No. R2023-2. Library Reference PRC-LR-ACR2023-9 demonstrates compliance of discounts in effect at the end of the year with the FY 2023 avoided costs.

The rates approved in Docket No. R2023-2 and in effect at the end of FY 2023, however, are no longer current as of the date of issuance of this Report. Between the end of FY 2023 and the publication of the FY 2023 ACD, the Postal Service filed a rate adjustment on October 6, 2023 affecting all Market Dominant classes of mail in Docket No. R2024-1. *See generally* Docket No. R2024-1, Notice. The Commission approved these rates on November 22, 2023, to go into effect on January 21, 2024. Order No. 6814 at 66-67. The rates approved in Docket No. R2024-1 do not fall in the fiscal year under review within the FY 2023 ACD; however, the regulations regarding workshare discounts described above will be applied to the workshare discounts approved in Docket No. R2024-1 based upon the FY 2023 avoided costs in the next rate adjustment proceeding filed by the Postal Service. Accordingly, Library Reference PRC-LR-ACR2023-9 also assesses the compliance of workshare

[33] The Commission has consistently evaluated workshare discounts' compliance based on the prices in effect at the end of the fiscal year regardless of whether other prices were also in effect at other points during the fiscal year. This is consistent with the Commission's long-standing practice to use the most recent data available in its analyses. *See, e.g.*, Docket No. ACR2020, *Annual Compliance Determination*, March 29, 2021, at 12 (FY 2020 ACD); Docket No. ACR2019, *Annual Compliance Determination*, March 25, 2020, at 13 (FY 2019 ACD); Docket No. ACR2018, *Annual Compliance Determination*, April 12, 2019, at 13 (FY 2018 ACD); Docket No. ACR2017, *Annual Compliance Determination*, March 29, 2018, at 15 (FY 2017 ACD); Docket No. ACR2016, *Annual Compliance Determination*, March 28, 2017, at 10 (FY 2016 ACD); Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 10 (FY 2015 ACD).

discounts approved in Docket No. R2024-1, effective January 21, 2024, with the FY 2023 avoided costs. Table II-1 shows the number of workshare discounts by mail class categorized by passthrough level (below 85.0 percent, between 85.0 percent and 99.9 percent, equal to 100 percent, and above 100 percent).

Table II-1
Workshare Discounts by Mail Class Categorized by Passthrough Level
Docket No. R2024-1 Workshare Discounts and Docket No. ACR2023 Avoided Costs

Mail Class	<85%	85.0%-99.9%	=100%	>100%	Total
First-Class Mail	9	5	0	2	16
USPS Marketing Mail	19	19	5	15	58
Periodicals	23	7	0	0	30
Package Services	6	6	0	0	12
All Mail Classes	57	37	5	17	116

The Commission finds that all workshare discounts in effect in FY 2023 were in compliance with 39 C.F.R. part 3030, subpart J at the time they were introduced in rate adjustment proceedings based on the most recent avoided costs available at the time of each rate adjustment filing.

The Commission directs the Postal Service to bring all current workshare discounts approved in Docket No. R2024-1 and identified in Table II-1 that are not equal to their avoided costs based on the new FY 2023 avoided costs into compliance with 39 C.F.R. § 3030.283 and 39 C.F.R. § 3030.284 in the next rate adjustment proceeding, which could include aligning workshare discounts with avoided costs or explaining how the workshare discounts comply with existing exceptions (including waivers granted in accordance with the rules set forth in 39 C.F.R. § 3030.286). In addition, all workshare discounts proposed in rate adjustment proceedings must be consistent with 39 C.F.R. § 3030.282.

CHAPTER III. MARKET DOMINANT PRODUCTS: OTHER RATE AND FEE COMPLIANCE ISSUES

A. Introduction

This chapter discusses other rate and fee compliance issues (not discussed in Chapter II), including Commission determinations related to non-compensatory classes and products.

In Order No. 5763, the Commission adopted new rules for non-compensatory classes and products. Specifically, 39 C.F.R. part 3030, subpart G permits an additional 2 percentage points of rate authority for any class of mail where the attributable cost for that class exceeds the revenue from that class. 39 C.F.R. § 3030.222(a). The use of this additional rate authority is optional and may be implemented at the Postal Service's discretion whenever it files a rate adjustment proceeding involving the non-compensatory class. *Id.*

In addition, the regulations have requirements specific to products classified as non-compensatory within classes that are compensatory overall. For those products, the rates must increase by a minimum of 2 percentage points above the average percentage increase for that class. *Id.* § 3030.221. The regulations also provide that rates may not be reduced for any non-compensatory product. *Id.* § 3030.127(b). The Postal Service is required to comply with directives issued by the Commission pursuant to 39 C.F.R. § 3030.221 whenever it files a rate adjustment proceeding affecting a non-compensatory product.

The Commission finds that one class was non-compensatory in FY 2023: Periodicals. The Periodicals class contains two products that are each non-compensatory in FY 2023. Additionally, the Commission identifies the following non-compensatory products in compensatory classes: (1) USPS Marketing Mail Flats, (2) USPS Marketing Mail Carrier Route, and (3) Media Mail/Library Mail. The Commission notes that two classes were fully compensatory in FY 2023, with both the class and all products within the class covering attributable costs: First Class Mail and Special Services.[34] These results are displayed in Table III-1. Collectively, the Postal Service lost $1.34 billion in FY 2023 from non-compensatory classes and products.

[34] Market Dominant nonpostal services are not specifically discussed in this chapter because all products in the group covered their costs in FY 2023. FY 2023 ACR at 108-09.

Table III-1
Market Dominant Product Compliance Results FY 2023

UNITED STATES POSTAL SERVICE
POSTAL PRODUCT REPORT CARD
FY 2023
MARKET DOMINANT PRODUCTS & SERVICES

First-Class Mail	(Cost Coverage)		
Single Piece Letters /Cards	158.0%	✓	Compliant
Presorted Letters/Cards	296.7%	✓	Compliant
Flats	113.5%	✓	Compliant
Outbound Single Piece International	170.2%	✓	Compliant
Inbound Letter Post	129.1%	✓	Compliant
USPS Marketing Mail			
Letters	180.1%	✓	Compliant
Flats	64.5%	O	Non-Compliant
Parcels	119.5%	✓	Compliant
High Density/Saturation Letters	184.9%	✓	Compliant
High Density/Saturation Flats & Parcels	122.7%	✓	Compliant
Carrier Route	98.7%	O	Non-Compliant
Every Door Direct Mail	214.8%	✓	Compliant
Periodicals			
In-County	57.4%	O	Non-Compliant
Outside County	60.3%	O	Non-Compliant
Package Services			
Alaska Bypass Service	120.1%	✓	Compliant
Bound Printed Matter Flats	114.0%	✓	Compliant
Bound Printed Matter Parcels	118.9%	✓	Compliant
Media Mail/Library Mail	89.7%	O	Non-Compliant
Special Services			
Ancillary Services	146.4%	✓	Compliant
International Ancillary Services	184.7%	✓	Compliant
Address Management Services	1055.0%	✓	Compliant
Money Orders	133.1%	✓	Compliant
Post Office Box Services	231.9%	✓	Compliant
Stamp Fulfillment Services	179.2%	✓	Compliant
Caller Service	472.5%	✓	Compliant
Credit Card Authentication	804.6%	✓	Compliant
Outbound International Special Services*	NMF	✓	Compliant

**Outbound International Special Services includes International Business Reply Mail and International Reply Coupon. No Meaningful Figure (NMF) can be calculated due to lack of volume or cost data.*

In alignment with the new regulations of 39 C.F.R. part 3030, subpart G, this chapter begins with an analysis of the non-compensatory class, followed by an analysis of each non-compensatory product in compensatory classes, organized by class. The Commission also discusses the fully compensatory classes.

In addition, this chapter includes a discussion of other rate and fee compliance issues raised by commenters.

B. Non-Compensatory Classes

1. Periodicals

A. FY 2023 RESULTS

The Periodicals class is comprised of two products, In-County[35] and Outside County. Revenue for both products was insufficient to cover their attributable costs in FY 2023. As shown in Table III-2, the cost coverage for the class decreased from 61.1 percent in FY 2022 to 60.1 percent in FY 2023, resulting in a negative contribution of more than $613 million.[36] In this section, the Commission discusses the FY 2023 financial results for Periodicals in more detail.

Table III-2
Periodicals Cost Coverage, FY 2019–FY 2023

Fiscal Year	Periodicals Class	In-County	Outside County
FY 2019	64.0%	58.4%	64.3%
FY 2020	56.9%	51.1%	57.3%
FY 2021	53.2%	45.0%	53.9%
FY 2022	61.1%	49.1%	61.9%
FY 2023	60.1%	57.4%	60.3%

Source: Library Reference PRC-LR-ACR2023-5.

The Postal Service reports that revenue-per-piece increased 10 percent and cost-per-piece increased 11 percent, resulting in the decline in cost coverage described above. FY 2023 ACR at 40. The Postal Service also notes a more pronounced decline in Periodicals volume in recent years due to increased substitution from the Internet, mobile devices, and e-readers.[37] The Postal Service observes that, compared to the number of different

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

[36] *See* Library Reference PRC-LR-ACR2023-5, Excel file "FY 2023 CH3 Periodicals.xlsx."

[37] *See* Library Reference USPS-FY23-45, December 29, 2023, folder "Rule 3050.50 Flats," folder "Paragraph (b) -- Financial Report," PDF file "Part B Narratives-FY 23 Rule 3050.50.pdf," at 12.

publications that were mailed in FY 2022, in FY 2023 there were 5.8 percent fewer as publications cease mailing altogether. *Id*.

B. PREVIOUS ACD DIRECTIVES

The Periodicals class has consistently failed to cover its attributable costs, and the Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.[38] In its Flats Study, the Commission made several recommendations to the Postal Service as it developed its plan to address inefficiencies in the collection, sorting, transportation, and delivery of flat-shaped mailpieces, which includes both In-County and Outside County Periodicals.[39] The Commission is currently reviewing the Postal Service's plan.[40]

C. COMMENTS ON PERIODICALS

N/MA comments that controlling costs and improving productivity are essential for the Periodicals class. N/MA Comments at 3. It states that the Postal Service's strategy of solely raising rates is not a viable cost coverage improvement plan in the absence of meaningful and effective cost control. *Id*. N/MA notes that it filed several comments in Docket No. SS2022-1 regarding the need for stronger metrics and enforcement measures as it pertains to controlling costs. *Id*. at 2. N/MA- avers that, in this proceeding, the Postal Service has not provided "clear, firm metrics against which the success of its various flats-related cost savings initiatives can be evaluated." *Id*. at 3.

The Public Representative observes that although prices increased for both Periodicals products, cost coverage did not improve. PR Comments at 13. Noting that revenue- per-piece improved, the Public Representative observes that volume declined and attributable cost-per-piece increased by 11 percent. *Id*. He states that the root cause of the cost increase is unclear and emphasizes that the Postal Service's main focus for the Periodicals class should be on cost reduction. *Id*.

D. COMMISSION ANALYSIS

Since FY 2019, Periodicals volume has declined by 35.4 percent, total revenue has declined by 22.7 percent, total attributable cost has declined by 17.6 percent, and during that time, the Periodicals class has provided cumulative negative contribution of $3.5 billion.[41] To better understand the contribution shortfall of Periodicals, the Commission analyzes Periodicals revenue and cost.

[38] *See, e.g.*, FY 2017 ACD at 50; FY 2018 ACD at 46; FY 2019 ACD at 25; FY 2020 ACD at 20; Docket No. ACR2021, *Annual Compliance Determination*, March 29, 2022, at 27 (FY 2021 ACD); Docket No. ACR2022, *Annual Compliance Determination*, March 29, 2023, at 36 (FY 2022 ACD).

[39] *See* Docket No. SS2022-1, *Flats Operations Study Report*, April 6, 2023, at 2-3 (Flats Study).

[40] *See* Docket No. SS2022-1, Submission of the United States Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act of 2022, October 6, 2023 (Postal Service October 6, 2023 Flats Plan); *see also* Docket No. SS2022-1, Notice and Order on Postal Service Submission of Flats Plan, November 17, 2023 (Order No. 6803).

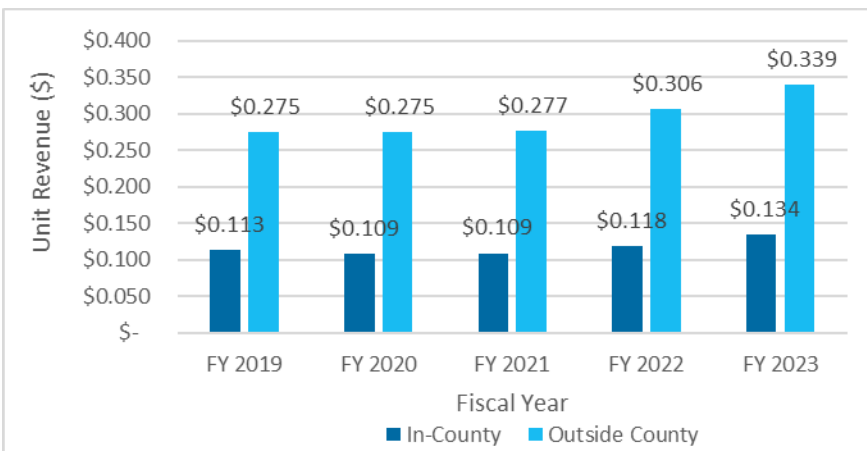
[41] *See* Library Reference PRC-LR-ACR2023-5, Excel file "FY 2023 CH3 Periodicals.xlsx."

(1) Periodicals Revenue

In an effort to improve Periodicals revenue, and in line with prior encouragement from the Commission to improve cost coverage, the Postal Service has generally implemented price increases that have maximized the Postal Service's rate authority for both Periodicals products since the rules governing the new ratemaking system went into effect in January 2021.[42] In Docket No. R2023-1, the Postal Service raised Periodicals prices by 3.456 percent on average. Order No. 6341 at 67. In Docket No. R2023-2, the Postal Service raised Periodicals prices by 8.122 percent on average. Order No. 6526 at 87.

As such, FY 2023 Periodicals unit revenue increased over 9 percent compared to FY 2022. As detailed in Figure III-1, from FY 2019 to FY 2021, Periodicals unit revenue remained flat while FYs 2022 and 2023 both showed significant growth. Unit revenue for In-County was $0.118 in FY 2022 and $0.134 in FY 2023, an increase of 13.1 percent. Unit revenue for Outside County was $0.306 in FY 2022 and $0.339 in FY 2023, an increase of 10.9 percent.

Figure III-1
Periodicals Unit Revenue, FY 2019–FY 2023



Source: Library Reference PRC-LR-ACR2023-5.

[42] *See* 85 Fed. Reg. 81,124 (Dec. 15, 2020).

Changes in the characteristics of mailpieces, such as weight and advertising content, have dampened the impact of the rate increases. For Outside County, which makes up 84.9 percent of Periodicals volume, pricing for the product is related to weight and percent of advertising content. Simply put, the Postal Service earns more revenue from mailpieces that are heavier and contain more advertising, but both of those elements are decreasing. As detailed in Table III-3, average weight for Outside County decreased by 11.3 percent and average advertising content decreased by 5.1 percentage points over the last 5 fiscal years. These factors directly limited the revenue that the Postal Service earned from the Outside County product, which makes the unit revenue increase experienced by the product in FY 2023 more noteworthy.

Table III-3
Periodicals Outside County Revenue Elements, FY 2019–FY 2023

Fiscal Year	Weight (Ounces)	Advertising Content
FY 2019	5.59	34.2%
FY 2020	5.32	31.9%
FY 2021	5.26	30.7%
FY 2022	5.18	30.2%
FY 2023	4.96	29.1%

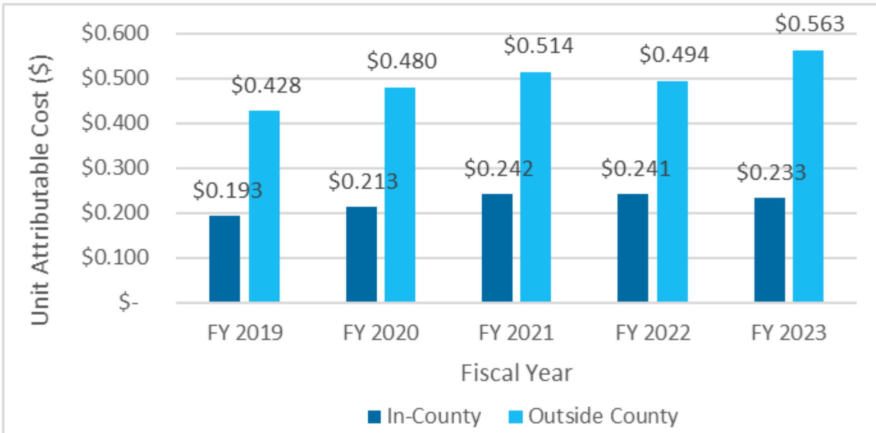
Source: Library Reference PRC-LR-ACR2023-5.

(2) Periodicals Attributable Cost

Because Periodicals is comprised of flat-shaped mail, the operational changes and initiatives designed to reduce flat-shaped mail costs described by the Postal Service reporting on which is required by 39 C.F.R. § 3050.50, impacts Periodicals. *See* Library Reference USPS-FY23-45. As the Commission has previously discussed, the Postal Service has been unable, and continues to be unable, to quantify the impact of those operational initiatives and changes on Periodicals products. *See, e.g.*, FY 2022 ACD at 33.

In FY 2023, the Postal Service implemented two major operational initiatives for Periodicals. In Docket No. N2022-2, the Postal Service changed the critical entry times (CETs) for Periodicals; however, the Postal Service "cannot quantify specific cost savings that were achieved in FY2023 by implementing a standardized [CET] for Periodicals." January 26 Response to CHIR No. 6, question 8.a. In Docket No. R2023-1, the Postal Service eliminated select entry options for sacks with Outside County Periodicals Flats; however, the Postal Service "does not have an estimate of the cost savings resulting from the elimination of sacks at the [origin sectional center facility (OSCF), origin area distribution center (OADC), origin network distribution center (ONDC), destination network distribution center (DNDC), and destination area distribution center (DADC)] entry points." January 22 Response to CHIR No. 2, question 21.

Figure III-2
Periodicals Unit Attributable Cost, FY 2019–FY 2023

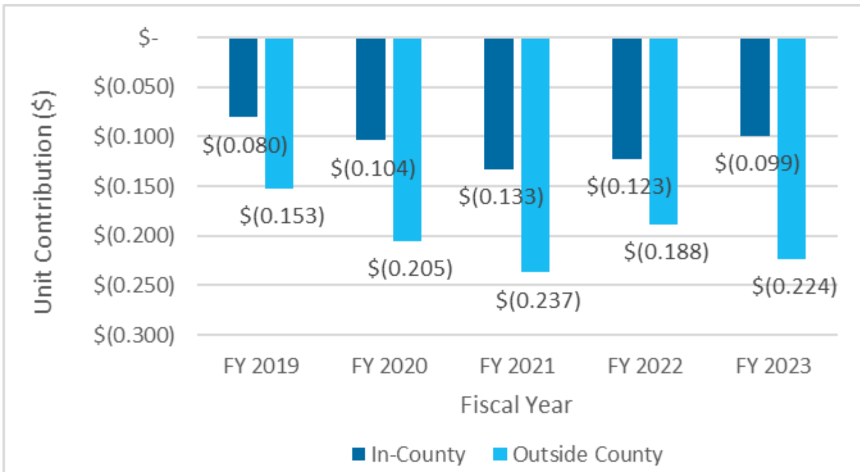


Source: Library Reference PRC-LR-ACR2023-5.

As detailed in Figure III-2, from FY 2019 through FY 2023, Periodicals unit attributable cost increased overall. Unit attributable cost for In-County was $0.193 in FY 2019 and $0.233 in FY 2023, an increase of 20.9 percent. Library Reference PRC-LR-ACR2023-5. Unit attributable cost for Outside County was $0.428 in FY 2019 and $0.563 in FY 2022, an increase of 31.6 percent. *Id.* From FY 2022 to FY 2023, Periodicals unit attributable cost increased overall; In-County decreased by 3.2 percent while Outside County increased by 13.9 percent. *Id.*

Figure III-3 illustrates that the wide gap between unit revenue and unit attributable cost results in low unit contribution and a total negative contribution for Periodicals.

Figure III-3
Periodicals Unit Contribution, FY 2019–FY 2023

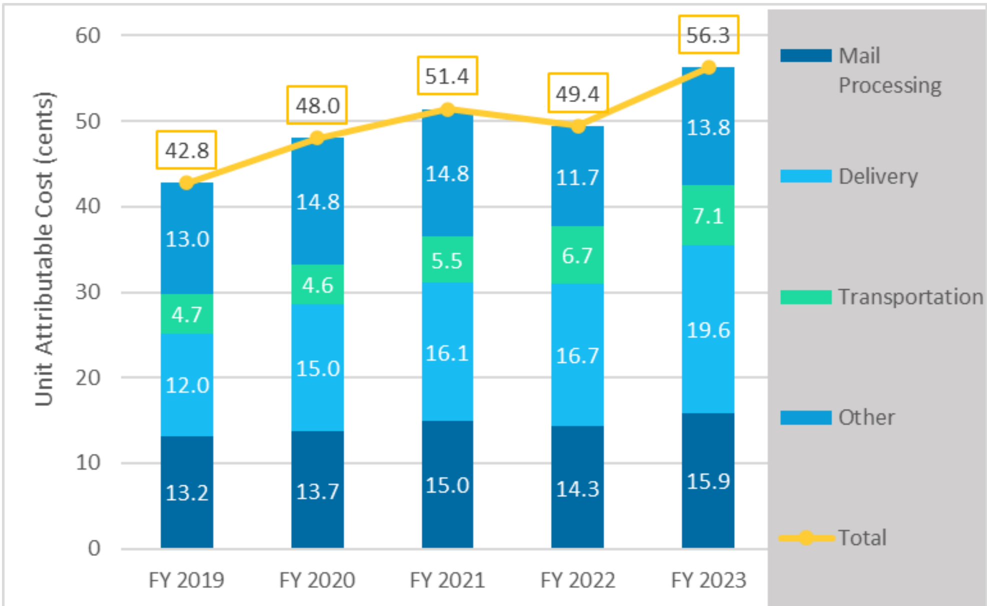


Source: Library Reference PRC-LR-ACR2023-5.

In FY 2023, Outside County constituted 84.9 percent of all Periodicals volume and 93.1 percent of total Periodicals attributable cost.[43] Figure III-4 shows that Outside County unit attributable cost increased by 13.5 cents from FY 2019 through FY 2023. From FY 2022 to FY 2023, Outside County unit attributable cost increased by 6.9 cents Library Reference PRC-LR-ACR2023-5.

[43] *See* Library Reference PRC-LR-ACR2023-5, Excel file "FY 2023 CH3 Periodicals.xlsx."

Figure III-4
Periodicals Outside County Unit Attributable Cost, FY 2019–FY 2023



Source: Library Reference PRC-LR-ACR2023-5.

In FY 2023, the unit attributable cost increased across all segments, including mail processing, delivery, transportation, and other costs.[44] The Postal Service reports that "[u]nit mail processing labor costs increased by 8.8 percent from FY 2022 to FY 2023, substantially due to inflation-linked cost of living adjustments in the Postal Service's labor agreements and outside of Postal Service management control." January 22 Response to CHIR No. 2, question 21. From FY 2022 to FY 2023, Outside County total transportation costs decreased by 9.6 percent; however, unit transportation costs increased by 5.21 percent.[45]

[44] In Figure III-4, Mail Processing includes cost segment 3; Delivery includes cost segments 6, 7, and 10; Transportation includes cost segment 14; and Other, such as retiree health benefits, management, building space, and supply related costs, includes cost segments 1, 2, 8, 11, 12, 13, 15, 16, 17, 18, 19, and 20. The figure does not account for piggyback factors.

[45] *See* Library Reference PRC-LR-ACR2023-5, Excel file "FY 2023 CH3 Periodicals.xlsx."

As Table III-4 illustrates, mailer presortation of Outside County Carrier Route has decreased since FY 2019. In FY 2019, mailer presortation of Outside County Carrier Route was at 59.9 percent and had decreased to 56.5 percent by FY 2023. In addition, mailer dropship of Outside County decreased from 72.4 percent in FY 2019 to 68.7 percent in FY 2023. Library Reference PRC-LR-ACR2023-5.

Table III-4
Periodicals Outside County Mail Mix, FY 2019–FY 2023

Fiscal Year	Presortation - Carrier Route Basic	Dropship - All Levels
FY 2019	59.9%	72.4%
FY 2020	58.9%	71.9%
FY 2021	58.7%	72.8%
FY 2022	57.6%	70.0%
FY 2023	56.5%	68.7%

Source: Library Reference PRC-LR-ACR2023-5.

The Commission notes that when the mail mix shifts away from presortation and dropship, revenue can increase because rates are higher. However, because the Postal Service must process and transport those pieces more often, costs also increase. In future rate cases, the Postal Service should consider mail mix changes when pricing Periodicals in order to maximize revenue and minimize costs.

The Commission reiterates its longstanding findings that despite numerous cost-reduction initiatives designed to reduce flat-shaped mail costs, including Periodicals costs, these costs have risen over time. Furthermore, the Commission encourages the Postal Service to continue to maximize its usage of rate authority granted under 39 C.F.R. § 3030.222 and to maximize its cost coverage by strategically pricing Periodicals.

C. Non-Compensatory Products in Compensatory Classes

1. Package Services

Package Services covered its overall attributable costs in FY 2023, with a cost coverage of 102.3 percent. Library Reference PRC-LR-ACR2023-6. The Package Services class consists of four products. Three of those products, Alaska Bypass Service, Bound Printed Matter (BPM) Parcels, and BPM Flats, covered their attributable costs in FY 2023. *Id*. However, for the second consecutive year, the Media Mail/Library Mail product was the only Package Services product that failed to cover its attributable cost. *Id.* Table III-5 contains the cost coverage of each Package Services product as well as the overall class cost coverage for the last 5 fiscal years.

Table III-5
Package Services Cost Coverage, FY 2019–FY 2023

Fiscal Year	Package Services Overall	Alaska Bypass Service	Bound Printed Matter Flats	Bound Printed Matter Parcels	Media Mail / Library Mail
FY 2019	96.9%	155.9%	143.7%	106.1%	71.5%
FY 2020	92.5%	147.6%	125.8%	94.0%	79.3%
FY 2021	93.2%	129.8%	117.3%	94.6%	84.3%
FY 2022	102.2%	136.0%	124.7%	108.7%	91.3%
FY 2023	102.3%	120.1%	114.0%	118.9%	89.7%

Source: Library Reference PRC-LR-ACR2023-6.

As Table III-5 shows, the cost coverage for the Package Services class in FY 2023 is the highest it has been in the last 5 fiscal years.[46] However, it also illustrates that cost coverage for all Package Services products except Bound Printed Matter Parcels decreased between FY 2022 and FY 2023. The majority of volume in Package Services is Bound Printed Matter Parcels.

A. MEDIA MAIL/LIBRARY MAIL

(1) FY 2023 Results

In FY 2023, the Media Mail/Library Mail product failed to cover its attributable cost. FY 2023 was the seventeenth consecutive year that Media Mail/Library Mail did not generate sufficient revenue to cover its attributable cost. *See* FY 2022 ACD at 58. In FY 2023, Media Mail/Library Mail had a cost coverage of 89.7 percent (FY 2023 ACR at 42), a 1.6 percentage point decrease compared to FY 2022. The Postal Service acknowledges that the costs for Media Mail/Library Mail in FY 2023 continue to exceed its revenues. *Id.* at 43.

The Postal Service states that the unit revenue for Media Mail/Library Mail increased by 9.8 percent in FY 2023, driven by above class average price increases of 4.381 percent in Docket No. R2023-1 and 7.380 percent in Docket No. R2023-2.[47] These increases, however, were offset by a 11.7 percent increase in unit cost. *See* FY 2023 ACR at 43.

The Postal Service states that the price increase applied in Docket No. R2023-2 is expected to have a more significant effect on cost coverage in FY 2024 along with the above class

[46] To see a more extensive accounting of Package Services cost coverages, please see Library Reference PRC-LR-ACR2023-6.

[47] *See id*. The 4.381 percent price increase for Media Mail/Library Mail in Docket No. R2023-1 was more than the Package Services class average of 4.197 and went into effect on January 22, 2023. Order No. 6341 at 92. The 7.380 percent price increase for Media Mail/Library Mail in Docket No. R2023-2 was more than 2 percentage points above the Package Services class average increase of 5.379 percent and went into effect on July 9, 2023. Order No. 6526 at 103.

average increase of 3.979 percent approved in Docket No. R2024-1, which went into effect January 21, 2024. *See* FY 2023 ACR at 43; *see also* Order No. 6814 at 54-56. The Postal Service intends to recommend to the Board of Governors that they continue to apply above-class-average price increases to Media Mail/Library Mail. *See* FY 2023 ACR at 43.

(2) Comments on Media Mail/Library Mail

The Public Representative notes that the Package Services class covered its attributable cost in FY 2022 and FY 2023, with cost coverage of approximately 102 percent for both years. PR Comments at 14. The Public Representative also notes that after cost coverage improvements between FY 2021 and FY 2022, Media Mail/Library Mail was the only non-compensatory product within Package Services in FY 2023 despite the Postal Service's expectation that the product would cover its attributable cost after price increases. *Id.* The Public Representative further notes that, compared to FY 2022, in FY 2023 Media Mail/Library Mail volume decreased 3 percent, revenue-per-price increased 9.8 percent, and attributable cost-per-piece increased by 11.7percent. *Id.*

(3) Commission Analysis

As noted above, the Media Mail/Library Mail product did not cover its attributable cost or make a contribution to institutional costs in FY 2023. Table III-6 contains the volume, unit revenue, unit attributable cost, unit contribution, and cost coverage of Media Mail/Library Mail since FY 2019.

Table III-6
Media Mail/Library Mail Financial Results, FY 2019–FY 2023

Fiscal Year	Volume (Millions)	Unit Revenue (Cents)	Unit Attributable Cost (Cents)	Unit Contribution (Cents)	Cost Coverage
FY 2019	80.1	354.5	495.5	-141.1	71.5%
FY 2020	97.8	357.3	450.5	-93.2	79.3%
FY 2021	107.3	372.8	442.0	-69.2	84.3%
FY 2022	95.0	423.8	464.2	-40.4	91.3%
FY 2023	92.3	465.1	518.3	-53.2	89.7%

Source: Library Reference PRC-LR-ACR2023-6.

Although Media Mail/Library Mail covered only 89.7 percent of its attributable cost in FY 2023, the product's financial results have generally improved over the last 5 fiscal years, as Table III-6 demonstrates. Between FY 2019 and FY 2023, Media Mail/Library Mail's unit revenue increased by 110.6 cents, which outpaced its unit cost increase of 22.8 cents over the same period, leading to an improvement of 87.9 cents in unit contribution. This improved contribution is also reflected in the product's cost coverage, which improved by 18.2 percentage points between FY 2019 and FY 2023. The Commission also notes unit attributable costs have experienced more volatility over the same period and are an area where the Postal Service should focus its efforts as it looks to further improve the cost coverage for this product.

The Commission issued several information requests seeking to identify the causes of unit cost changes, and the Postal Service responded. January 19 Response to CHIR No. 2; February 9 Response to CHIR No. 9. Since FY 2021, the unit cost for Media Mail/Library Mail has increased 76.3 cents, with increases of 22.3 cents in FY 2022 and 54.0 cents in FY 2023. January 19 Response to CHIR No. 2, question 22.a. This represents an approximate 17.3 percent increase in unit costs over the past 2 years. The Postal Service identified the primary driver of these cost increases as purchased transportation, namely the contracts with air carriers the Postal Service uses but also, to a lesser extent, highway transportation contracts. *Id.*

In FY 2022, the Postal Service states that the unit cost for purchased transportation increased 31.4 cents, which is approximately 140.8 percent of the actual unit cost increase of 22.3 cents for Media Mail/Library Mail in FY 2022. *Id.* The 54.0 cent unit cost increase for Media Mail/Library Mail in FY 2023 was especially steep. The Postal Service explains that the three primary drivers of this increase were purchased transportation (34.1 cents) driven primarily by air contract costs, vehicle service drivers (6.0 cents), and clerks and mailhandlers (9.2 cents). *Id.* Together, these three cost segments represent approximately 91.3 percent of the unit cost increase.

As in FY 2022, FY 2023 purchased transportation costs were driven mainly by air contract costs. *Id.* The Postal Service explained that in FY 2022, 3 percent of Media Mail/Library Mail was transported via air. In FY 2023, the volume of Media Mail/Library Mail transported by air increased to 5.07 percent, despite the Postal Service's initiative to move more volume across the network to surface transportation.[48] The Postal Service indicated that its operational plan to achieve this goal relies on the mailer applying the appropriate "Service Type Code" in the mailpiece barcode, which the Postal Service is seeking to incentivize mailers to do. February 9 Response to CHIR No. 9, question 11.b.

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[48] *See* February 9 Response to CHIR No. 9, question 11.a.; *see also generally* United States Postal Service, *Delivering For America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence,* at 30, available at https://about.usps.com/what/strategic-plans/delivering -for-america/assets/USPS_Delivering-For-America.pdf (DFA Plan). The Commission sought the percentage of Media Mail/Library Mail transported via air in FY 2021, but the Postal Service explained that due to data retention limits, the information is unavailable. February 9 Response to CHIR No. 9, question 11.a.

The increase in vehicle service drivers costs was due to a 1.9 percent increase in the main cost driver for that cost segment, and the increase in clerks and mailhandlers costs were driven by an increase in mail processing costs. Response to CHIR No. 2, question 22.a. Decreasing volume was also a driving factor in the unit cost increases for Media Mail/Library Mail in FY 2023.

The Commission acknowledges the Postal Service's intention to move all of Media Mail/Library Mail to surface transportation should contribute to reduced costs once the process is complete and is hopeful that the Postal Service will achieve this. However, the Commission notes two concerns. First, while the Postal Service aspires to move Media Mail/Library Mail to surface transportation, it will likely not succeed by the next ACR and thus the Commission is uncertain that Media Mail/Library Mail will cover its costs in the immediate future. Second, the Postal Service's data retention policies that limit its ability to provide a full response to information requests could also make it difficult to measure and assess the progress and success of key strategies laid out in the Delivering for America (DFA) Plan, such as the shifting of volume from air transportation to surface. February 9 Response to CHIR No. 9 (in reference to its DFA Plan); *see* DFA Plan at 30.

Since the enactment of the Postal Accountability and Enhancement Act (PAEA) in 2006, the Postal Service has consistently increased the prices for Media Mail/Library Mail above the class average increase for Package Services. *See* FY 2022 ACD at 60. According to the Postal Service, it intends to recommend to the Board of Governors to continue applying above class average price increases to Media Mail/Library Mail. FY 2023 ACR at 43. The Commission notes that the Postal Service is required to comply with 39 C.F.R. § 3030.221 whenever it files a rate adjustment proceeding affecting a compensatory class with a non-compensatory product as is the case here.

The Commission finds that the FY 2023 revenue for Media Mail/Library Mail was not sufficient to cover its attributable cost. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must increase the prices of Media Mail/Library Mail by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting Package Services through the issuance of the FY 2024 ACD. Further, the Commission directs the Postal Service to include the percentage of Media Mail/Library Mail volume sent by air transportation in FY 2024 in their discussion of the Package Services class in the FY 2024 ACR. If that number is greater than zero, the Postal Service must explain why that occurred.

2. USPS Marketing Mail

As a class, USPS Marketing Mail covered its attributable costs in FY 2023 and had an overall cost coverage of 136.3 percent. Library Reference PRC-LR-ACR2023-4. Table III-7 provides the cost coverage for each USPS Marketing Mail product as well as the overall class for the last 5 fiscal years. As Table III-7 shows, two products within the class did not cover costs in FY 2023: (1) USPS Marketing Mail Flats and (2) USPS Marketing Mail Carrier Route.[49]

Table III-7
USPS Marketing Mail Cost Coverage, FY 2019–FY 2023

Fiscal Year	USPS Marketing Mail Overall	Carrier Route	Letters	Flats	Parcels	HD/Sat Flats	EDDM	HD/Sat Letters
FY 2019	139.1%	99.9%	190.0%	67.7%	56.9%	138.2%	259.5%	204.7%
FY 2020	129.5%	96.2%	171.4%	63.3%	76.5%	129.9%	257.7%	188.6%
FY 2021	130.5%	94.6%	174.7%	60.3%	73.1%	125.4%	248.3%	182.4%
FY 2022	143.5%	99.4%	191.2%	66.7%	87.5%	132.5%	263.9%	198.8%
FY 2023	136.3.%	98.7%	180.1%	64.5%	119.5%	122.7%	214.8%	184.9%

Source: Library Reference PRC-LR-ACR2023-4.[50]

In this chapter, the Commission discusses the FY 2023 financial results for USPS Marketing Mail non-compensatory products in more detail.[51]

[49] Because the USPS Marketing Mail Parcels product covered its attributable costs in FY 2023, it is no longer subject to the individual product requirement of 39 C.F.R. § 3030.221. *Cf.* FY 2022 ACD at 56.

[50] The Commission's cost coverage calculations may differ from the Postal Service's calculations because, unlike the Postal Service, the Commission includes fees in the revenue for each product. *See* Library Reference PRC-LR-ACR2023-1.

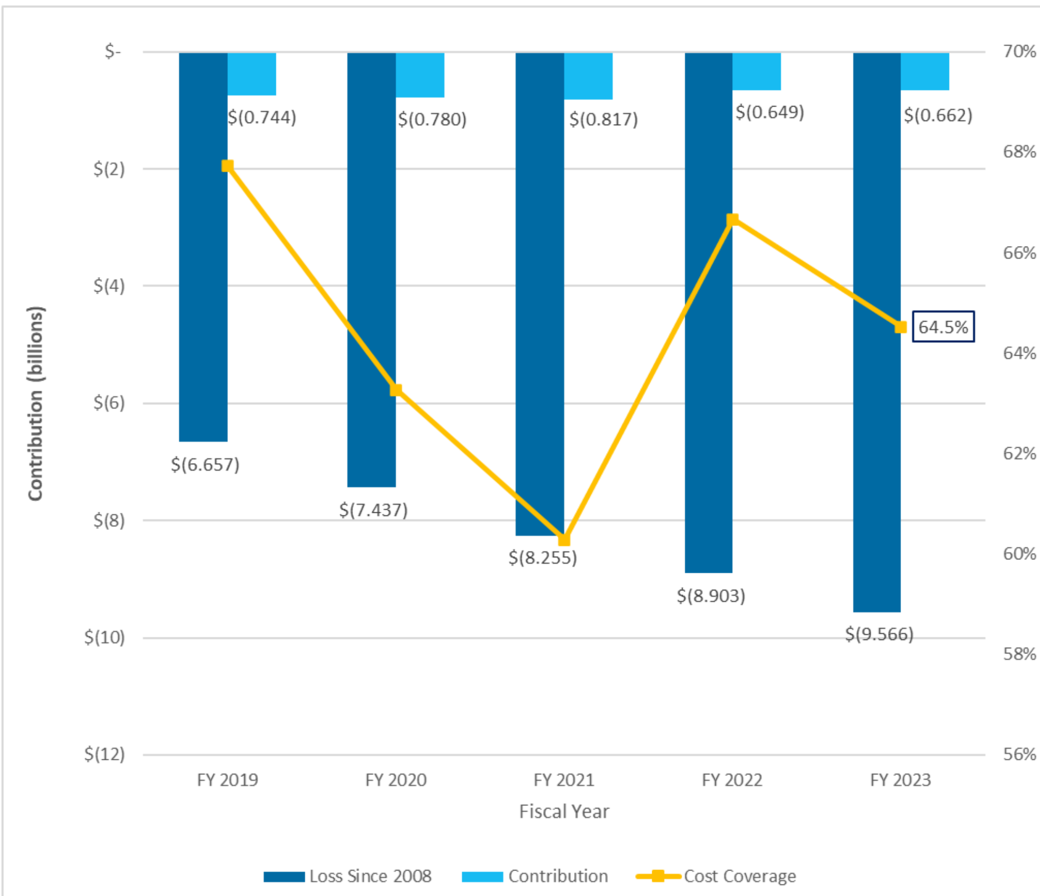
[51] The Commission received certain comments on the USPS Marketing Mail class that were not specifically related to non-compensatory products. ANM comments on the Postal Service's response to CHIR No. 2, question 17, in which the Postal Service stated that it may be "appropriate" to examine issues related to reduced rates provided to nonprofit USPS Marketing Mail. *See generally* ANM Comments; Response to CHIR No. 2, question 17.c. ANM argues that there is no need to open a proceeding to consider these issues because the reduced rates provided to nonprofit USPS Marketing Mail are established by statute. *See* ANM Comments at 2-3. In its reply comments, the Postal Service states that ANM's views are "better addressed in another venue." Postal Service Reply Comments at 15. The Commission appreciates ANM's and the Postal Service's comments on this issue; however, it is outside the scope of the instant proceeding. Further, NPPC notes the volume decline in USPS Marketing Mail letters between FY 2022 and FY 2023. *See* NPPC Comments at 5-6. NPPC highlights the product's net increase in attributable costs and states that "[t]hat net increase simply should not have happened." *Id.* at 6. The Commission appreciates NPPC's concerns; however, the USPS Marketing Mail Letters product covered its attributable costs in FY 2023 and is not discussed further in this chapter.

A. USPS MARKETING MAIL FLATS

(1) FY 2023 Results

In FY 2023, USPS Marketing Mail Flats had a cost coverage of 64.5 percent, 2.2 percentage points lower than in the prior year. Library Reference PRC-LR-ACR2023-4. As shown in Figure III-5, cost coverage for USPS Marketing Mail Flats declined 3.2 percentage points from FY 2019 to FY 2023. *Id.*

Figure III-5
USPS Marketing Mail Flats Cost Coverage and Contribution, FY 2019–FY 2023[52]



Source: Library Reference PRC-LR-ACR2023-4.

[52] Complete USPS Marketing Mail Flats data for FY 2008 to FY 2023 can be found in Library Reference PRC-LR-ACR2023-4.

Unit revenue grew by 12.3 percent in FY 2023, an increase over the 11.4 percent unit revenue growth seen in FY 2022. *Id.* The Postal Service reports that it implemented rate increases for USPS Marketing Mail Flats that were at least 2 percentage points higher than the class average for USPS Marketing Mail in each of the last six rate increases to go into effect, including the 7.381 percent rate increase approved in Docket No. R2023-2. FY 2023 ACR at 22-23; Order No. 6526 at 66. The Postal Service also states that the proportion of nonprofit Flats grew from 23.1 percent of the Flats volume in FY 2017 to 33.7 percent in FY 2023. FY 2023 ACR at 22.

In addition, reported unit cost increased by 16.0 percent. *Id.* In responses to CHIRs, the Postal Service attributed this to increases in mail processing, delivery, and transportation unit costs. *See* January 19 Response to CHIR No. 2, question 19.a.

Due to increases in unit cost outpacing increases in unit revenue, contribution decreased by $13.8 million in FY 2023, as shown in Figure III-5. As a result, the cumulative contribution from USPS Marketing Mail Flats between FY 2008 and FY 2023 grew to a negative $9.6 billion, as shown in Figure III-5.

USPS Marketing Mail Flats volume continued to decline in FY 2023, decreasing by 466 million pieces, or 17.3 percent, compared to FY 2022. *See* January 19 Response to CHIR No. 2, question 16.a. (revised). This rate of decline was higher than in recent years, with the product's volume having decreased 6.1 percent in FY 2022 and 10.3 percent in FY 2021. FY 2022 ACD at 39. The mail mix of USPS Marketing Mail Flats changed in that more pieces were entered at the origin than destination. *See* January 19 Response to CHIR No. 2, question 16.a. (revised).

(2) Previous ACD Directives

Given USPS Marketing Mail Flats' history of not covering its costs, the Commission has issued specific directives related to the cost coverage of USPS Marketing Mail Flats since the FY 2010 ACD.[53] In the FY 2022 ACD, the Commission declined to re-issue prior directives on the cost coverage of USPS Marketing Mail Flats because its regulations had largely superseded these directives, with the requirement in 39 C.F.R. § 3030.221 mandating a minimum rate increase for non-compensatory products of 2 percent or more above the class average, and the improved reporting requirements for flat-shaped products generally in 39 C.F.R. § 3050.50. *See id.* at 48.

In response to the FY 2022 ACD directive and in compliance with 39 C.F.R. § 3030.221, the Postal Service raised rates for USPS Marketing Mail Flats by 2 percentage points higher than the USPS Marketing Mail class average in the Market Dominant rate increases since the FY 2022 ACD. Specifically, the Postal Service raised rates on USPS Marketing Mail Flats

[53] *See* FY 2022 ACD at 39-40 (describing the history of Commission directives related to the cost coverage of USPS Marketing Mail Flats between FY 2010 and FY 2021).

by 7.381 percent in Docket No. R2023-2[54] and by 3.966 percent in Docket No. R2024-1. *See* FY 2023 ACR at 22-23; Order No. 6814 at 34.

(3) Comments on USPS Marketing Mail Flats

The Public Representative notes that rates increased over 30 percent for USPS Marketing Mail Flats over four Market Dominant rate proceedings (Dockets Nos. R2021-1, R2022-1, R2023-1, and R2023-2); however, in the Public Representative's view, these rate increases did not help cost coverage. PR Comments at 17. The Public Representative "opines that the Postal Service's cost reduction initiatives, which aim to improve its operational efficiencies, lower its costs, and render it less volatile to losses in economies of density, are equally as (if not more) crucial than prices." *Id.* According to the Public Representative, the Postal Service October 6, 2023 Flats Plan includes initiatives to improve mail processing and decrease the unit cost of flats products. PR Comments at 19; *see* Postal Service October 6, 2023 Flats Plan. In the Public Representative's view, "these are impressive initiatives, and he hopes that the Postal Service will show the effect of these initiatives in its next Annual Compliance Report." *Id*. The Public Representative recommends that the Postal Service clarify why its cost reduction initiatives have not been successful in reducing the unit costs of the non-compensatory USPS Marketing Mail Flats product. *See id.* The Public Representative further states that the Postal Service should provide detailed reasons of "how redesigning or removing machinery in different facilities can help to confront the cost-push of volume decline." *Id*.

ACMA comments that USPS Marketing Mail Flats attributable costs have increased and that "serious questions exist about the costs' meaningfulness, including that the assumption of high variabilities for mail processing has led to the attribution of fixed costs."[55] ACMA further comments that "[Carrier Route] and [High Density] mailers [have elected] to stop sending to their low-density segments, due to the high rates of Flats." ACMA Comments at 18. ACMA suggests a potential solution to these issues could involve "a highly-designed, streamlined network for flats, combining high preparation, few touches, and the best the Postal Service has to offer." *Id.* at 25.

In its reply comments, the Postal Service states that the cost coverage decline for USPS Marketing Mail Flats was significantly smaller in FY 2023 than in the years preceding FY 2022 (except FY 2019) and that FY 2022 was anomalous because of the PSRA's elimination of normal cost expenses for retiree health benefits. Postal Service Reply Comments at 12-13, 13 n.17. According to the Postal Service, reductions in cost coverage declines show the effects of above-average rate increases and cost reduction initiatives. *See id.* at 14.

[54] *See* FY 2023 ACR at 22 (summarizing flats rate increases compared to overall USPS Marketing Mail rate increases between FY 2021 and FY 2024); Order No. 6526 at 66. The class average rate increase was 5.378 percent. FY 2023 ACR at 22; Order No. 6526 at 66.

[55] ACMA Comments at 25; *see id.* at 12-14, 18-20; *cf. id.* at 16-17. Regarding ACMA's questions about the meaningfulness of USPS Marketing Mail Flats costs, the Commission notes that annual periodic reporting is required to use only accepted analytical principles. *See* 39 C.F.R. § 3050.10. However, any interested person may file a proposal to change accepted analytical principles to improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service's annual periodic reports. *See id.* § 3050.11(a). In addition, PostCom comments that the Postal Service performance on flats is "increasingly disappointing." PostCom Comments at 9.

(4) Commission Analysis

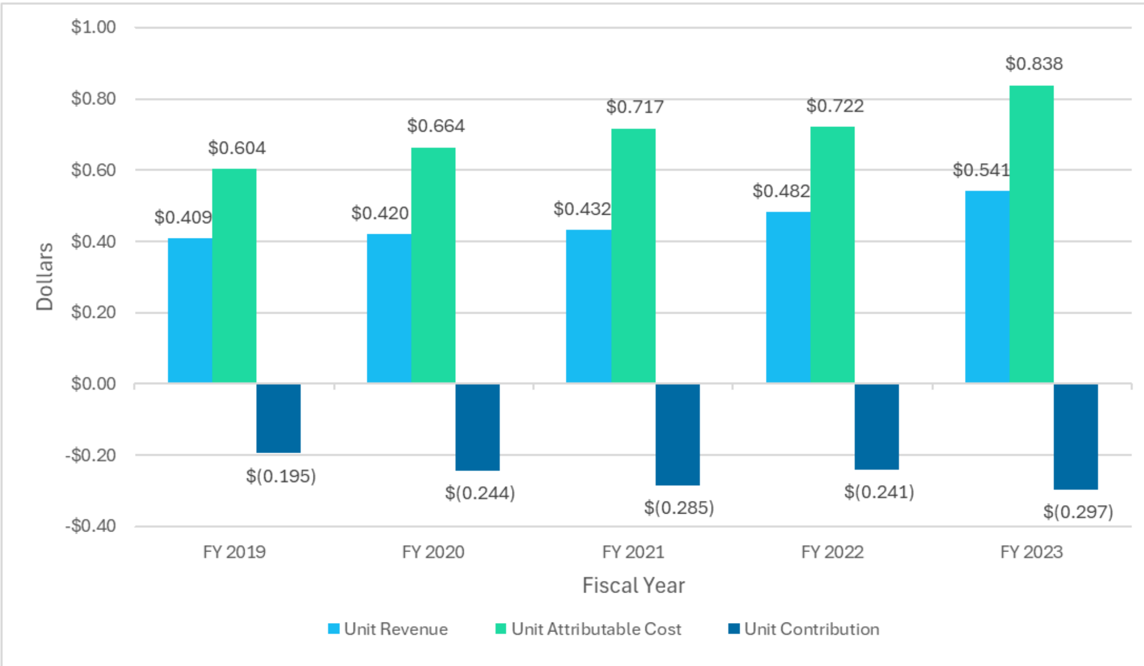
The Commission's analysis of USPS Marketing Mail Flats examines cost coverage, the intra-class subsidy, and changes in the product-level mail mix.

(a) FY 2023 Cost Coverage and Unit Contribution

As described above, the cost coverage for USPS Marketing Mail Flats was 64.5 percent in FY 2023, 2.2 percentage points lower than in the prior year. Library Reference PRC-LR-ACR2023-4. As shown in Figure III-6, the unit contribution of USPS Marketing Mail Flats was -29.7 cents in FY 2023, a 5.6 cent decrease from FY 2022. Because cost coverage and unit contribution are functions of both cost and revenue, the Commission also shows unit cost and revenue trends in Figure III-6. Unit revenues increased by 12.3 percent, from 48.2 cents in FY 2022 to 54.1 cents in FY 2023.

The Postal Service reports that the unit attributable cost of USPS Marketing Mail Flats increased by 11.6 cents, or by 16.0 percent; unit mail processing costs increased by 5.3 cents, or 13.4 percent; unit delivery costs increased by 4.8 cents, or 20.7 percent; and unit transportation costs increased by 1.1 cents, or 15.8 percent between FY 2022 and FY 2023. January 19 Response to CHIR No. 2, question 19.a. Furthermore, according to the Postal Service, "[i]n FY 2023, the estimate of the percentage of USPS Marketing Mail Flats manually processed increased by 6.1 percent, likely contributing to the overall increase in mail processing unit costs." *Id.* However, the Postal Service also states that "the specific cost impacts of the shift to manual processing are not known." February 9 Response to CHIR No. 9, question 21.a.

Figure III-6
USPS Marketing Mail Flats Unit Revenue, Attributable Cost, and Contribution, FY 2019–FY 2023



Source: Library Reference PRC-LR-ACR2023-4.

(b) Intra-Class Cross-Subsidy

In the FY 2010 ACD, as part of its findings of non-compliance, the Commission analyzed the intra-class subsidy received by USPS Marketing Mail Flats, specifically from USPS Marketing Mail Letters, and found that the rates for USPS Marketing Mail Flats "produced a substantial and growing cost coverage shortfall that burdened mailers of other [USPS Marketing Mail] products."[56] The Commission issued the FY 2010 ACD directive with the intent of enabling the Postal Service to reduce the contribution gap between these products.[57]

In FY 2010, the fiscal year in which the directive was issued, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats was 16.8 cents. By FY 2022, the contribution gap was 35.3 cents. In FY 2023, the contribution gap between these two products reached a new high of 40.8 cents. Over the long term, the unit contribution for USPS Marketing Mail Flats has decreased by 21.5 cents since FY 2010, while during the same time, the unit contribution for USPS Marketing Mail Letters has gone up slightly.

(c) Changes in the Product-Level Mail Mix

The Commission notes, as part of its analysis for USPS Marketing Mail Flats, that changes have occurred in the mail mix over time. Figure III-7 shows the distribution of USPS Marketing Mail Flats, USPS Marketing Mail Carrier Route, and USPS Marketing Mail High Density/Saturation Flats volumes. In past years, USPS Marketing Mail High Density/Saturation Flats came to occupy an increasing share of flat-shaped USPS Marketing Mail. Although all three products experienced volume decreases in absolute terms in FY 2023, the Postal Service reports that USPS Marketing Mail Flats volumes declined by 17.3 percent, whereas USPS Marketing Mail High Density/Saturation Flats declined by 5.9 percent. January 19 Response to CHIR No. 2, question 16.a. (revised).

The Postal Service posits that differences in the rate of volume decline were "primarily driven by industry-specific market and economic conditions, customer-specific changes (e.g. bankruptcy), and price signals." *Id.* For example, according to the Postal Service, USPS Marketing Mail Flats volume may have been impacted by the anticipation of a recession in FY 2023 particularly by postal customers in the finance and insurance industry, whereas USPS Marketing Mail High Density/Saturation Flats are primarily used by customers outside these industries and thus potentially less affected by the anticipated recession. *See id.* The Postal Service offers some evidence that the financial and insurance industries are

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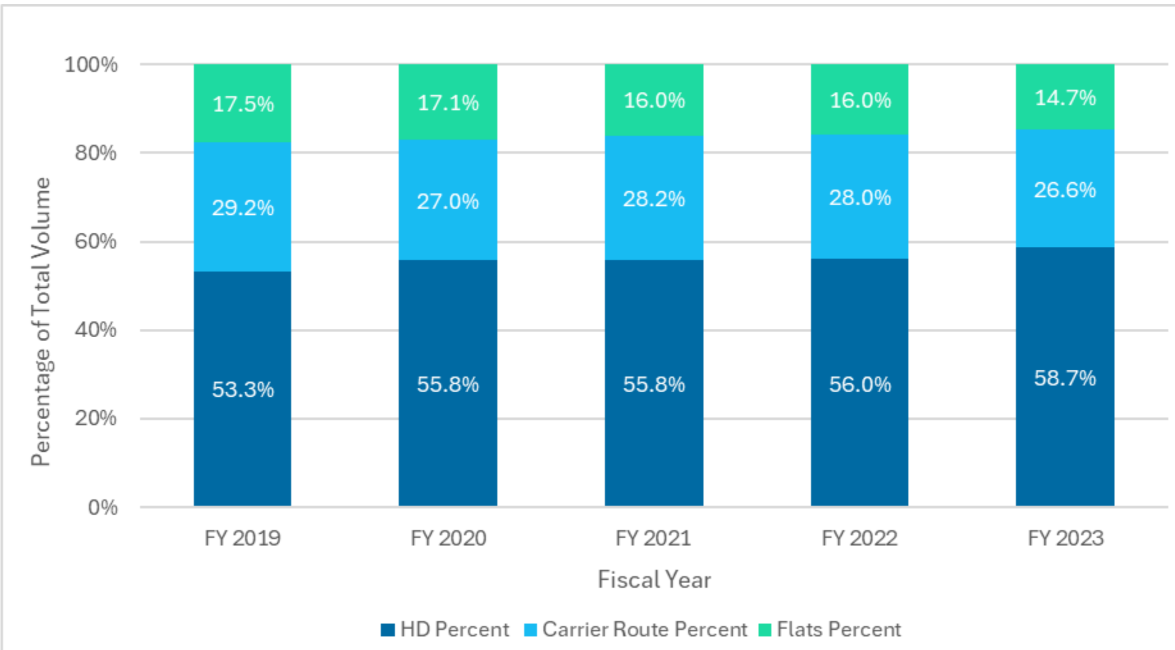
[56] Docket No. ACR2010-R, Order on Remand, August 9, 2012, at 8 (Order No. 1427); *see id.* at 8-10; FY 2010 ACD at 105-07; *see also U.S. Postal Serv. v. Postal Regul. Comm'n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012). The Commission identified several factors used in its determination including a significant and growing cost coverage shortfall; the duration of the shortfall over a significant period; evidence that the cost coverage shortfall was likely to increase further; a significant adverse impact on users of other mail products (some of whom could be competitors of mailers of the subsidized mail product) requiring subsidization of the non-complying product; failure of the Postal Service to address the shortfall by rate increases, cost decreases, or a combination thereof, despite the capability to do so; and the failure of the Postal Service to provide an adequate explanation for not taking necessary remedial steps designed to ameliorate the cost coverage shortfall. Order No. 1427 at 9.

[57] *See id.* at 8. The contribution gap is calculated as the difference between the unit contribution made by USPS Marketing Mail Letters and the unit contribution made by USPS Marketing Mail Flats.

leading USPS Marketing Mail volume loss; however, it does not clearly show that this loss is due to exogenous factors such as anticipation of a recession. *See* January 19 Response to CHIR No. 9, question 18.

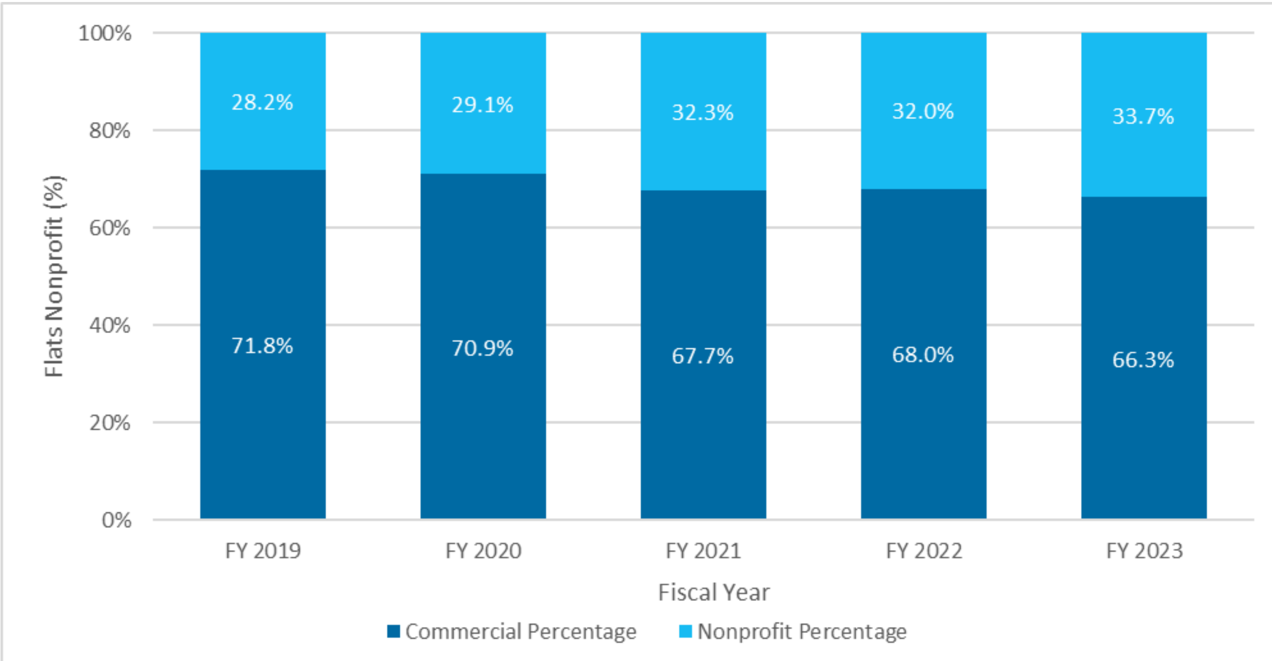
Figure III-7
Volume Distribution of USPS Marketing Mail Flats, Carrier Route, and High Density/Saturation Flats, FY 2019–FY 2023



Source: Library Reference PRC-LR-ACR2023-4.

Additional changes occurred in the distribution of nonprofit and commercial mail within the USPS Marketing Mail Flats product as shown in Figure III-8. The Postal Service states that the proportion of nonprofit Flats increased in FY 2023 to 33.7 percent. FY 2023 ACR at 22.

Figure III-8
USPS Marketing Mail Flats Commercial-Nonprofit Mail Mix, FY 2019–FY 2023



Source: Library Reference PRC-LR-ACR2023-4.

Changes in the mail mix of commercial and nonprofit mail can serve to dampen the expected effects of rate increases on unit revenue for the USPS Marketing Mail Flats product, as nonprofit pieces, which by law are required to have lower rates compared to their commercial counterparts, make up a larger percentage of the total volume. *See* 39 U.S.C. § 3626(a)(6)(A). In addition, the Postal Service noted that nonprofit mailpieces tend to have different characteristics that push costs upwards. Specifically, nonprofit volume is less destination-entered, generally less concentrated, and where nonprofit volume is concentrated it is less 5-digit-presorted than commercial volume. January 19 Response to CHIR No. 2, question 17.a. However, the increasing proportion of nonprofit mail in the mail mix is not unique to USPS Marketing Mail Flats and the Postal Service is "concerned" about this mix generally. *Id.* question 17.c. The Commission will continue to monitor these trends.

(5) FY 2023 Directive

Given the persisting severity of the deficiency in cost coverage for USPS Marketing Mail Flats, the Commission continues to find that this product violates 39 U.S.C. § 101(d) by constituting an intra-class subsidy.

Pursuant to 39 C.F.R. § 3030.221, whenever the Postal Service files a rate adjustment filing affecting the USPS Marketing Mail class, it is required to increase the rate for USPS Marketing Mail Flats by a minimum of 2 percentage points above the percentage increase for the class. At the same time, the Commission recognizes that rate increases alone will not result in this product's compliance with 39 U.S.C. § 101(d). The full solution must come from a combination of revenue increases and cost reductions. The Commission urges the Postal Service to continue to pursue effective cost reductions.

The Commission finds that the cost coverage for USPS Marketing Mail Flats remained severely deficient in FY 2023 and reminds the Postal Service that under 39 C.F.R. § 3030.221, it must propose a rate increase for USPS Marketing Mail Flats that is at least 2 percentage points above the average increase for the class in any rate adjustment filing affecting USPS Marketing Mail. In addition, the Commission urges the Postal Service to continue to pursue cost reductions of flat-shaped products, including USPS Marketing Mail Flats.

B. USPS MARKETING MAIL CARRIER ROUTE

(1) FY 2023 Results

In FY 2023, USPS Marketing Mail Carrier Route had a cost coverage of 98.7 percent, down from 99.4 percent in FY 2022. Library Reference PRC-LR-ACR2023-4. The Postal Service states that, in FY 2023, unit revenue increased by 9.1 percent, while unit costs rose by 9.9 percent. FY 2023 ACR at 21. The Postal Service states that the decrease in cost coverage may result from the 2.9 percentage point increase in the proportion of nonprofit mail to 10.2 percent of Carrier Route volume and corresponding decline in the proportion of commercial mail. *See id.*

The Postal Service states that the most significant drivers of the cost increase for USPS Marketing Mail Carrier Route in FY 2023 were increases in the unit cost for delivery and transportation, the former, at least in part, due to wage increases. *See* January 19 Response to CHIR No. 2, question 18.a.

(2) Prior Commission Directive

In the FY 2022 ACD, the Commission required that the Postal Service propose rate increases for USPS Marketing Mail Carrier Route that were at least 2 percentage points above the class average for the USPS Marketing Mail class whenever it files a rate adjustment filing affecting USPS Marketing Mail. FY 2022 ACD at 52-53. The Postal Service increased rates for USPS Marketing Mail Carrier Route more than 2 percentage points above the class average in Docket Nos. R2023-2 and R2024-1, with a 7.388 percent increase in Docket No. R2023-2 and a 3.963 percent increase in Docket No. R2024-1.[58] The class average for USPS Marketing Mail was 5.378 percent and 1.961 percent, respectively. *See* Order No. 6526 at 66; Order No. 6814 at 34.

(3) Comments on USPS Marketing Mail Carrier Route

The Public Representative notes that cost coverage was below 100 percent for the USPS Marketing Mail Carrier Route product in FY 2023. PR Comments at 11. The Public Representative asserts that the Postal Service's explanations for the decline in cost coverage appear to be incomplete. *Id.* at 12. According to the Public Representative's

[58] *See* Order No. 6526 at 66; Order No. 6814 at 34; FY 2023 ACR at 21.

analysis, “the decrease in cost coverage seems to have been the result of both an increase in nonprofit volumes, which have a lower revenue per piece, and an even larger decrease in commercial volumes, which have a higher revenue per piece.” *Id.* (emphasis omitted). The Public Representative states that, although the rate increases in FY 2022 may have contributed to USPS Marketing Mail Carrier Route’s 99.3 percent cost coverage in FY 2022, “it may also have caused the sharp volume decline of 14.7 percent overall in FY 2023.” *Id.* The Public Representative urges the Postal Service to be mindful in future rate proceedings of the effect of rate increases on the demand for the USPS Marketing Mail Carrier Route product. *Id.*

PostCom observes that Carrier Route has experienced significant cost increases since FY 2010. *See* PostCom Comments at 8. In view of such cost increases, PostCom questions the usefulness of rate increases for Carrier Route. *See id.* at 8-9. According to PostCom, the Postal Service “would arguably be better off holding prices constant to limit volume losses rather than driving additional volume from an inflexible and inefficient network.” *Id.* at 9. PostCom further comments that “this phenomenon is likely to worsen given that the Postal Service has committed to semi-annual price increases for Market Dominant products, thus availing itself of two opportunities per year to utilize the Commission’s ill-considered price adder for non-compensatory products.” *Id.*

PostCom also comments generally that the Commission should look beyond product-level cost coverage. *See id.* at 9-10. In particular, “PostCom is concerned that a singular emphasis on repairing product level cost coverages through higher prices may damage USPS Marketing Mail.” *Id.* at 9. In PostCom’s view, because the two non-compensatory USPS Marketing Mail products, USPS Marketing Mail Carrier Route and USPS Marketing Mail Flats, “account for only ten percent of USPS Marketing Mail,” the rate increases for these products directed by 39 C.F.R. § 3030.221 “will have a trivial effect on the Postal Service’s financial performance.” *Id.* at 9, 10. Thus, according to PostCom, “the Commission should consider the context of the Postal Service’s overall operations, cost structure, and financial condition, as well as the impacts on mailers, when attempting to address this noncompliance.” *Id.* at 10.

ACMA contends that increasing USPS Marketing Mail Carrier Route rates by a minimum of 2 percentage points above the class average is unjust and unreasonable. ACMA Comments at 2, 23. Specifically, ACMA argues that USPS Marketing Mail Carrier Route costs show evidence of “misbehavior” or are questionable[59] or “defective.” *Id.* at 22-23. For example, ACMA contends that “several mail processing cost categories” are assumed, without justification, to be 100 percent variable with volume and that, as a result, attributable costs improperly include fixed costs. *Id.* at 23. In ACMA’s view, such costs contributed to the product not covering its attributable cost. *See id.* ACMA also argues that increases in nonprofit mail volume and declines in commercial mail volume likely led to reduced USPS

[59] *See, e.g.*, *id.* at 22 (asserting “that there are good reasons for questioning the validity of several categories of costs, carrier costs in particular”).

Marketing Mail Carrier Route revenues and thus likely contributed to the USPS Marketing Mail Carrier Route product's failing to cover its attributable costs. *See id.* at 2, 20-22.

Because of these concerns, ACMA contends that enforcing 39 C.F.R. § 3030.221 as it relates to USPS Marketing Mail Carrier Route would be unfair to users of the product and associated products. *See id.* at 23-24. Consequently, ACMA requests that the Commission waive the requirements of 39 C.F.R. § 3030.221 with respect to USPS Marketing Mail Carrier Route in 2024. *See id.*; *cf. id.* at 2. ACMA further supports its request by arguing that enforcing 39 C.F.R. § 3030.221 as it relates to USPS Marketing Mail Carrier Route does not increase predictability in rates, increase Postal Service pricing flexibility, recognize the value of mail service, recognize the effect of rate increases on mailers, and is not necessary to assure adequate revenues for the Postal Service. *See id.* at 24.

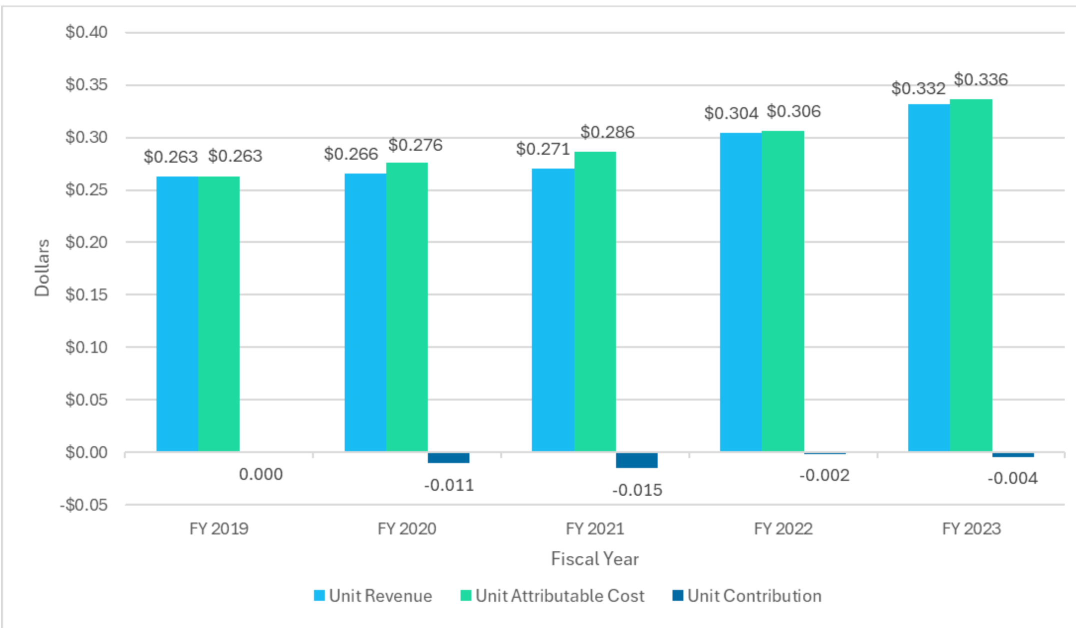
In its reply comments, the Postal Service states that every USPS Marketing Mail product experienced a cost coverage drop in FY 2023 and that USPS Marketing Mail Carrier Route's cost coverage drop was the smallest in comparison. *See* Postal Service Reply Comments at 12. In the Postal Service's view, this supports "above-average" rate increases for USPS Marketing Mail Carrier Route. *See id.* at 12-13, 14. In addition, the Postal Service also comments that it agrees with ACMA's view that a shift in the mix of USPS Marketing Mail toward a greater proportion of lower-priced nonprofit volume and the overstatement of mail processing volume variabilities negatively affect cost coverage. *See id.* at 14. The Postal Service comments that the assumption of "virtually 100 percent volume variability in mail processing operations" is "crude" and "dated," although the Postal Service recognizes that it is based on an accepted analytical principle. *Id.* at 15. Thus, the Postal Service states that "the Commission should recognize that the apparent stickiness of ostensibly volume-variable mail processing costs may reflect, at least to some degree, not so much on management's cost-control competence as on lost economies inherent to network operations that are not reflected in the legacy methodology." *Id.*

The Postal Service also comments on ACMA's request for a waiver of 39 C.F.R. § 3030.221 as it relates to USPS Marketing Mail Carrier Route for FY 2024 saying it generally supports "a more flexible approach" under which the Board of Governors "would have the discretion to allocate at least 2 percentage points of pricing authority above the class average to a given non-compensatory product...based on their assessment of all relevant factors. But they would not be mandated to do so when they did not deem it prudent." *Id.* at 15-16. The Postal Service further argues that "Carrier Route's apparent non-compensatory status is highly contingent" and may be affected by resolution of two pending petitions to change analytical principles. *Id.* at 16. Thus, "the Postal Service would join ACMA in welcoming Commission consideration of additional pricing flexibility concerning Carrier Route specifically, and non-compensatory market-dominant products generally, at the appropriate times." *Id.*

(4) Commission Analysis

As Figure III-9 shows, USPS Marketing Mail Carrier Route has not made any positive contribution from FY 2019 to FY 2023. Although the Postal Service has increased unit revenue by raising rates above the class average, these rate increases have not been enough to keep up with the changes in unit cost over the last 5 fiscal years. Since FY 2019, unit cost increased by 7.3 cents, while unit revenue increased by only 6.9 cents. In FY 2023, the reported increase in unit revenue was 9.1 percent; however, the increase in reported unit cost was 9.9 percent. FY 2023 ACR at 21. Thus, the Commission is concerned that the "cost-reduction initiatives"[60] that the Postal Service mentions do not seem to be sufficient.

Figure III-9
USPS Marketing Mail Carrier Route
Unit Revenue, Unit Attributable Cost, and Unit Contribution, FY 2019–FY 2023[61]



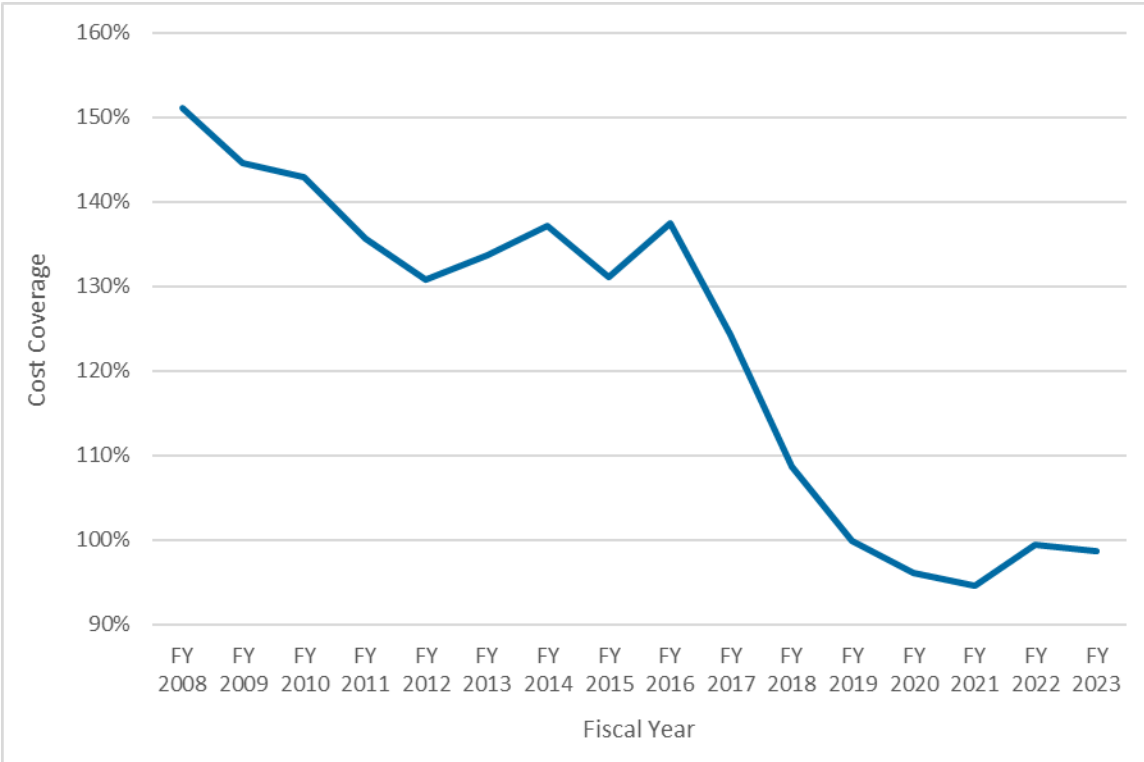
Source: Library Reference PRC-LR-ACR2023-4.

Figure III-10 illustrates changes in cost coverage for USPS Marketing Mail Carrier Route. Since its highest level of 151.2 percent in FY 2008, cost coverage has dropped by 52.5 percentage points. From FY 2022 to FY 2023, USPS Marketing Mail Carrier Route cost coverage declined by 0.7 percent.

[60] Postal Service Reply Comments at 14; *see* January 19 Response to CHIR No. 2, question 18 (discussing plans and strategies the Postal Service has for controlling USPS Marketing Mail Carrier Route cost).

[61] Complete FY 2019 through FY 2023 USPS Marketing Mail Carrier Route data can be found in Library Reference PRC-LR-ACR2023-4.

Figure III-10
USPS Marketing Mail Carrier Route Cost Coverage, FY 2008–FY 2023



Source: Library Reference PRC-LR-ACR2023-4.

PostCom's recommendations that the Postal Service hold rates constant to limit volume loss and that the Commission should not focus on product-level cost coverage would conflict with 39 C.F.R. § 3030.221 and its rate increase requirement. Moreover, holding rates constant and failing to focus on product-level cost coverage would not address the intra-class subsidies that compensatory products provide to non-compensatory products, to the detriment of users of compensatory products. Additionally, if holding rates constant does not reverse volume loss, constant rates and declining volume would lead to further revenue decline, making it more difficult for cost-cutting measures on their own to bring the product into compliance with 39 U.S.C. § 101(d).

To the extent that PostCom takes issue with the requirements of 39 C.F.R. § 3030.221 (*see* PostCom Comments at 9-10), such issues are outside the scope of the FY 2023 ACR. To the extent that PostCom takes issue with accepted analytical principles for cost attribution (*see id.* at 8-9), PostCom is reminded that it can propose changes to such accepted analytical principles in accordance with 39 C.F.R. § 3050.11.

The Commission has considered ACMA's comments regarding its concerns with costs for USPS Marketing Mail Carrier Route, especially its concerns about mail processing cost volume variabilities, and the Postal Service's associated reply comments. However, annual periodic reporting is required to use only accepted analytical principles. *See* 39 C.F.R. § 3050.10. Thus, the FY 2023 ACR is not the appropriate docket to consider ACMA's comments about the volume variabilities of certain mail processing costs. Nevertheless, any interested person may file a proposal to change accepted analytical principles to improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service's annual periodic reports in appropriate proceedings. *See* 39 C.F.R. § 3050.11(a).

To the extent that ACMA has requested a waiver of 39 C.F.R. § 3030.221 as it relates to USPS Marketing Mail Carrier Route, ACMA's request is denied because it does not meet the applicable standard and because it is procedurally deficient.

39 C.F.R. § 3010.161 governs waivers of Commission rules. "Any person may file a motion requesting that any requirement imposed by regulation...be waived." 39 C.F.R. § 3010.161(a). Further, "[m]otions for waiver may be granted in whole or in part to the extent permitted by law upon a showing of good cause and that such waiver will be consistent with the public interest and will not unduly prejudice the interests of other participants." *Id.* § 3010.161(c). Further, the Commission previously provided express guidance to ACMA about filing a motion requesting a waiver of 39 C.F.R. § 3030.221.[62]

ACMA has not shown that granting a waiver will not unduly prejudice the interests of other participants as required by 39 C.F.R. § 3010.161(c). In fact, granting a waiver would likely prejudice other mailers. Increasing rates for the USPS Marketing Mail Carrier Route product above the percent increase for the USPS Marketing Mail class as required by 39 C.F.R. § 3030.221 means that the USPS Marketing Mail Carrier Route product would bear a greater proportion of the USPS Marketing Mail rate increase and that other products in the class would bear a lesser proportion of the class's rate increase. However, waiving the 39 C.F.R. § 3030.221 rate increase on USPS Marketing Mail Carrier Route would likely lead to greater increases in the rates of other USPS Marketing Mail products compared to what the rates would be if 39 C.F.R. § 3030.221 is enforced with respect to USPS Marketing Mail Carrier Route (or compared to banked rate authority that could be applied to other USPS Marketing Mail products). This could prejudice users of other USPS Marketing Mail products. Moreover, granting a waiver also would likely prejudice other USPS Marketing Mail products because it would not address the intra-class subsidy that compensatory USPS Marketing Mail products provide to the non-compensatory USPS Marketing Mail Carrier Route product.

Further, ACMA has not shown that granting a waiver will be consistent with the public interest as required by 39 C.F.R. § 3010.161(c). ACMA focuses on the fairness interests of users of the USPS Marketing Mail Carrier Route product (and related products), not the public interest. *See* ACMA Comments at 23-24. As discussed above, waiving enforcement of 39 C.F.R. § 3030.221 as to the USPS Marketing Mail Carrier Route product benefits users of

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[62] *See* Docket No. RM2023-12, Order Denying Motion for Temporary Waiver of 39 C.F.R. § 3030.221, October 23, 2023, at 5-6 (Order No. 6748).

that product at the expense of users of other USPS Marketing Mail products. Because granting the waiver request would harm certain private interests and advance other private interests, it is not appropriate to conclude, without further support, that granting the waiver request will be consistent with the public interest.

In addition, ACMA has not shown good cause for granting the waiver as required by 39 C.F.R. § 3010.161(c). ACMA argues that, because, in its view, USPS Marketing Mail Carrier Route "costs are too high," it is unjust and unreasonable to rely on such costs to determine that USPS Marketing Mail Carrier Route is non-compensatory and subject to the rate increase provisions of 39 C.F.R. § 3030.221. ACMA Comments at 23 (emphasis omitted). Separately, ACMA argues that enforcing 39 C.F.R. § 3030.221 with respect to USPS Marketing Mail Carrier Route would be unjust and unreasonable because "the rate increases have been large and that the failure to achieve profitability is likely a plague of Nonprofit-volume increase concurrent with Commercial-volume decrease." *Id.* at 2. However, when costs are attributed based on accepted analytical principles, good cause is not demonstrated by asserting that such costs are "too high." The Commission must use accepted analytical principles to evaluate Postal Service periodic reporting. *See* 39 C.F.R. §§ 3050.10, 3050.11. Additionally, to the extent that the USPS Marketing Mail Carrier Route product was non-compensatory in FY 2023 (and further from cost coverage compared to FY 2022) because it generated insufficient revenue, directing a rate increase is not an unjust or unreasonable approach to addressing such insufficient revenue.

Finally, ACMA's request for a waiver is procedurally deficient. As noted above, requests for waivers of Commission rules must be made by motion. 39 C.F.R. § 3010.161(a). Moreover, the Commission previously advised ACMA to file a motion if it wished to request a waiver of 39 C.F.R. § 3030.221. *See* Order No. 6748 at 5-6. Because ACMA included its request in its comments, rather than filing it as a motion, ACMA's request failed to comply with 39 C.F.R. § 3010.161(a) and with Order No. 6748's guidance. Complying with such procedural requirements is important for ensuring transparency and a fair opportunity for interested persons to respond.

The Commission notes that the Postal Service's comments about a more flexible approach to the requirements of 39 C.F.R. § 3030.221 are beyond the scope of the instant review of the FY 2023 ACR.

The Commission finds that the FY 2023 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must propose a rate increase for USPS Marketing Mail Carrier Route that is at least 2 percentage points above the average increase for USPS Marketing Mail whenever the Postal Service files a rate adjustment filing affecting USPS Marketing Mail. In addition, the Commission urges the Postal Service to continue to pursue cost reductions of flat-shaped products, including USPS Marketing Mail Carrier Route.

D. Fully Compensatory Classes

1. First-Class Mail

A. FY 2023 RESULTS

As a class, First-Class Mail covered its attributable costs in FY 2023 and had an overall cost coverage of 211.2 percent, an increase compared to the 210.7 percent cost coverage in FY 2022. Similar to FY 2022, each product within First-Class Mail covered its costs for FY 2023. Table III-8 provides the cost coverage for each First-Class Mail product as well as the overall class for the last 5 fiscal years.

Table III-8
First-Class Mail Cost Coverage, FY 2019–FY 2023

Fiscal Year	First-Class Mail Overall	Single-Piece Letters/Postcards	Presorted Letters/Postcards	Flats	Outbound Single-Piece International	Inbound Letter Post
FY 2019	194.3%	156.1%	292.9%	109.0%	145.7%	78.5%
FY 2020	197.9%	163.3%	281.0%	100.2%	128.3%	83.3%
FY 2021	193.7%	148.9%	279.9%	98.9%	152.8%	122.2%
FY 2022	210.7%	154.4%	307.0%	108.8%	171.1%	128.0%
FY 2023	211.2%	158.0%	296.7%	113.5%	170.2%	129.1%

Source: Library Reference PRC-LR-ACR2023-3.

B. COMMENTS

The Public Representative finds that First-Class Mail products overall covered their attributable costs in FY 2023. PR Comments at 6. The Public Representative notes that while cost coverage improved by approximately 1 percent, rising attributable costs remains an issue, particularly since each product within the class suffered a decrease in volume. *Id.* at 6-7. The Public Representative identifies a possible relationship between price increases in one fiscal year and volume decline in the following fiscal year. *Id.* at 8. The Public Representative suggests that this potential relationship warrants further study. *Id.*

NPPC highlights that costs rose on a per-unit basis in FY 2023 while volume fell by approximately 6 percent. NPPC Comments at 3. Specifically, NPPC notes that regarding Presorted Letters, attributable costs increased "substantially" while volumes declined. *Id.* at 3-4. NPPC argues that while workhours did decline in FY 2023, "the Postal Service captured far fewer workhour savings tha[n] it should have." *Id.* at 4. Finally, NPPC notes that despite a 9.8 percent increase in prices, First-Class Mail revenues increased "by only 2.5 percent." *Id.* at 7. NPPC posits that this reduction was primarily due to the 6.1 percent reduction in volume in First-Class Mail, which was "more than 2 percent larger than in either FY 2022 or FY 2021." *Id.*

C. COMMISSION ANALYSIS

The Commission finds that all First-Class Mail products covered their attributable costs in FY 2023. Overall, cost coverage improved from FY 2022 and revenues for all First-Class Mail products increased in FY 2023.[63] However, volumes for all First-Class Mail products declined at a larger rate than in either FY 2021 or FY 2022.[64] Most notably, volumes for Flats fell below 1 million pieces.[65]

The Commission encourages the Postal Service to consider the concerns expressed by mailers and the Public Representative with respect to the effect of recent rate increases on volume and the effects of volume decline on costs and efficiency measures.

D. OTHER ISSUES — FIRST-CLASS MAIL NON-MACHINABLE SURCHARGE

In both the FY 2021 and FY 2022 ACDs, the Commission addressed comments from the Greeting Card Association (GCA) regarding increases in the non-machinable surcharge for First-Class Mail Single-Piece Letters. FY 2021 ACD at 72-75; FY 2022 ACD at 67-69.

In the FY 2021 ACD, after conducting a balancing test of the relevant statutory factors and objectives in 39 U.S.C. § 3622(b) and (c), the Commission concluded that the non-machinable surcharge complied with all relevant statutory provisions and reaffirmed the decision in Docket No. R2021-2.[66]

The Commission took up the issue again in the FY 2022 ACD after GCA noted concerns that the non-machinable surcharge targeted personal correspondence and that the processing costs for non-machinable single-piece letters were "substantially overestimated." FY 2022 ACD at 67-69. The Commission concluded that the non-machinable surcharge did not "target" personal correspondence because "the majority of it is machinable and hence not subject to the non-machinable surcharge" and that "even with recent increases in the non-machinable surcharge, non-machinable letters still cost more to process and deliver than the Postal Service recovers after the non-machinable surcharge is applied." *Id.* at 68-69.

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[63] *Compare* Library Reference USPS-FY23-1, Excel file "Public_FY23CRAReport.xlsx," tab "Cost 1," cells: D11:D19, *with* Docket No. ACR2022, Library Reference USPS-FY22-1, folder "FY22.1.PCRA.Files," Excel file "Public_FY22CRAReport.xlsx," tab "Cost 1," cells D11:D19.

[64] *See* Library Reference USPS-FY23-1, Excel file "Public_FY23CRAReport.xlsx," tab "Volume 1," cell D14:D22; Docket No. ACR2022, Library Reference USPS-FY22-1, folder "FY22.1.PCRA.Files," Excel file "Public_FY22CRAReport," tab "Volume 1," cells D14:D22; Docket No. ACR2021, Library Reference USPS-FY21-1, December 29, 2021, folder "USPS.FY21.1.CRA.Files," Excel file "Public_FY21CRAReport.xlsx," tab "Volume 1," cells D14:D22.

[65] Library Reference USPS-FY23-1, Excel file "Public_FY23CRAReport.xlsx," tab "Volume 1," cell D20.

[66] *See generally* Docket No. R2021-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, July 19, 2021 (Order No. 5937).

As part of its comments related to the FY 2023 ACR, GCA continues to express its concern with the increase in the non-machinable surcharge for First-Class Mail Single-Piece Letters. GCA Comments at 8-9. GCA observes that in the most recent rate adjustment case,[67] "the already excessive non-machinable surcharge [increased] from $0.40 to $0.44," which represents a 10 percent increase and a larger increase than any other price within the Single-Piece First-Class. GCA Comments at 8. GCA also notes that the non-machinable surcharge has "nearly tripled" since 2017. *Id.*

The Commission continues to adhere to the view that "the non-machinable surcharge is not a standalone price, but a surcharge added onto the price for a Single-Piece First-Class Mail Letter, if such a letter is non-machinable." FY 2021 ACD at 72. Therefore, as a result of the most recent rate proceeding, the price of a Single-Piece First-Class Mail Nonmachinable Stamped Letter increased from $1.06 to $1.12, an approximately 5.7 percent increase and a difference of 6 cents for a given non-machinable mail piece.[68] As noted previously, characterizing the price increase solely as a percentage of the increase in the surcharge "misrepresents the actual change in price mailers will experience for an individual" non-machinable letter. *See* Order No. 5937 at 87.

GCA acknowledges that "*some* 'officially' non-machinable pieces do require different (manual) handling at additional cost." GCA Comments at 8 (internal footnote omitted). But GCA insists that it defies credulity to conclude "without convincing proof" that the additional cost "has tripled in six years, so that *every* non-machinable letter imposes that level of cost." *Id.* To justify the level of non-machinable surcharge, GCA requests that the Commission require information on: "(i) the actual additional cost of a non-machinable letter, including a specification of where (processing, collection, transportation, delivery) that cost is incurred, and (ii) the actual extent to which 'officially' non-machinable letters are actually handled, throughout the system, in the same way as those which meet machinability criteria." *Id.* at 8-9.

In support of this request, GCA states that "[t]he Commission has agreed that not all [non-machinable pieces] do require manual handling." GCA Comments at 8 n.17 (citing FY 2021 ACD at 74). In its discussion on how the surcharge comports with the objective in 39 U.S.C. § 3622(b)(8), the Commission previously noted that the non-machinable surcharge is "charged to pieces that generally require manual processing and therefore are more costly for the Postal Service to process." Order No. 5937 at 87. And as noted in the FY 2021 ACD, "[o]bjective 8 endeavors to strike a balance between rates that are excessive to mailers and rates that threaten the financial integrity of the Postal Service, but does not require, as GCA implies, any kind of calculation or finding that the amount of the rate precisely incentivizes a particular behavior or outcome." FY 2021 ACD at 74-75.

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[67] *See* Order No. 6814.

[68] For Nonmachinable Metered Letters, the price increased from $1.03 to $1.08, an approximately 4.9 percent increase. Order No. 6814. *See also* Order No. 6526.

Similarly, here, objective 8 does not require the precision GCA implies is necessary. With respect to the costs to the Postal Service of handling non-machinable letters, the Commission reiterates that the relevant consideration is “the difference between the total reported cost for handling Non-machinable Metered Letters compared to the total reported cost for handling Machinable Metered Letters.” FY 2022 ACD at 68.

For FY 2023, the reported unit mail processing cost for Nonmachinable Metered Letters was 35.768 cents higher than for Machinable Metered Letters.[69] The reported unit delivery cost for Nonmachinable Metered Letters was 15.524 cents higher than for Machinable Metered Letters. *Id.* cells D11:D12. The reported unit collection cost was the same for both price categories. *Id.* cells E11:E12.

Thus, in FY 2023, Nonmachinable Metered Letters cost on average 51.292 cents more to process and deliver than Machinable Metered Letters. *Id.* cells B11:B12, D11:D12, E11:E12. The non-machinable surcharge is currently 44 cents.[70] This means that the difference between the surcharge and costs for machinable and non-machinable letters in FY 2023 is greater than in FY 2022. *See* FY 2022 ACD at 68. Therefore, even if not all non-machinable pieces require manual processing, the surcharge remains below the difference in costs such that the Postal Service is still not covering the difference.

2. Special Services

As a class, Special Services covered its attributable cost in FY 2023 and had an overall cost coverage of 163.0 percent, which is an increase from FY 2022’s cost coverage of 155.5 percent. Table III-9 contains the cost coverages of a selection of key products from the 10 total Special Services products as well as the overall class cost coverage for the last 5 fiscal years.[71] All 10 Special Services products covered their attributable costs in FY 2023.[72]

[69] Library Reference USPS-FY23-10, December 29, 2023, Excel file “USPS-FY23-10+FCM+Letters.xlsx,” tab “Summary,” cells B11:B12.

[70] In Order No. 6814, the Commission approved the current non-machinable surcharge of 44 cents. Compare Single-Piece Machinable rates to Single-Piece Non-machinable rates. Order No. 6814, Attachment at 1-2.

[71] The 10 Special Services products are: (1) Ancillary Services; (2) International Ancillary Services; (3) Address Management Services; (4) Caller Service; (5) Credit Card Authentication; (6) International Reply Coupon Service; (7) International Business Reply Mail Service; (8) Money Orders; (9) Post Office Box Service; and (10) Stamp Fulfillment Services, available at *https://www.prc.gov/mail-classification-schedule.* Cost coverage information for products not appearing in Table III-9 can be found in Library Reference PRC-LR-ACR2023-7.

[72] *See* Library Reference PRC-LR-ACR2023-7. In the FY 2023 ACR filed on December 29, 2023, the Postal Service stated that all Special Services products covered costs except for Stamped Envelopes, which had a cost coverage of 79.8 percent. FY 2023 ACR at 45. On February 22, 2024, the Postal Service filed errata to the FY 2023 ACR which, among other changes, revised the cost coverage for Stamped Envelopes to 147.5 percent based on revenue that was excluded from the December 29, 2023 filing. Notice of the United States Postal Service of Revisions to Certain Pages of the FY 2023 Annual Compliance Report -- Errata, February 22, 2024, at 1-2, 3. The Commission notes that Stamped Envelopes is a service that is part of the Ancillary Services product, which had an overall cost coverage of 146.4 percent in FY 2023.

Table III-9
Special Services Cost Coverage, FY 2019–FY 2023

Fiscal Year	Total Special Services Mail	Ancillary Services	International Ancillary Services	Address Management Services	Money Orders	Post Office Box Service	Stamp Fulfillment Services
FY 2019	136.9%	145.6%	100.6%	299.1%	105.5%	115.1%	94.5%
FY 2020	143.7%	135.3%	94.8%	266.9%	97.7%	228.6%	142.7%
FY 2021	141.0%	133.7%	127.6%	318.8%	88.5%	218.9%	136.6%
FY 2022	155.5%	146.4%	204.9%	593.6%	99.2%	236.9%	127.7%
FY 2023	163.0%	146.4%	184.7%	1055.0%	133.1%	231.9%	179.2%

Source: Library Reference PRC-LR-ACR2023-7.

As Table III-9 shows, the cost coverage for the Special Services class in FY 2023 was the highest it has been in the last 5 fiscal years, reflecting a trend of class cost coverage improvement year over year in most years. Table III-9 further illustrates that cost coverages for listed Special Services products are higher in FY 2023 compared to FY 2019, but that only half of the listed products had an increase in cost coverage between FY 2022 and FY 2023.

As also shown in Table III-9, Money Orders did not cover its attributable costs between FY 2020 and FY 2022 and was the sole Special Services product to fail to cover its attributable costs in FY 2022. In FY 2023, Money Orders covered its attributable costs with a cost coverage of 133.1 percent, a substantial improvement over FY 2022's cost coverage of 99.2 percent. The Postal Service attributes this improvement to a 34 percent increase in unit revenue driven by recent price increases, which was more than sufficient to offset a 1 percent increase in unit costs in FY 2023. FY 2023 ACR at 46.

The Commission finds that all Special Services products covered their attributable costs in FY 2023. The Commission encourages the Postal Service to continue to seek ways to improve the cost coverage of the Special Services class and to pay particular attention to improving the cost coverage of products and services that experienced cost coverage declines between FY 2022 and FY 2023.

CHAPTER IV. COMPETITIVE PRODUCTS

A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2023 were not in compliance with 39 U.S.C. § 3633, which:

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

The principal FY 2023 findings for Competitive products are:

- Revenues for Competitive products as a whole exceeded incremental costs. Thus, Competitive products were not subsidized by Market Dominant products, thereby satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for four Competitive products with rates of general applicability did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2). Those products are:

    1. Inbound Parcel Post
    2. International Surface Air Lift (ISAL)
    3. International Money Transfer Service—Outbound (IMTS—Outbound)
    4. Competitive International Ancillary Services

- Revenues for two domestic NSAs,[73] as well as eight outbound international NSAs[74] and Inbound Express Mail Service (EMS) did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2).
- Collectively, the total contribution made by Competitive products was 32.1 percent of total institutional costs, which is greater than both the 5.5 percent or the formula-derived 10.4 percent requirement. Therefore, Competitive products satisfied the appropriate share requirement of 39 U.S.C. § 3633(a)(3) during FY 2023.

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

39 U.S.C. § 3633(a)(1) requires that Competitive products not be subsidized by Market Dominant products. To determine compliance, the Commission uses the incremental cost test, which calculates the collective costs incurred by Competitive products as a group, and compares those costs to the collective revenue generated by Competitive products. This provides a more rigorous test because the collective incremental costs of Competitive products are greater than the sum of the attributable cost of each product. As long as the revenue from Competitive products exceeds those products' incremental costs, the Commission can conclude that no cross-subsidization has occurred.

The Taxpayers Protection Alliance (TPA) expressed concern that the Postal Service's estimates are not reported with more detailed calculations because "volume variable costs, product specific costs, and inframarginal costs remain non-public information" and that "flawed…attribution assumptions" may contribute to "skewed cost coverage figures." TPA Comments at 2.

In contrast, Pitney Bowes states that "the public FY2023 ACR data confirm that the Postal Service's competitive products continue to comply with all applicable pricing requirements." Pitney Bowes Comments at 3. Additionally, Pitney Bowes finds that the "Competitive products are not being subsidized by market dominant products and, thus, there is no evidence of anticompetitive pricing." *Id*. at 4. Amazon notes that the "examples cited by TPA rehash criticisms of the approved costing methods that the Commission has

[73] Priority Mail Contract 543 and Parcel Select Contract 52.

[74] International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 4, International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 9, International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 11, International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 7, International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service with Reseller Contract 1, International Priority Airmail, International Surface Air Lift, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 2, Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 5, and one serial numbered agreement under the Global Expedited Package Services (GEPS)—Non Published Rates 15 product.

repeatedly considered and rejected in prior proceedings" in support of its conclusion that Competitive products are not being subsidized by Market Dominant products. Amazon Reply Comments at 1. The Public Representative notes that the Competitive products' group revenue exceeded their incremental costs and concludes that Market Dominant products did not subsidize Competitive products in FY 2023. PR Comments at 24.

None of the commenters offer evidence to suggest that the incremental costs of Competitive products exceeded their revenues in FY 2023.

The Commission notes that interested parties may request access to nonpublic materials by filing a motion pursuant to 39 C.F.R. § 3011.301. In the instant docket, no party has done so. To the extent that commenters challenge Competitive product cost attribution, the Commission continues to note that the purpose of the ACD is to determine compliance with existing regulations using established methodology. *See* FY 2022 ACD at 71; FY 2021 ACD at 77; FY 2020 ACD at 69-70. Recommendations for improving specific cost attribution methodologies are appropriately addressed in dockets considering changes to those methodologies.

In FY 2023, the incremental costs of Competitive products were $21.183 billion and the total revenues of Competitive products were $33.350 billion. Accordingly, in FY 2023, revenues from Competitive products exceeded incremental costs.

The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2023.

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

39 U.S.C. § 3633(a)(2) requires that the revenue for each Competitive product cover its attributable cost. Below, the Commission discusses the FY 2023 financial performance for four separate Competitive product groupings:[75]

- Competitive domestic products with rates of general applicability
- Competitive domestic products consisting of NSAs
- Competitive international products with rates of general applicability
- Competitive international products consisting of NSAs

[75] A fifth group, Competitive nonpostal services, is not specifically discussed because all products in the group covered their costs in FY 2023. Library Reference USPS-FY23-NP32, December 29, 2023, PDF file "PROTECTED_FY23-NP32+NonPublic+IAA+Preface.pdf," at 3-4.

1. Competitive Domestic Products with Rates of General Applicability

A. GENERAL COMPLIANCE

In FY 2023, there were 13 Competitive domestic products with rates of general applicability: Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service;[76] First-Class Package Service;[77] USPS Retail Ground;[78] USPS Ground Advantage;[79] Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services;[80] Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

The Commission finds that, in FY 2023, every Competitive domestic product with rates of general applicability covered its attributable cost[81] and, thereby, satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2).

B. POSTAL SERVICE MOTION FOR WAIVER RELATED TO USPS GROUND ADVANTAGE

39 C.F.R. § 3050.10 requires the Postal Service to use only accepted analytical principles in its annual periodic reports to the Commission, which includes the Postal Service's ACR. Proposed changes to analytical principles are reviewed in rulemaking proceedings conducted pursuant to 39 C.F.R. § 3050.11.

On December 8, 2023, the Postal Service filed a motion to waive 39 C.F.R. § 3050.10 with respect to certain costs for USPS Ground Advantage. *See generally* Motion for Waiver. Citing the fourth quarter implementation date for USPS Ground Advantage, the Postal Service argues that compliance with 39 C.F.R. § 3050.10 in this instance is "impossible," and that there was "insufficient time to attempt to acquire the necessary data, iron out all of the details of the methodology, and present and litigate a proposal in time to incorporate the results of such litigation into ACR preparation." Motion for Waiver at 1-2. The Postal

[76] Parcel Return Service had rates of general applicability through January 21, 2023. Docket No. MC2022-95, Order Removing Parcel Return Service as a Rate of General Applicability, October 24, 2022 (Order No. 6310).

[77] First-Class Package Service had rates of general applicability through July 8, 2023. Docket Nos. CP2023-113 and CP2023-114, Order Concerning Changes in Rates of General Applicability and Classifications for First-Class Package Service and Parcel Select, June 7, 2023 (Order No. 6536).

[78] Retail Ground had rates of general applicability though July 8, 2023. Docket Nos. MC2022-81 and MC2022-82, Order Removing USPS Retail Ground from the Competitive Product List and Approving Competitive Classification Changes to First-Class Package Service and Parcel Select, October 28, 2022 (Order No. 6318) (approving removing of Retail Ground on a date to be specified); Docket Nos. MC2022-81 and MC2022-82, USPS Notice of Effective Date, February 10, 2023 (setting effective date of removal Retail Ground as July 9, 2023).

[79] USPS Ground Advantage had rates of general applicability beginning July 9, 2023. Order No. 6536. Additional discussion of this product's compliance is discussed in Section IV.C.1.B., *infra.*

[80] The Competitive Ancillary Services product consists of the following services: Adult Signature, Package Intercept Service, Premium Data Retention and Retrieval Service, and Label Delivery Service. *See* Mail Classification Schedule (MCS) § 2645, available at *https://www.prc.gov/mail-classification-schedule*.

[81] *See* Library Reference PRC-LR-ACR2023-1, Excel file "FY23 Summary_NPLR-1.xlsx," tab "Total All Mail Appendix A."

Service seeks a waiver to "allow development of an interim solution" by having the Commission review the proposed new methodology on an interim basis in this proceeding. *Id.* at 2. On December 22, 2023, the Commission took the Motion for Waiver under advisement. *See generally* Order No. 6894.

Motions for waiver are governed by 39 C.F.R. § 3010.161, which states that such motions "may be granted in whole or in part to the extent permitted by law upon a showing of good cause and that such waiver will be consistent with the public interest and will not unduly prejudice the interests of other participants." 39 C.F.R. § 3010.161(c).

The Public Representative notes that "it is possible that the volume profile of the USPS Ground Advantage product may differ considerably from the profiles of two distinct legacy products" and suggests detailed data is needed to "better understand the unique cost and volume characteristics of the new USPS Ground Advantage product." PR Comments at 28. The Postal Service explained in response that the product-level cost reporting for USPS Ground Advantage already captures its unique cost causing activities by using sampling systems designed to capture product-level cost information associated with accepting, processing, transporting, and delivering each parcel. USPS Reply Comments at 20. The Postal Service further explained that it "aimed to find the most appropriate balance between adhering to accepted principles that were in place for the legacy products and providing the most accurate cost figures for each NSA that included USPS Ground Advantage." *Id.* at 21.

The Commission observes that the classification changes revising the product were approved in October 2022,[82] at which time the Commission noted that the Postal Service would need to seek and obtain approval of a change in analytical principles if it intended to eliminate existing distinctions in mail processing cost data. Order No. 6318 at 17, 20; *see* Order No. 6894 at 6. The Postal Service failed to obtain such approval before implementing changes that prevented it from collecting mail processing cost data and additional transportation cost data that would have been required to comply with 39 C.F.R. § 3050.10. That failure is directly responsible for the Postal Service's present circumstances and the "impossibility" of compliance with 39 C.F.R. § 3050.10 that the Postal Service claims justifies a waiver. *See* Motion for Waiver at 1-4.

Nevertheless, having reviewed the interim methodologies for the mail processing and transportation costs presented in the ACR, and additional information provided in the Postal Service's responses to CHIR Nos. 2, 5, and 7,[83] the Commission finds that the interim methodology represents the best available information on USPS Ground Advantage costs, and that the data that would be necessary to apply accepted analytical principles is not available. In particular, the Commission notes that the scope of the departures from

[82] At the time of approval, the classification changes were made to First-Class Package Service; the revised product was later renamed to USPS Ground Advantage. Order No. 6536 at 26.

[83] *See* CHIR No. 2, questions 5-11; CHIR No. 6, question 11; CHIR No. 7, question 11.

accepted analytical principles in the interim methodology is limited, and the changes made appear to be based on either a straightforward analytical framework tailored to the USPS Ground Advantage product, or else are similar to other cost models, as represented by the Postal Service in its Motion for Waiver. Motion for Waiver at 2-3. The Commission makes no findings as to whether the interim methodology represents an improvement on the accuracy, quality, or completeness of the data in comparison to accepted analytical principles—such a determination will be made in a subsequent rulemaking proceeding pursuant to 39 C.F.R. § 3050.11.

Although this situation was foreseeable and avoidable,[84] the Commission acknowledges that, at the time the Motion for Waiver was filed, the Postal Service lacked the necessary data to comply with 39 C.F.R. § 3050.10 with regards to the USPS Ground Advantage costs in question and had no means to collect that data retrospectively. The Motion for Waiver, the proposed interim methodology, and the Postal Service's responses to the CHIRs appear to demonstrate a good-faith effort on the part of the Postal Service to mitigate the consequences of its failure to promptly file a petition for a change of analytical principles. The Commission therefore finds that the Postal Service has demonstrated good cause for the Motion for Waiver, as required by 39 C.F.R. § 3010.161(c).

The Commission further finds that, given the unavailability of the data necessary to apply accepted analytical principles, it is in the public interest for the Commission to rely on the interim methodology as the best available data to make the compliance determination required by 39 U.S.C. § 3653. *See generally* 39 C.F.R. § 3010.161(c). The Commission bases this finding in part on the limited scope of the deviation from accepted analytical principles in the interim methodology. The limited scope of the changes also minimizes any prejudice to other parties. *See id.* Combined with the prompt initiation of a rulemaking to change accepted analytical principles—which will provide interested parties with a full opportunity to examine the changes and provide comments—the Commission finds that granting the Motion for Waiver would not unduly prejudice the interests of other participants. *See id.*

The Commission therefore grants the Motion for Waiver and notes that its review of the compliance of the USPS Ground Advantage product in FY 2023 is based on the Postal Service's interim methodology.[85] As discussed above, the Commission will determine whether the interim methodology and any potential further changes proposed by the Postal Service represent an improvement on the accuracy, quality, or completeness of the data in a rulemaking proceeding, which the Commission will direct the Postal Service to promptly initiate. The Commission encourages the Postal Service to include in its petition proposed methods for maintaining distinctions in mail processing costs based on

[84] *See* Order No. 6894 at 6.

[85] Specifically, the interim methodology is required to distribute measured costs between the USPS Ground Advantage product and NSAs that offer USPS Ground Advantage service.

machinability and using those distinctions to more accurately estimate costs related to the actual processing of USPS Ground Advantage pieces. *See* Order No. 6318 at 17.

The Commission emphasizes the importance of basing compliance determinations only on accepted analytical principles. As discussed in Order No. 6894, rulemaking proceedings conducted pursuant to 39 C.F.R. § 3050.10 not only provide interested parties with an opportunity to comment, but also permit the Commission to review proposed new methodologies without the statutory 90-day time limit imposed on the ACD process. Order No. 6894 at 7; *see* 39 U.S.C. § 3653(b). Similarly, reviewing a novel methodology as part of the ACD process impedes the Commission's ability to conduct the required compliance review within the prescribed timeframe. Any change in the Postal Service's operations or data collection practices that prevents the Postal Service from collecting the data necessary to file its periodic reports using accepted analytical principles conflicts with 39 C.F.R. § 3050.10 and impedes the Commission's statutorily mandated duties. The Commission will therefore require the Postal Service to seek and obtain approval for a change to accepted analytical principles prior to implementing any such change to its operations or data collection practices. Accordingly, the Commission expects that future similar waivers of 39 C.F.R. § 3050.10 will not be necessary.

The Motion of the United States Postal Service for Waiver of Rule 3050.10 with Respect to Disaggregated Ground Advantage Costs, filed December 8, 2023, is granted. The Postal Service shall file a request to initiate a rulemaking docket to consider costing methodology for USPS Ground Advantage no later than 60 days after the issuance of this compliance determination. To ensure compliance with 39 C.F.R. § 3050.10, the Commission directs the Postal Service to seek and obtain Commission approval for a change in accepted analytical principles pursuant to 39 C.F.R. § 3050.11 prior to implementing any change that would prevent the Postal Service from collecting data necessary to comply with 39 C.F.R. § 3050.10.

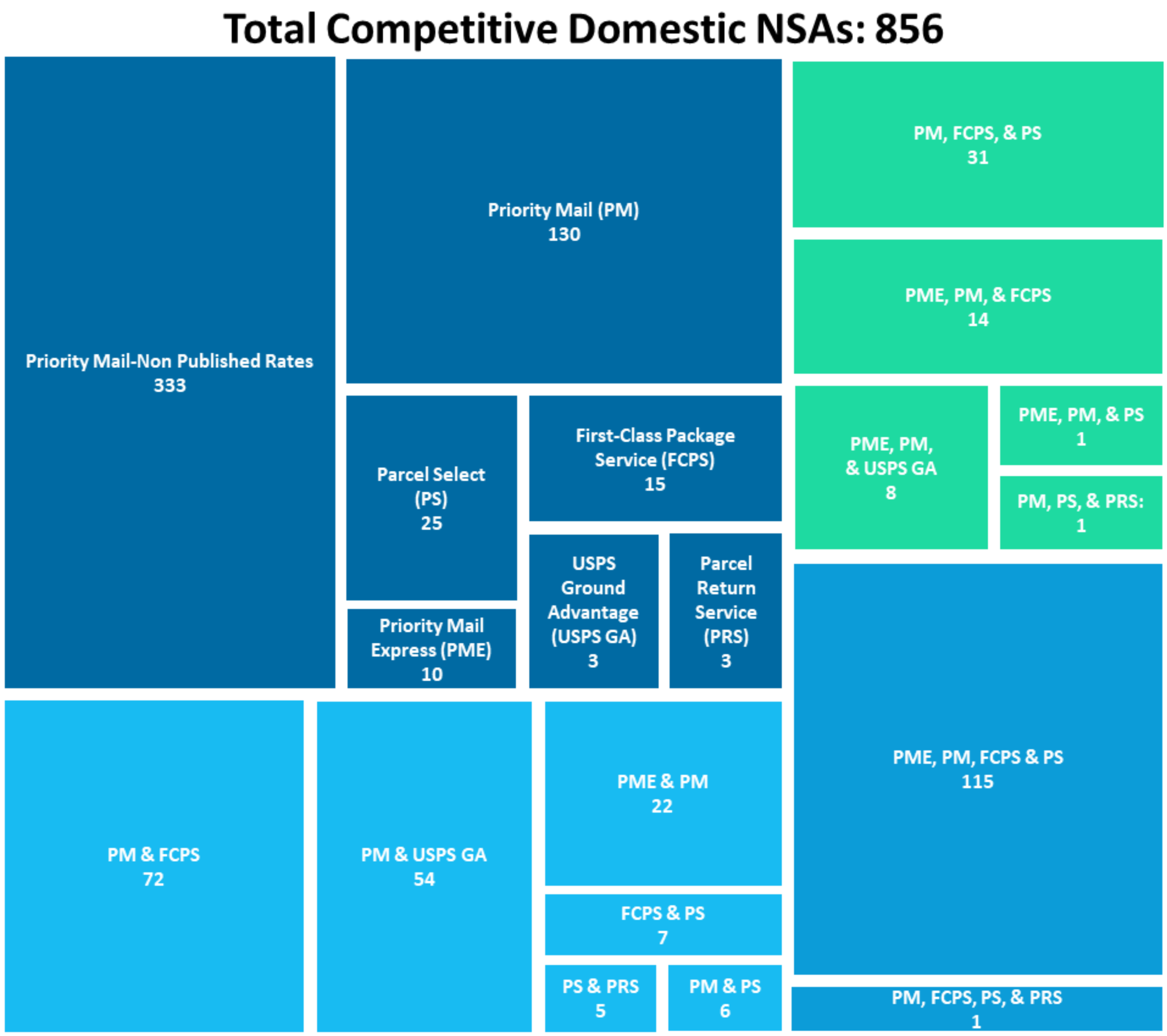
2. Competitive Domestic Products Consisting of NSAs

In FY 2023, there were 856 Competitive domestic products consisting of NSAs, as displayed in Figure IV-1.[86] Pursuant to 39 U.S.C. § 3633(a)(2), the Commission finds that all but two Competitive domestic NSAs covered their attributable costs in compliance with this statutory requirement. The non-compliant Competitive domestic NSAs in question, Priority Mail Contract 543 and Parcel Select Contract 52, have been terminated. *See* FY 2023 ACR at 98. Although eight additional agreements had individual components that failed to cover attributable costs, each agreement covered its total attributable costs.[87]

[86] The 856 products include agreements that were extended via amendment.

[87] *See* January 19 Response to CHIR No. 2, question 2; Library Reference USPS-FY23-NP34, January 23, 2024. The Public Representative noted that his review suggests that only three domestic agreements had non-compensatory components. PR Comments at 27. The Commission notes that the Public Representative appears to be using a narrower definition of "components" that excludes five of the agreements with components that failed to cover attributable costs listed in the January 19 Response to CHIR No. 2, question 2.

Figure IV-1
Competitive Domestic NSA Products in Effect During FY 2023



In the FY 2022 ACD, the Commission directed the Postal Service to file quarterly summary spreadsheets listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. The Commission notes that the Postal Service has filed timely reports for FY 2023 Quarters 2 through 4 as well as FY 2024 Quarter 1 in Docket No. ACR2022.[88] The Commission issued eight CHIRs in the docket to clarify discrepancies in the

[88] *See* Docket No. ACR2022, Library Reference USPS-FY22-NP45, April 7, 2023; Docket No. ACR2022, Notice of the United States Postal Service of Filing of USPS-FY22-NP51 and Application for Nonpublic Treatment, July 7, 2023; Docket No. ACR2022, Notice of the United States Postal Service of Filing of USPS-FY22-NP56 and Application for Nonpublic Treatment, October 10, 2023; Docket No. ACR2022, Notice of the United States Postal Service of Filing of USPS-FY22-NP60 and Application for Nonpublic Treatment, January 8, 2024.

quarterly reports.[89] Typical causes for such discrepancies have included the Postal Service's failure to file termination notices with the Commission, failure to file termination notices in the appropriate docket, and typographical errors such as incorrect customer names.[90] Overall, the quarterly reports have improved recordkeeping and assisted in timely identification and reconciliation of discrepancies. The access to up-to-date NSA records has made the Commission's review of the FY 2023 NSA reports more efficient.

As discussed above, with the granting of the Motion for Waiver, the Commission bases its compliance determinations for NSAs offering USPS Ground Advantage on the Postal Service's proposed interim methodology.

In addition to the USPS Ground Advantage product launched in FY 2023, the Postal Service expanded its use of Connect eCommerce (CeC) contracts. In June, the Commission denied requests to add new CeC contracts to the Competitive product list and requests to amend four existing CeC contracts on the grounds that the supporting workpapers failed to demonstrate that each agreement should cover its attributable cost.[91] In Order No. 6546, the Commission encouraged the Postal Service to refile higher price floors in a dedicated docket, noting that the Commission's "current procedures for reviewing NSAs are not intended to address novel issues raised concurrently in multiple dockets," such as common price floors. Order No. 6546 at 12. The Postal Service instead opted to file revised price floors as part of its request to amend an existing CeC NSA in Docket No. CP2022-88.[92] After further clarification and thorough evaluation of the revised price floors, the Commission approved their use for CeC contracts with the requirement that the Postal Service file quarterly reports tracking the volume mix, cost, and revenue for each CeC agreement in order to allow the Commission to monitor the reliability of using the national average when projecting customers' volume. Order No. 6773 at 9-10. The Commission notes that the Postal Service has timely filed its first quarterly report for CeC contracts, and all such contracts were in compliance in FY 2023.

Multiple CHIRs were issued in the instant proceeding pertaining to domestic NSA Competitive products and support files to clarify data. *See*, *e.g.*, CHIR No. 2. The overall

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[89] *See* Docket No. ACR2022, Chairman's Information Request No. 28 and Notice of Filing Under Seal, April 27, 2023; Docket No. ACR2022, Chairman's Information Request No. 31 and Notice of Filing Under Seal, May 25, 2023; Docket No. ACR2022, Chairman's Information Request No. 33 and Notice of Filing Under Seal, June 14, 2023; Docket No. ACR2022, Chairman's Information Request No. 35 and Notice of Filing Under Seal, July 18, 2023; Docket No. ACR2022, Chairman's Information Request No. 36 and Notice of Filing Under Seal, August 7, 2023; Docket No. ACR2022, Chairman's Information Request No. 38 and Notice of Filing Under Seal, October 25, 2023; Docket No. ACR2022, Chairman's Information Request No. 39 and Notice of Filing Under Seal, November 7, 2023; Docket No. ACR2022, Chairman's Information Request No. 41 and Notice of Filing Under Seal, December 6, 2023.

[90] S*ee*, *e.g.*, Docket No. CP2020-170 (Postal Service failed to file notice of early termination of contract Priority Mail Non-Published Rates 2-FY21-0799).

[91] *See* Docket No. MC2023-143 *et al*., Order Denying Postal Service Requests to Add Priority Mail, First-Class Package Service & Parcel Select Contracts to the Competitive Product List and Providing Guidance, June 16, 2023 (Order No. 6546); Docket No. CP2022-74 *et al*., Order Denying Amendments to Priority Mail Express, Priority Mail, First-Class Package Service & Parcel Select Negotiated Service Agreements, June 20, 2023 (Order No. 6547).

[92] *See* Docket No. CP2022-88, Order Approving Amendment to Priority Mail Express, Priority Mail, First-Class Package Service & Parcel Select Negotiated Service Agreement, November 2, 2023, at 5-6 (Order No. 6773).

topics involved the need for further clarification of data due to insufficient source notes; reconciliation of values across various spreadsheets; and inquiries on costing methodologies including the interim USPS Ground Advantage cost models.[93] The Commission encourages the Postal Service to continue to improve the explanation of its NSA costing materials provided as part of its ACR.

The Commission finds that Priority Mail Contract 543 and Parcel Select Contract 52 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023. However, because these contracts have already terminated, no further action is required.

To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in the instant proceeding, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations including exact dates and respective notices filed. Each report must include correct contract partner names, contract type and number, docket number(s), and dates in the identical format as ACR reports. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 8, 2024, and the last such report due January 9, 2025. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.

3. Competitive International Products with Rates of General Applicability

Eleven Competitive international mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; International Priority Airmail (IPA); ISAL; Outbound Single-Piece First-Class Package International Service; Inbound Letter Post Small Packets and Bulky Letters; Inbound Parcel Post (at Universal Postal Union (UPU) rates); International Direct Sacks—Airmail M-Bags; IMTS—Outbound; IMTS—Inbound; and International Ancillary Services.

The Commission finds that four of these products, Inbound Parcel Post (at UPU rates), ISAL, IMTS—Outbound, and International Ancillary Services, did not cover their costs attributable and did not satisfy 39 U.S.C. § 3633(a)(2).[94]

[93] *See*, *e.g.*, CHIR No. 2, questions 5-11, 15; CHIR No. 6, question 11; CHIR No. 7, questions 11-12.

[94] *See* FY 2023 ACR at 99-107. *See also* Library Reference USPS-FY23-NP2, December 29, 2023.

A. INBOUND PARCEL POST (AT UPU RATES)

(1) FY 2023 Results

Inbound Parcel Post (at UPU rates)[95] consists of inbound air and surface parcels for which rates are set according to a formula and cap determined in the UPU Acts.[96] In FY 2023, for the first time in many years,[97] Inbound Parcel Post (at UPU rates) did not cover its attributable cost. In fact, cost coverage decreased substantially from FY 2022 to FY 2023.[98]

The Postal Service notes that Inbound Parcel Post (at UPU rates) experienced higher processing, delivery, and purchased transportation costs in FY 2023 compared to FY 2022. FY 2023 ACR at 99. The Postal Service states that it "cannot increase these rates unilaterally above the applicable cap and, absent other incentives to negotiate rate increases for this service, is constrained in negotiations with other postal operators by the fact that other postal operators can insist on resorting to default UPU rates." *Id.* at 100. The Postal Service notes that it sought and obtained the maximum allowable rate increases for Inbound Parcel Post (at UPU rates) that took effect on January 1, 2024.[99]

In addition, under seal, the Postal Service provides further explanations for the cost increases experienced by Inbound Parcel Post (at UPU rates) as well as information on forfeited revenue due to its inability to meet certain UPU requirements for parcel rate bonuses[100] in FY 2023. *See* January 19 Response to CHIR No. 2, question 28; February 16 Response to CHIR No. 9, question 15.

(2) Comments

The Public Representative notes "significant differences in unit cost changes experienced by inbound air and surface parcels subject to UPU rates between FY 2022 and FY 2023, which resulted in significantly different financial performance for volumes under the

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[95] Inbound Parcel Post (at UPU rates) service, with the exception of transit mail, is not sealed against inspection. The insertion of correspondence, with the exception of archived materials, exchanged between persons other than sender and the addressee or persons living with them, is prohibited. Single-Piece Inbound Parcel Post (at UPU rates) service is subject to the provisions of the Universal Postal Convention and the UPU Parcel Post Regulations. Inbound Parcel Post (at UPU rates) includes transit revenue for parcels transiting from a foreign country to another foreign country through the United States. Postage and other charges paid by the sender are determined by the country of origin. *See* MCS § 2310.

[96] The UPU is a United Nations specialized agency comprising 192 member countries, including the United States. Member countries negotiate international agreements governing the exchange of international mail, including applicable rates for the delivery of international mail. *See* Regulations to the Convention, Final Protocol, Article 33-201, Inward land rates, Berne 2021, for rates applicable to Inbound Parcel Post (at UPU rates) (available at *https://www.upu.int/en/universal-postal-union/about-upu/acts#acts-of-the-union*).

[97] For example, Inbound Parcel Post (at UPU rates) was compensatory in FY 2018 through FY 2022. *See* FY 2018 ACD at 104; FY 2019 ACD at 77; FY 2020 ACD at 73; FY 2021 ACD at 81; FY 2022 ACD at 75.

[98] *See* Library Reference PRC-LR-ACR2023-NP2, Excel file "PRC-LR-ACR2023-NP2 UNIFIED ICRA.xlsx," tab "ACR2023 Intl Products;" Docket No. ACR2022, Library Reference PRC-LR-ACR2022-NP2, March 29, 2023, Excel file "PRC-LR-ACR2022-NP2 UNIFIED ICRA_Updated030923.xlsx," tab "ACR2022 Intl Products."

[99] *Id.* (citing Docket No. CP2024-100, Order Acknowledging Changes in Rates for Inbound Parcel Post (at UPU Rates), December 19, 2023, at 5 (Order No. 6877)).

[100] The Postal Service reports under seal "third-party service performance results on which financial penalties or bonuses are based and estimations of forfeited revenues based on such service performance, for international inbound letter post and international inbound parcel post (Inward Land Rates), as required by 39 C.F.R. § 3050.21(j)…." Roadmap Document, *supra* note 11, at 119.

product's two components." PR Comments at 29. He notes that "[i]n addition to inflation-linked adjustments, postal operators might qualify for additional rate increases in the form of bonuses, which they can earn for the provision of certain service features and their performance in the provision of respective service features." *Id.* at 29-30. He notes that review of relevant International Bureau (IB) Circulars suggests that the Postal Service qualified for the bonus-related increases to Inbound Parcel Post (at UPU rates) in FY 2022 and FY 2023, and that the Postal Service confirms that it obtained the maximum allowable rate increases for CY 2024. *Id.* at 30.

With respect to the product's future cost coverage, the Public Representative notes that "the Postal Service referred to the improved efficiencies and cost reductions that its Delivering for America (DFA) Plan should deliver, without addressing why, this far into the DFA Plan's implementation, efficiencies have declined and costs have increased, or whether these trends would continue before reaching inflection points." *Id.* He concludes that absent additional relevant details, he is "unable to form an expectation regarding future cost coverage for the Inbound Parcel Post (at UPU rates) product." *Id.*

In response to the Public Representative's comments, the Postal Service states that it provided additional information about the unit cost increases in FY 2023. Postal Service Reply Comments at 22 (citing January 19 Response to CHIR No. 2, question 28). The Postal Service also states that as part of the DFA Plan, during the second half of FY 2023 it reduced costs by shifting more mail and packages from the air network to the more efficient surface network and by continuing modernization efforts to transform its legacy network into a more efficient one.[101] The Postal Service asserts that network modernization is expected to lead to significant improvements in service performance, revenue growth, cost efficiency, and other areas.[102] However, it cautions that it faces "[h]igh inflation and supply chain disruptions, which have significantly increased [its] labor, fuel, energy, equipment, and facility costs."[103] It also cautions that "[s]ome of the cost-saving and revenue-generation gains will require three to five years for results to be fully realized on [its] income statement."[104]

(3) Commission Analysis

The Commission recognizes that the Postal Service is constrained by the UPU's maximum allowable inflation-based increase that it requested from the UPU and which the Commission acknowledged in Order No. 6877. However, the Commission observes that the Postal Service forfeited revenue due to its inability to meet certain UPU requirements for parcel rate bonuses. February 9 Response to CHIR No. 9, questions 15.a.-15.b. This revenue

[101] *Id.* (citing United States Postal Service, Delivering for America, Responses of the United States Postal Service to the Reporting Requirements Specified in the Postal Service Reform Act of 2022, FY 2023 3rd and 4th Quarter, December 4, 2023, at 15, 21 (Postal Service FY 2023 Q3 and Q4 DFA Report)).

[102] Postal Service Reply Comments at 22 (citing Postal Service FY 2023 Q3 and Q4 DFA Report at 27).

[103] Postal Service Reply Comments at 22-23 (citing Postal Service FY 2023 Q3 and Q4 DFA Report at 29).

[104] Postal Service Reply Comments at 22-23 (citing Postal Service FY 2023 Q3 and Q4 DFA Report at 29-30).

would have improved the product's cost coverage, although would not have made it compensatory. Furthermore, the Postal Service confirms that it has forfeited revenue for the past 5 fiscal years. Response to CHIR No. 12, question 1. The Commission is concerned about such missed revenue opportunities. Forfeiting revenue, of any amount, is not in the financial best interest of the Postal Service, particularly given that the product is now non-compensatory.

The Commission notes the general increases in costs, especially increases in mail processing, delivery, and transportation costs for Inbound Parcel Post (at UPU rates) relative to FY 2022 and is concerned about the Postal Service's ability to anticipate them, especially cost increases caused by wage increases. The Commission notes that the Postal Service believes that the DFA Plan will lead to improved efficiencies and reduced costs. However, the Commission shares the Public Representative's concern that so far, the DFA Plan has not led to such results, and it is unclear when such results may occur.

The Commission directs the Postal Service to take all necessary steps to ensure that it meets all UPU requirements for parcel rate bonuses. The Commission also directs the Postal Service to provide a progress report on its efforts to this end, including detailing any technology and process limitations, and to provide its most recently available UPU report cards for FY 2024 showing the Postal Service's compliance with all UPU parcel rate bonus requirements within 180 days of the issuance of this ACD. The Commission further directs the Postal Service to provide the amount of any revenue forgone on UPU bonuses on parcel rates with an explanation of the calculation with all future Annual Compliance Reports

The Commission encourages the Postal Service to work through the UPU to change the methodology to calculate the remuneration for Inbound Parcel Post (at UPU rates) to bring it to a compensatory level. The Commission also encourages the Postal Service to continue to expend a reasonable amount of resources given the size of the product to explore and implement measures to reduce the unit cost of Inbound Parcel Post (at UPU rates). The Postal Service shall report on these measures and results in the FY 2024 ACR.

B. INTERNATIONAL SURFACE AIR LIFT (ISAL)

(1) FY 2023 Results

In FY 2023, ISAL[105] did not cover its attributable cost. FY 2023 ACR at 100. The Postal Service states that the primary reason is substantially higher settlement expenses related specifically to accounting adjustments for outbound Letter Post volume from a prior fiscal year, which artificially inflated the settlement benchmarks for ISAL and other outbound

[105] ISAL service is an international bulk service for mailing First-Class Mail International and Outbound Single-Piece First-Class Package International Service items. ISAL shipments are dispatched to the foreign destinations and entered into that country's surface or nonpriority mail system for delivery. *See* MCS § 2325.

Letter Post products.[106] The Postal service notes that "[a]bsent these unexpected general ledger expenses that are associated with prior fiscal year volume, ISAL likely would have been compensatory in FY 2023." FY 2023 ACR at 100.

The Postal Service further notes that because of these accounting adjustments, which also "materially impacted the financials for numerous outbound international NSAs," it is motivated to "carefully review the established methods used to benchmark settlement costs and investigate whether a proposed change that would be presented as a rulemaking docket before the Commission is warranted." *Id.* at 100-01. The Postal Service highlights that it "raised prices for the ISAL product (non-NSA ISAL) by 12.0 percent on January 22, 2023."[107] The Postal Service states that prices for the ISAL product are "scheduled to increase by 3.5 percent on January 21, 2024, which should help address the cost coverage for the ISAL product (non-NSA ISAL) for FY 2024, and moving forward."[108]

The Postal Service acknowledges that while accounting adjustments are ordinary, the size of the adjustment in FY 2023 is "considered to be a 'one-off' occurrence" and the Postal Service expects ISAL to cover its costs in the future. January 19 Response to CHIR No. 2, questions 29.d., 29.f. Furthermore, the Postal Service states that although there will likely always be a lag between volume and settlements, the Postal Service is "working toward more timely settlement expenses" and has "improved the accrual settlement processes that occur at the end of the [CY] with the particular foreign post so as to avoid unexpected settlement expenses." *Id.* question 29.d. In addition, the Postal Service states it is considering whether it will file a petition to initiate a rulemaking docket to benchmark settlement costs separately for the particular foreign post at issue from other countries and/or exclude prior fiscal year settlements from the benchmarking factors. *Id*. question 29.h.

(2) Comments

The Public Representative observes "substantial increases in settlement expenses for ISAL, some of which appear to be associated with the payment of terminal dues, while others appear to be associated with return of outbound letterpost items to sender." PR Comments at 31. He further notes these expenses were incorporated into a special account "intended for reporting of settlement expenses associated with products other than ISAL." *Id.* at 31-32. This, he notes, "appears to be a change in the distribution of incurred settlement

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[106] *Id.* Specifically, the Postal Service explains that settlement processes established with a particular foreign post for prior calendar years (CYs) were based on estimated monthly interim items per kilogram (IPKs). January 19 Response to CHIR No. 2, questions 29.a.-29.b. The Postal Service states that, after the end of each CY, an adjustment to the payments is made based upon the final IPKs agreed upon by both parties. *Id.* The Postal Service states the large variance between interim IPKs and the final IPKs in CY 2021 necessitated adjustments to payments. *Id.* The Postal Service notes this large change in the IPKs was "related to a specific mailer that had an unusually high packet IPK throughout [CY] 2021 and has exited the ISAL market as of July 2021." *Id.* The Postal Service also notes that revised accruals for CY 2022 and CY 2023 were entered in the General Ledger in FY 2023 to mitigate future, large accounting adjustments. *Id.*

[107] *Id.* at 101 (citing Docket No. CP2023-42, Order Approving Price Adjustments for Competitive Products, December 22, 2022, at 3 (Order No. 6384)).

[108] FY 2023 ACR at 100 (citing Docket No. CP2024-52, Order Concerning Changes in Rates of General Applicability and Classifications for Competitive Products, December 22, 2023, at 3 (Order No. 6895)).

expenses between international mail products," and he encourages the Commission to inquire about it. *Id.* at 32. The Commission did so, and the Postal Service provided explanations under seal. *See generally* Response to CHIR No. 14, question 1.

The Public Representative also discusses that the UPU started allowing designated postal operators to request and collect remuneration for returned undeliverable letter post items starting in CY 2022. *Id.* at 32-34. The Commission addresses these comments below in Section IV.C.5.A.

(3) Commission Analysis

ISAL has generally covered its attributable cost in prior years.[109] Its failure to cover cost in FY 2023 appears to be a unique occurrence that resulted from the large, unexpected difference between interim and final items per kilo (IPKs) with a particular foreign post that necessitated a large accounting adjustment, as well as lag time between volume and settlement.

The Commission finds that ISAL was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023. The Commission recognizes that ISAL has generally covered its cost in prior years, and this is likely a unique issue, as confirmed by the Postal Service. Nonetheless, the Commission directs the Postal Service to file a report within 180 days of the issuance of this ACD on its progress toward a more timely settlement process as well as a status report on its consideration of a potential rulemaking. Should the Postal Service conclude that a rulemaking is not appropriate, it shall discuss how it reached this conclusion in its status report. The Commission also encourages the Postal Service to monitor the impact of the price increase that took effect in January 2024 on the product and to request further price increases as necessary based on its continued assessment of the product's projected cost coverage.

C. INTERNATIONAL MONEY TRANSFER SERVICE—OUTBOUND

(1) FY 2023 Results

In FY 2023, the outbound component of IMTS—Outbound[110] did not cover its attributable cost. FY 2023 ACR at 103. The product has exhibited inconsistent cost coverage for more than a decade. FY 2022 ACD at 78. To address cost coverage issues with IMTS—Outbound, the Postal Service states that it increased prices for IMTS—Outbound by about 305 percent in July 2022 in response to the Commission's directive in the FY 2021 ACD.[111]

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[109] For example, ISAL was compensatory in FY 2018 through FY 2022. *See* FY 2018 ACD at 104; FY 2019 ACD at 77; FY 2020 ACD at 73; FY 2021 ACD at 81; FY 2022 ACD at 75.

[110] IMTS—Outbound enables customers in the United States to make payments or transfer funds to individuals or firms in foreign destinations. *See* MCS § 2620.

[111] FY 2023 ACR at 104 (citing Docket No. CP2022-62, Order Approving Changes in Rates and Classifications of General Applicability for Competitive Products, June 8, 2022 (Order No. 6195); FY 2021 ACD at 86).

As in previous years, the Postal Service cited Order No. 2825, which established a non-In-Office Cost System (IOCS) methodology to distribute IMTS costs to IMTS—Outbound and IMTS—Inbound based on their respective transaction volumes.[112] However, the Postal Service notes that in FY 2023, there was no IMTS—Inbound transaction volume, so IMTS—Inbound was assigned no costs. FY 2023 ACR at 103.[113] The Postal Service further notes that the limited number of IOCS tallies for both IMTS—Inbound and IMTS—Outbound in FY 2023 resulted in significant cost variations. *Id.* at 103-04. The Postal Service continues to believe that the costing methodology approved in Order No. 2825 is an improvement compared to the strict IOCS method that existed previously and has no plan to propose a new methodology. January 19 Response to CHIR No. 2, question 31.a. The Postal Service explains that it "could evaluate whether an entirely non-IOCS-based approach may be more appropriate for attributing costs to IMTS, both inbound and outbound."[114] However, according to the Postal Service, "[s]pending resources to improve the costing methodology of this product which has very low volume does not reflect an optimal use of limited resources." *Id*.

(2) Comments

The Public Representative notes that the Postal Service has taken steps to terminate paper international postal money order agreements that comprise the IMTS—Inbound product. PR Comments at 35. He observes that this has led to reduced transactions under both IMTS products. *Id.* The Public Representative further expresses concern that without any reportable transactions for IMTS—Inbound, the current costing methodology distributes the entirety of costs to IMTS—Outbound. *Id.* at 36. The Public Representative believes it would be beneficial to consider ways to distribute costs between the two IMTS products more proportionally to the way the Postal Service incurs them for the underlying paper or electronic money order transactions. *Id.*

(3) Commission Analysis

IMTS—Outbound has been non-compensatory for several years.[115] In its FY 2022 ACD, the Commission encouraged the Postal Service to monitor the impact on the product of the price increase that took effect in July 2022 and to request further price increases as necessary based on its continued assessment of the impact of the increase on the cost coverage of the IMTS—Outbound product. *Id.* However, the Postal Service did not request any price increase for IMTS—Outbound in FY 2023.[116]

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[112] FY 2023 ACR at 103 (citing Docket No. RM2015-13, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 19, 2015 (Order No. 2825)).

[113] The Postal Service has attempted to address cost coverage issues with IMTS—Inbound in recent years by terminating or modifying IMTS—Inbound Agreements with foreign countries. *Id.* at 104-05 (discussing termination of IMTS—Inbound agreements with Canada, Japan, and other countries).

[114] February 16 Response to CHIR No. 10, question 18.b. For example, the Postal Service suggests "modeling the cost for cashing IMTS money orders based on an expectation of the window transaction time." *Id.*

[115] For example, IMTS—Outbound was non-compensatory in FY 2020, FY 2021, and FY 2022. *See* FY 2020 ACD at 74; FY 2021 ACD at 84; FY 2022 ACD at 78.

[116] *See* Order No. 6384; Docket No. CP2023-151, Order Concerning Changes in Rates of General Applicability and Classifications for Competitive Products, June 23, 2023 (Order No. 6552).

The Commission acknowledges the Postal Service's progress in terminating nearly all IMTS—Inbound agreements, but notes that this strategy, the costing methodology approved in Order No. 2825, and previous Commission directives[117] have yet to produce the desired result of bringing IMTS—Outbound and IMTS—Inbound to compensatory levels consistently through the years. For several years, the Postal Service has acknowledged that the hybrid costing methodology for estimating and distributing IMTS costs to IMTS—Outbound and IMTS—Inbound results in significant fluctuations,[118] often leading to negative contribution from both products. The Commission is concerned about the continued suitability of the hybrid costing methodology, but acknowledges that the resources required to improve it must be balanced with the benefits.

The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023. The Commission directs the Postal Service to propose a price increase for the IMTS—Outbound product that more adequately reflects the costs of the product in its next request to adjust prices of general applicability for Competitive products. The Commission encourages the Postal Service to consider potential costing methodological changes or special cost studies that would improve the cost estimation of IMTS products.

D. INTERNATIONAL ANCILLARY SERVICES

In FY 2023, the International Ancillary Services product did not cover its attributable cost.[119] More specifically, Inbound Competitive International Registered Mail did not cover its attributable cost in FY 2023, causing the International Ancillary Services product to be non-compensatory.[120]

(1) Inbound Competitive International Registered Mail FY 2023 Results

In FY 2023, Inbound Competitive International Registered Mail did not cover its attributable cost, resulting in the International Ancillary Services product being non-compensatory. FY 2023 ACR at 101. This product did not cover its attributable cost in 4 out of the 5 preceding fiscal years.[121] The Postal Service states that in comparison with FY 2022, the percentage decline in revenue exceeded the percentage decline in costs in FY 2023, resulting in lower cost coverage and contribution. FY 2023 ACR at 101. At the same

[117] *See*, *e.g.*, FY 2021 ACD at 86; FY 2022 ACD at 80.

[118] *See*, *e.g.*, Docket No. ACR2020, United States Postal Service FY 2020 *Annual Compliance Report*, December 29, 2020, at 69 (FY 2020 ACR); Docket No. ACR2021, United States Postal Service FY 2020 *Annual Compliance Report*, December 29, 2021, at 86 (FY 2021 ACR); Docket No. ACR2022, United States Postal Service FY 2020 *Annual Compliance Report*, December 29, 2022, at 95 (FY 2022 ACR); FY 2023 ACR at 103-104.

[119] FY 2023 ACR at 101. International Ancillary Services consists of International Certificate of Mailing, Inbound International Tracked Delivery Service, Competitive International Registered Mail (which further includes Outbound Competitive International Registered Mail and Inbound Competitive International Registered Mail), Outbound International Return Receipt, Outbound International Insurance, and Customs Clearance and Delivery Fee. *See* MCS § 2615.

[120] FY 2023 ACR at 101. The Competitive International Registered Mail component (MCS § 2615.2) of the International Ancillary Services product includes Inbound Competitive International Registered Mail and Outbound Competitive International Registered Mail. *See* MCS § 2615.2. For the remainder of the discussion on International Ancillary Services, the Commission will refer to Inbound Competitive International Registered Mail as a sub-component of the International Ancillary Services product.

[121] *See* FY 2018 ACD at 108; FY 2020 ACD at 77; FY 2021 ACD at 88; FY 2022 ACD at 80.

time, the Postal Service states that the UPU schedule of rate increases in CYs 2023 through 2025 should help improve cost coverage.[122]

The Postal Service further describes revenue it receives due to its participation in the UPU's voluntary supplementary remuneration program (SRP), as well as under the Inbound Competitive PRIME Registered Service Agreement 1 and the Inbound Competitive PRIME-USPS Registered Service Agreement, as representing separate sources of additional revenue associated with inbound registered items. FY 2023 ACR at 102.

In response to Commission directives in the FY 2022 ACD,[123] the Postal Service reports on these additional sources of revenue in Library Reference USPS-FY23-NP2, noting that there were no Inbound Competitive International Multi-Service Agreements with Foreign Postal Operators in effect in FY 2023 that included inbound registered items. FY 2023 ACR at 102. In addition, the Postal Service provides an update on its efforts to move registered mail to a tracked offering in September 2023.[124] The Postal Service further notes that in October 2023, the UPU adopted changes to "confine registered service to items containing documents only, which will limit the scope, and should further mitigate the impact of registered mail internationally by CY2026."[125]

(2) Comments

The Public Representative notes the Postal Service did not address what caused the percentage decline in revenue that exceeded the percentage decline in costs. PR Comments at 38. He states that available data suggests that, on a per piece basis, Inbound Competitive International Registered Mail's unit costs increased by a substantially larger amount than unit revenue. *Id.* He neither expects the reported financial performance for Inbound Competitive International Registered Mail to improve in FY 2024 nor expects improvement in the overall financial performance of all inbound registered items. *Id.* at 39. However, with respect to the changes adopted by the UPU and the Postal Service's efforts to move registered mail to a tracked offering, all things being equal, he believes there is "potential to improve financial performance for the International Ancillary Services product starting in FY 2026." *Id.*

(3) Commission Analysis

The Commission finds that the International Ancillary Services product was non-compensatory in FY 2023 due to Inbound Competitive International Registered Mail not

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[122] *See* FY 2023 ACR at 101; *see also* Universal Postal Convention and Final Protocol, Article 28.8, Terminal dues, General provisions, August 26, 2021, Abidjan (available at *https://www.upu.int/en/universal-postal-union/about-upu/acts*).

[123] FY 2022 ACD at 83.

[124] *See id.* at 103. *See also* Docket No. ACR2022, Sixth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2022 Annual Compliance Determination, September 25, 2023.

[125] FY 2023 ACR at 103. Specifically, the UPU Congress adopted changes to the UPU Convention (Article 18) that will require the offering internationally of (a) inbound tracked delivery service for letter post items containing goods (*i.e.*, small packets) as of January 1, 2025; and (b) registered service for items containing documents only as of January 1, 2026. In other words, starting in CY 2026, registered service for items containing goods will not be generally available internationally.

covering its attributable cost in FY 2023. The Postal Service has expressed its expectation for improved cost coverage for Inbound Competitive International Registered Mail based on CY increases in per item UPU rates since at least FY 2017.[126] Despite this expectation, the Commission notes that the cost coverage has been declining since 2018.[127]

The Postal Service continues to highlight its participation in the UPU's voluntary supplementary remuneration program for inbound registered items as an additional source of revenue and points to the Inbound Competitive PRIME Registered Service Agreement 1 and the Inbound Competitive PRIME-USPS Registered Service Agreement as separate sources of contribution.[128] Nevertheless, Inbound Competitive International Registered Mail continues to be non-compensatory and the Commission is unable to consider revenue received under separate products on the Mail Classification Schedule (MCS) to evaluate the financial performance of Inbound Competitive International Registered Mail.

The Commission commends the Postal Service for its efforts to incentivize foreign postal operators (FPOs) to migrate registered volumes to the lower-cost tracked offering and leveraging its bilateral and multilateral agreements with FPOs to achieve this goal. The Commission further applauds the UPU's decision to limit the use of registered service to letters and flats containing documents starting in CY 2026 because its successful adoption will contribute towards the overall migration of mail items containing goods from the registered service to the tracked offering.

The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023 because one of its sub-components, Inbound Competitive International Registered Mail, did not cover its attributable cost. The Commission directs the Postal Service to file a follow-up report on its efforts to move registered items to a tracked offering within 180 days of the issuance of this ACD and in the FY 2024 ACR. This filing should include a specific description of the Postal Service's plan, including anticipated major milestones and progress toward achieving them.

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[126] *See* Docket No. ACR2017, United States Postal Service Fiscal Year 2017 *Annual Compliance Report*, December 29, 2017, at 44 (FY 2017 ACR); Docket No. ACR2018, United States Postal Service Fiscal Year 2018 *Annual Compliance Report*, December 28, 2018, at 43 (FY 2018 ACR); Docket No. ACR2019, United States Postal Service Fiscal Year 2019 *Annual Compliance Report*, December 27, 2019, at 35 (FY 2019 ACR); *see also* FY 2020 ACR at 68; FY 2021 ACR at 85; FY 2022 ACR at 94; FY 2023 ACR at 101.

[127] *See* Docket No. ACR2017, Library Reference PRC-LR-ACR2017-NP2, March 29, 2018; Docket No. ACR2018, Library Reference PRC-LR-ACR2018-NP2, April 12, 2019; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-NP2, March 25, 2020; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-NP2, March 29, 2021; Docket No. ACR2021, Library Reference PRC-LR-ACR2021-NP2, March 29, 2022; Docket No. ACR2022, Library Reference PRC-LR-ACR2022-NP2, March 29, 2023; Library Reference PRC-LR-ACR2023-NP2.

[128] *See* FY 2017 ACR at 44; FY 2018 ACR at 43; FY 2019 ACR at 35-36; FY 2020 ACR at 68; FY 2021 ACR at 85-86; FY 2022 ACR at 94; FY 2023 ACR at 102.

4. Competitive International Products Consisting of NSAs

Competitive international mail also includes products with rates and fees not of general applicability that are established pursuant to one or more NSAs.

At the request of the Postal Service, and to address administrative concerns involving product reporting and classification on the Competitive product list, the Commission permitted the grouping of functionally equivalent international NSAs with the express understanding that each NSA within a product must cover its attributable cost.[129] Functionally equivalent international NSAs are collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

The Postal Service reports volume, revenue, and cost data for each Competitive international NSA comprising Competitive international products with activity, and separately lists Competitive international NSAs with no activity during the Fiscal Year. *See* Library Reference USPS-FY23-NP2. For FY 2023, the Postal Service provides data for 285 international NSAs, 263 of which include negotiated rates for outbound mail and 22 of which include negotiated rates for inbound mail.[130]

The financial results for Competitive outbound and inbound international products consisting of NSAs are discussed below.

A. COMPETITIVE OUTBOUND INTERNATIONAL PRODUCTS CONSISTING OF NSAS

(1) FY 2023 Results

Competitive outbound international products with negotiated rates are classified on the Competitive product list. Under outbound NSAs, mailers must commit to tendering specified minimum volume, revenue, or both on an annual basis in exchange for reduced rates from the Postal Service.[131] Additional postal services may be available for products with rates and fees not of general applicability.[132] Figure IV-2 shows the FY 2023 product category for each of these products for which the Postal Service reports FY 2023 financial results.

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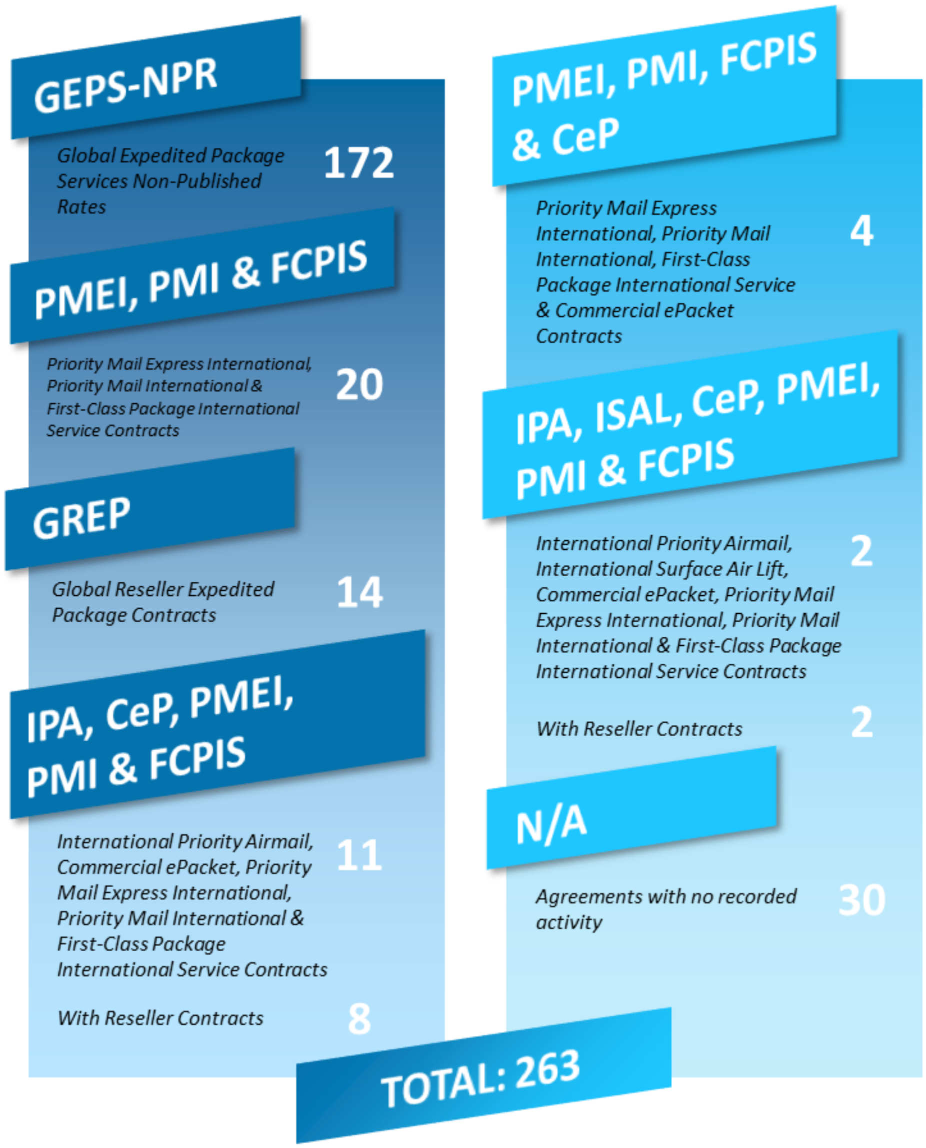
[129] *See*, *e.g.*, Docket No. CP2011-34, *et al.*, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

[130] Library Reference USPS-FY23-NP2; Library Reference PRC-LR-ACR2023-NP2. The Commission counts each serial-numbered agreement included under the Global Expedited Package Services—Non-Published Rates (GEPS—NPR) products as one NSA in this summary value.

[131] The Commission has previously expressed concern that the Postal Service does not always enforce customers' minimum volume commitments. *See* Docket Nos. MC2019-127 and CP2019-136, Order Adding Priority Mail Express & Priority Mail Contract 92 to the Competitive Product List, April 30, 2019, at 5 (Order No. 5077). The Commission continues to monitor compliance with statutory requirements regardless of adherence to contractual minimum volume requirements.

[132] *See*, *e.g.*, MCS §2510.7.5 for additional services available to products included in the Global Reseller Expedited Package Contracts category.

Figure IV-2
Competitive Outbound International Products by Category, FY 2023[133]



Source: Library Reference USPS-FY23-NP2.

[133] This figure includes outbound international products by product category for which the Postal Service reports financial results, for which there is a total of 233 agreements. It also includes 30 agreements with no recorded activity.

The Postal Service reports financial results for each outbound international NSA within these products.[134] In FY 2023, although total Competitive international products consisting of NSAs covered their attributable costs, eight outbound contracts did not cover their attributable costs. FY 2023 ACR at 106. The Postal Service notes that of these eight contracts, three have expired, one is scheduled to expire on April 30, 2024,[135] and the final four are scheduled to expire on May 31, 2024. *Id.* The Postal Service provides financial workpapers under seal for the final four active outbound international NSAs and states that based on the analysis presented in the workpapers, those agreements are expected to cover costs because of the price changes approved in Docket No. CP2024-52, effective January 21, 2024.[136]

The Postal Service states that accounting adjustments related to outbound Letter Post that impacted ISAL, discussed above, "also materially impacted the financials for numerous Outbound NSAs" and that absent the accounting adjustments "only one, instead of four, active outbound agreements would have been non-compensatory in FY 2023." FY 2023 ACR at 106. The Postal Service states that the impact of these accounting adjustments on numerous outbound international NSAs has prompted it to carefully review the established methodology for benchmarking settlement costs and investigate whether it should propose a methodology change in a rulemaking docket before the Commission. *Id.* at 107.

(2) Comments

The Public Representative notes that an increasing proportion of format E letter post[137] volume under outbound Competitive international NSAs has not generated sufficient revenue to cover its costs from FY 2021 to FY 2023. PR Comments at 41. Although the Postal Service expects the four NSAs that are currently non-compensatory to cover their costs as a result of the price changes approved in Docket No. CP2024-52, the Public Representative is skeptical about the projected cost coverages due to unrealistic cost assumptions and different volume profile assumptions for the four NSAs from those in Docket No. CP2024-52. *Id.* at 42-43. The Public Representative "hesitates to be optimistic" that the referenced price changes will improve the financial performance of the four NSAs. *Id.* at 43.

(3) Commission Analysis

The Commission acknowledges the potential volume shifts for format E letter post and other ICRA products within an agreement and closely monitors each agreement to ensure

[134] In FY 2023, the Postal Service reports financial results for 233 outbound international NSAs and serial-numbered agreements. For the remaining 30 outbound international NSAs and serial-numbered agreements, the Postal Service reports no activity. *See* Library Reference USPS-FY23-NP2.

[135] The Postal Service explains that this contract "had negative revenue resulting from a refund during a transition from one contract period to the next, but was subsequently impacted by the customer no longer mailing pursuant to an international NSA with the Postal Service." *Id.* Therefore, this contract is essentially inactive.

[136] January 19 Response to CHIR No. 2, question 29.c. (citing Order No. 6895).

[137] Format E letter post consists of bulky letters containing documents and small packets containing goods. *See* Universal Postal Union, Regulations to the Convention, Berne 2021, Article 17- 102.2 (available at *https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/05-actsRegulationsConventionAndPostalPayment/actsRegulationsToTheConventionAndFinalProtocol.pdf*).

that it conforms in all respects to 39 U.S.C. § 3633 and 39 C.F.R. § 3035.107. In addition, the Commission has previously expressed concern that the Postal Service does not always enforce customers' minimum volume and/or revenue commitments. *See* Order No. 5077 at 5. The Commission has similar doubts that, based on the price changes approved in Docket No. CP2024-52, the financial performance of these NSAs will be compensatory after January 21, 2024, the effective date of the price changes.

The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2), except for eight Competitive outbound international NSAs that did not cover their attributable costs.[138] *Of these agreements, three have expired and five are still in effect.*[139] *The Commission strongly recommends that the Postal Service continually monitor the financial performance of each outbound international NSA, ensure built-in contingencies are sufficient to ensure the product remains compensatory, and take steps to terminate or renegotiate agreements that are non-compensatory. The Commission continues to strongly encourage the Postal Service to enforce the minimum volume and/or revenue requirement in each NSA and to seriously consider the viability of certain outbound NSAs whose projected cost coverage calls into question whether their financial performance will be compensatory given the current volatility of cost increases in transportation, processing, and delivery, and losses in economies of density.*

To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first report due April 8, 2024, and the last report due January 7, 2025. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.

B. COMPETITIVE INBOUND INTERNATIONAL PRODUCTS CONSISTING OF NSAS

Competitive inbound international products with negotiated rates are classified on the Competitive product list. Inbound international agreements entered into by the Postal Service and one or more FPOs provide inbound services and prices that are available only to mailers meeting defined eligibility requirements for mail preparation, content, size, and weight limitations. Figure IV-3 shows the product category for each inbound international product for which the Postal Service reports FY 2023 financial results.

[138] The Commission notes that one of these eight NSAs was a serial-numbered agreement within the GEPS—NPR 15 product. Although this NSA did not cover its attributable cost, the GEPS—NPR 15 product as whole covered its attributable cost.

[139] As noted above, one of these five NSAs, which is scheduled to expire on April 30, 2024, is inactive due to the customer no longer mailing pursuant to this NSA.

Figure IV-3
Competitive Inbound International Products by Category, FY 2023[140]

Source: Library Reference USPS-FY23-NP2.

The Postal Service reports financial results for each inbound Competitive NSA within these products.[141] In FY 2023, each inbound Competitive international product and each inbound Competitive NSA within these products covered their attributable costs, with the exception of Inbound EMS.

(1) Inbound Express Mail Service (EMS) FY 2023 Results

In FY 2023, Inbound EMS[142] did not cover its attributable cost. FY 2023 ACR at 105. This product has been compensatory for at least the past 5 fiscal years.[143] The Postal Service notes that the product experienced lower unit revenue and higher unit costs for processing,

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[140] This figure includes inbound international products by product category for which the Postal Service reports financial results, for which there is a total of 13 agreements. For the remaining nine inbound international NSAs, the Postal Service reports no activity. *See* Library Reference USPS-FY23-NP2.

[141] In FY 2023, the Postal Service reports financial results for 13 inbound international NSAs. For the remaining 9 inbound international NSAs, the Postal Service reports no activity. *See* Library Reference USPS-FY23-NP2.

[142] Inbound EMS are Inbound Express Mail services offered pursuant to negotiated service agreements. Inbound EMS service is reliable, high-speed and available from most countries. *See* MCS § 2515.6.

[143] For example, Inbound EMS was compensatory in FY 2018 through FY 2022. *See* FY 2018 ACD at 110; FY 2019 ACD at 82-84; FY 2020 ACD at 84; FY 2021 ACD at 93; FY 2022 ACD at 88.

delivery, and purchased transportation that resulted in it being non-compensatory for FY 2023. FY 2023 ACR at 105. The Postal Service further notes that it is currently reviewing this matter and will investigate to identify whether any solutions can be introduced before Inbound EMS rates may be changed for CY 2025.[144]

The Postal Service has full authority and flexibility to change Inbound EMS rates for the CY. However, the Postal Service chose not to increase Inbound EMS rates for CY 2023 and CY 2024.[145] The Postal Service provides under seal explanations for these decisions not to increase Inbound EMS rates as well as further details on the cost increases for Inbound EMS in FY 2023. *See* January 19 Response to CHIR No. 2, questions 30.a.-30.b.; February 2 Response to CHIR No. 7, questions 13.a.-13.d.

The Postal Service also provides under seal an explanation for forfeited Inbound EMS revenue due to its failure to meet certain requirements of the UPU EMS Pay-for-Performance Plans[146] in CY 2022 and CY 2023. *See* February 13 Response to CHIR No. 9, question 14.b.

(2) Comments

The Public Representative notes that the Postal Service does not explain what caused the inadequate revenues or offer its expectation for the product's financial performance in FY 2024. PR Comments at 39. He observes substantial unit cost increases and unit revenue decreases over the last two FYs. *Id.* at 40. He recommends that the Commission direct the Postal Service to increase prices for Inbound EMS for CY 2025 and to limit unit cost increases for the product. *Id.*

In response to the Public Representative's comments, the Postal Service states it provided an explanation of the cost increases experienced by Inbound EMS under seal. Postal Service Reply Comments at 23 (citing January 19 Response to CHIR No. 2, question 30.b.). The Postal Service also states that it "intends to carefully review cost coverage for Inbound EMS in the next few months, prior to the rate increase notification deadline of August 31, 2024, for rates for inbound EMS to go into effect on January 1, 2025, and determine whether to increase rates for CY 2025." Postal Service Reply Comments at 23-24.

(3) Commission Analysis

The Commission is concerned that the Postal Service knowingly forfeited the opportunity to increase Inbound EMS rates for 2 consecutive years. Notwithstanding the cost increases,

[144] FY 2023 ACR at 105-06. Inbound EMS rate changes must be notified to the UPU by August 31 preceding the calendar year in which they would take effect.

[145] *See* International Bureau Circular 184, EMS delivery rates for 2023, November 21, 2022; International Bureau Circular 155, EMS delivery rates for 2024, September 18, 2023. *See also* January 19 Response to CHIR No. 2 question 30.a.; February 2 Response to CHIR No. 7, question 13.a.

[146] The Postal Service reports under seal "third-party service performance results on which financial penalties or bonuses are based and estimations of forfeited revenues based on such service performance, for international inbound letter post and international inbound parcel post (Inward Land Rates), as required by 39 C.F.R. § 3050.21(j), and for international inbound EMS, as required by 39 C.F.R. § 3050.21(j) and PRC Order Nos. 5212 (at 5), 5660 (at 7), and 5966 (at 5)." Roadmap Document, *supra* note 11, at 119.

it is the Postal Service's prerogative to raise rates above the increased cost to ensure the product is compensatory. The Postal Service's explanation for its decision not to raise Inbound EMS rates for CY 2023 and CY 2024 does not relieve it of its financial responsibility to continuously monitor the cost projections of the product to ensure its projected cost coverage will remain sufficient. As is evident in the FY 2023 ACR, although the Postal Service believed that Inbound EMS would be compensatory in CY 2023 when it made the decision not to raise the rates, the product ended up being non-compensatory due to increased attributable cost. The product's non-compensatory nature in FY 2023 raises serious questions about whether it will be compensatory in FY 2024 as the Postal Service also did not increase its Inbound EMS rates for CY 2024. The Commission acknowledges the Postal Service's statement that it "is currently reviewing this matter and will investigate to identify whether any solutions can be introduced before default Inbound EMS rates may be changed for CY 2025." FY 2023 ACR at 105-06.

The Commission is also concerned that the Postal Service forfeited revenue for Inbound EMS for failing to meet certain requirements of the UPU's EMS Pay-for-Performance Plans in CY 2022 and CY 2023 since the forfeited revenue could have at least increased the cost coverage of Inbound EMS even if it would not have made the product compensatory.

The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2), except for Inbound EMS that did not cover its attributable cost. The Commission finds that the Inbound EMS product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023.

The Commission directs the Postal Service to increase the price of Inbound EMS to a compensatory level at the next available opportunity, which would be by August 31, 2024, for rates to go into effect in CY 2025.

In addition, regardless of whether the Postal Service decides to increase its annual rates for Inbound EMS in the future or not, the Commission directs the Postal Service to file for Commission approval each year Inbound EMS rates for the following CY and related financial workpapers. These financial workpapers should demonstrate estimated cost coverage and incorporate the most recently available cost projections. They should be filed with the Commission for approval on or before August 16 each year in the event that new rates need to be communicated to the UPU by August 31.

Furthermore, the Commission directs the Postal Service to identify and fix issues impeding the Postal Service from being able to collect full remuneration for Inbound EMS in accordance with the UPU EMS Pay-for-Performance Plan, to file a report within 180 days of the issuance of this ACD on progress it is making to fix those issues, and to provide all available EMS report card results for FY 2024. The Commission also directs the Postal Service to file the applicable UPU EMS Pay-for-Performance Plans with its future annual filings in the ACR docket.

To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first report due April 8, 2024, and the last report due January 7, 2025. The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.

5. Other Issues Related to International Products

A. REMUNERATION FOR RETURNED UNDELIVERABLE LETTER POST ITEMS

The Public Representative states that the 27th UPU Congress amended the UPU Convention and the UPU Postal Operations Council subsequently amended the Regulations to the UPU Convention to establish remuneration for returned undeliverable letter post items,[147] effective January 1, 2022.[148] The Public Representative states that given the large number of designated operators, such settlements could result in increases in both settlement expenses (for items returned to the Postal Service) and in revenues (should the Postal Service claim such remuneration for returning undeliverable letter post items to foreign posts). PR Comments at 33.

The Postal Service provided information under seal about remuneration it collected for returning undeliverable letter post items to foreign posts and remuneration it paid to foreign posts for their return of undeliverable letter post items to the Postal Service. *See* February 9 Response to CHIR No. 9, question 16.

The Commission commends the Postal Service for increasing revenue by collecting remuneration for the return of undeliverable letter post items for which it could not prior to CY 2022 and encourages the Postal Service to maximize this revenue. The Commission directs the Postal Service to specify the remuneration it pays to and receives from each foreign designated operator for the return of undeliverable letter post items in its future ACRs. This information should include the formats (letters, flats, and small packets/bulky letters) to which the remuneration applies.

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[147] In the UPU context, “letter post” includes letters, flats, and small packets/bulky letters. The Postal Service’s Market Dominant Inbound Letter Post product consists of letters and flats. It consists of inbound international pieces that contain only documents and encompass letters (to include aerogrammes and postcards), and large letters. *See* MCS § 1130. The Postal Service’s Competitive Inbound Letter Post Small Packets and Bulky Letters product consists of small packets and bulky letters. Inbound Letter Post Small Packets may contain goods or documents and goods, and Bulky Letters contain documents. *See* MCS § 2340.

[148] *See* PR Comments at 32 (citing International Bureau Circular 150, Amendments to the Convention Regulations, September 27, 2021 (IB Circular 150)). *See also* UPU IB Circular 2, Designated operators that can be remunerated for the return of undeliverable letter-post items from 2024 (IB Circular 2), January 8, 2024.

B. FORFEITED REVENUE BASED ON UPU QUALITY LINK TO TERMINAL DUES SCORE

Under the UPU Quality Link to Terminal Dues, the Postal Service has the potential to maximize revenue for Inbound Letter Post (letters and flats) and Inbound Letter Post Small Packets and Bulky Letters (small packets and bulky letters) with a bonus of up to 5 percent of the remuneration, known as terminal dues, that it receives. It may also receive a penalty of up to 5 percent on the terminal dues it receives for not achieving the UPU-established annual service performance target.[149]

The Postal Service provides information under seal about its forfeited revenue due to not meeting the UPU service performance target[150] in CY 2022 and in CY 2023 Q1 through Q3. *See* Library Reference USPS-FY23-NP30, PDF file "PROTECTED Preface USPS-FY23-NP30.pdf;" *see also* February 9 Response to CHIR No. 9, question 17.d. The Postal Service states that, if necessary, it could incorporate the potential bonus of 5 percent of terminal dues that it would have received if it achieved or exceeded the UPU annual service performance target in its Inbound Letter Post forfeited revenue calculations in its future ACR filings, if applicable. February 9 Response to CHIR No. 9, question 17.c.

The Commission notes that the Postal Service could maximize revenue for Inbound Letter Post (letters and flats) and Inbound Letter Post Small Packets and Bulky Letters (small packets and bulky letters) if it achieves or exceeds the UPU service performance target. The Commission further acknowledges the Postal Service's willingness to incorporate the potential bonus of 5 percent of terminal dues in its Inbound Letter Post forfeited revenue calculations in its future ACR filings, if applicable.

The Commission directs the Postal Service to incorporate in future ACRs any potential terminal dues bonus that it would have received if it met or exceeded the UPU annual service performance target in a CY in its Inbound Letter Post and Inbound Letter Post Small Packets and Bulky Letters forfeited revenue calculations, if applicable.

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[149] *See* UPU Regulations to the Convention, Final Protocol, Berne 2021, Article 31-109; *see also* Quality Link User Group, QLUG User Manual, April 2021, at 8 (available at *https://www.upu.int/UPU/media/upu/files/postalSolutions/remuneration/Supplementary%20REM/userManualQlugEn.pdf*).

[150] The Postal Service reports under seal "third-party service performance results on which financial penalties or bonuses are based and estimations of forfeited revenues based on such service performance, for international inbound letter post and international inbound parcel post (Inward Land Rates), as required by 39 C.F.R. § 3050.21(j)…." Roadmap Document, *supra* note 11, at 119.

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

39 U.S.C. § 3633(a)(3) requires the Commission to "ensure that all competitive products collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service." The appropriate share represents a minimum contribution level, functioning as a floor for all Competitive products collectively.[151] 39 U.S.C. § 3633(b) requires the Commission to review the appropriate share requirement every 5 years to determine whether the requirement "should be retained in its current form, modified, or eliminated." In implementing section 3633 after the PAEA was enacted, the Commission set the initial appropriate share requirement at 5.5 percent of total institutional costs. In FY 2012, the Commission conducted its first review of the appropriate share and found it suitable to maintain the requirement at 5.5 percent.

Following its second review of the appropriate share, which was initiated in FY 2017, the Commission implemented a new formula-based methodology for determining what the appropriate share should be. Under this approach, the appropriate share is updated annually as part of the ACD. Order No. 4963 at 27. The Commission determined in the FY 2021 ACD that the appropriate share for FY 2023 would be 10.4 percent.[152]

1. Comments on Appropriate Contribution Provision

The Postal Service states that the total Competitive product contribution for FY 2023 was $12.167 billion, or 32.1 percent of total institutional costs, an amount that complies with the requirements of 39 U.S.C. § 3633(a)(3). FY 2023 ACR at 107.

The Public Representative and Pitney Bowes both concur that Competitive products were in compliance with 39 U.S.C. § 3633(a)(3) for FY 2023. PR Comments at 44-45; Pitney Bowes Comments at 4.

[151] *See* Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, ¶ 3056 (Order No. 26); Docket Nos. RM2017-1 and RM2022-2, Supplemental Notice of Proposed Rulemaking and Order Initiating the Third Review of the Institutional Cost Contribution Requirement for Competitive Products, November 18, 2021, at 46-47 (Order No. 6043).

[152] FY 2021 ACD at 97-100. Use of the formula-based approach has been subject to ongoing litigation. *See United Parcel Serv., Inc. v. Postal Regul. Comm'n*, 955 F.3d 1038 (D.C. Cir. 2020); Docket Nos. RM2017-1 and RM2022-2, Order Finalizing Rule Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 9, 2023 (Order No. 6399); Petition for Review, *United Parcel Serv., Inc. v. Postal Regul. Comm'n*, No. 23-1006 (D.C. Cir. filed Jan. 10, 2023), ECF No. 1980905; Judgment, *United Parcel Serv., Inc. v. Postal Regul. Comm'n*, No. 23-1006 (D.C. Cir. filed Mar. 22, 2024), ECF No. 2046217 (denying UPS petition for review). The Commission explained in the FY 2020 ACD that it would not use the formula-derived appropriate share amount for purposes of determining compliance with 39 U.S.C. § 3633(a)(3) until this matter has been resolved. FY 2020 ACD at 91. Given the continuing litigation of this issue the Commission will once again refrain from using the formula-derived appropriate share amount for purposes of determining compliance with 39 U.S.C. § 3633(a)(3) in FY 2023. However, because the formula is recursive, the Commission has continued to perform the relevant calculations to determine what the formula-based appropriate share would be, in order to avoid any disruption in the formula's operation while this issue is being addressed. FY 2020 ACD at 91.

2. Commission Analysis

A. FY 2023 APPROPRIATE SHARE

In FY 2023, the total institutional costs of the Postal Service were $37.858 billion. *See* Library Reference PRC-LR-ACR2023-1. In FY 2023, the total contribution made by Competitive products collectively to institutional costs was $12.167 billion (approximately 32.1 percent of total institutional costs), which surpasses either the 5.5 percent requirement or the formula-derived 10.4 percent requirement.[153] Therefore, the Postal Service was compliant with 39 U.S.C. § 3633(a)(3).

The Commission finds that in FY 2023 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs.

B. FY 2024 APPROPRIATE SHARE

The formula-based approach to determining the appropriate share is recursive. Each year during the annual compliance review, the Commission determines the appropriate share for the upcoming fiscal year. Order No. 4963 at 26-27. In conducting its annual compliance review for FY 2022, which was carried out during FY 2023, the Commission applied the formula and determined that the appropriate share for FY 2024 would be 9.9 percent. FY 2022 ACD at 91-93.

C. FY 2025 APPROPRIATE SHARE

The Commission has applied the formula to determine that the appropriate share requirement for FY 2025 under the formula-based approach will be 9.6 percent. For a step-by-step explanation of the calculation, please see the library reference accompanying this report. *See* Library Reference PRC-LR-ACR2023-8.

Table IV-1
Appropriate Share Value, FY 2021–FY 2025

Fiscal Year	Appropriate Share Value
FY 2021	9.1%
FY 2022	10.0%
FY 2023	10.4%
FY 2024	9.9%
FY 2025	9.6%

[153] *See* Library Reference PRC-LR-ACR2022-1, Excel file "FY 22 Summary LR-1.xlsx," tab "Total All Mail (Appendix A)."

E. Pilot Program – Gift Cards

In FY 2021, the Postal Service initiated a pilot program (Pilot Program) at four Post Office retail locations to allow postal retail customers to use payroll and business checks to purchase stored value Gift Cards. Under the program, a customer is charged a fee of $5.95 for a variable Gift Card up to $500. The total amount loaded on the Gift Card(s) cannot exceed $500 per day per customer and no cash is disbursed to the customer. *Id*. questions 1.h., 1.j. Between September 13, 2021 and March 2022, a total of seven Gift Cards were purchased under the Pilot Program, generating a total fee revenue of $41.65. No sales have occurred since FY 2022 Quarter Two.
In the FY 2022 ACD, the Commission reminded the Postal Service that the Commission regulates what products may be offered and controls the addition and removal of products through the MCS and that future changes that have an impact on a product's use or classification should be filed with the Commission. FY 2022 ACD at 98. The Commission established Docket No. MC2022-60 for the specific purpose of considering the Pilot Program and directed the Postal Service to file quarterly reports on the Pilot Program and the Gift Card product as a whole in that docket.

These reports were required to include information on volume, revenue, and costs (which should include training-related costs, labor costs associated with the retail transactions, and supply costs) separately for Gift Cards purchased as part of the Pilot Program and all Gift Cards. *Id.* at 98. The reports must also include whether Gift Cards, both in general and those sold as part of the Pilot Program, are likely to be mailed or otherwise promote the use of the mail (for example, number of Gift Cards purchased in a transaction that included other postal products). *Id.* Finally, the reports must include any plans for modifications or other future plans regarding the Pilot Program or Gift Card product, including any plans for termination of the Pilot Program. *Id.*

The Postal Service has filed four reports since the FY 2022 ACD. Despite the lack of sales, the Pilot Program remains operational with no plans for termination. Thus, questions remain as to the nature of the program. As long as the Pilot Program remains in effect, the Commission will continue to monitor the status of the program and explore the Postal Service's plans for the program. With respect to the Gift Card product as a whole, the Pilot Program does not appear to have any effect on volume, revenue, costs, or the likelihood of gift cards being mailed. Therefore, the Commission will no longer require reporting on the Gift Card product as a whole.

The Commission directs the Postal Service to continue to report quarterly information on the Pilot Program. The report shall be filed in Docket No. MC2022-60 and shall include information on volume, revenue, and costs (which should include training development costs, as well as the costs of conducting the training, labor costs associated with the retail transactions, and supply costs). In addition, the report must include any plans for modifications or other future plans of the Pilot Program, including any plans for termination of the Pilot Program.

F. Interagency Agreements

Pursuant to 39 U.S.C. § 3705(a), the Postal Service must submit a report to the Commission demonstrating that any nonpostal services in effect during the fiscal year under review complied with the requirements of chapter 37 of Title 39 of the United States Code. Chapter 37 authorizes the Postal Service to enter into agreements with agencies of any state government, local government, or tribal government to provide property or nonpostal services to the public on behalf of such agencies for non-commercial purposes. 39 U.S.C. § 3703. As to such agreements, the Postal Service's report must include costs, revenues, rates, and quality of service for each agreement or substantially similar set of agreements. 39 U.S.C. § 3705(a)(1). The Postal Service states that there were no agreements with state, local, or tribal governments in effect during FY 2023. FY 2023 ACR at 109.

Chapter 37 also specifies that "[t]he Postal Service may establish a program to provide property and nonpostal services to other Government [*i.e.*, Federal] agencies within the meaning of section 411[[154]], but only if such program provides a net contribution to the Postal Service, defined as reimbursement that covers at least 100 percent of the costs attributable…." 39 U.S.C. § 3704. For the Postal Service's program to provide property and nonpostal services to other Government agencies within the meaning of 39 U.S.C. § 411, the Postal Service's report to the Commission must include costs, revenues, rates, and quality of service[155] for the overall program established under 39 U.S.C. § 3704. 39 U.S.C. § 3705(a)(1). The Postal Service states that "all of the agreements [in effect in FY 2023 under 39 U.S.C. chapter 37] were with federal agencies under preexisting Section 411 authority." FY 2023 ACR at 109.

As required by 39 U.S.C. § 3705 and Commission Order No. 6659,[156] the Postal Service reported on costs, revenue, and rates for the interagency agreements (IAAs) that were in effect during FY 2023.[157] The Postal Service provided copies of new agreements and

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[154] Prior to the enactment of the PSRA, the Postal Service's authority for these agreements was governed by 39 U.S.C. § 411, which authorizes the Postal Service to "furnish property and services" to "Executive agencies within the meaning of [5 U.S.C. § 105] and the Government Publishing Office…." 39 U.S.C. § 411. Section 105 of Title 5 of the United States Code specifies that an "'Executive agency' means an Executive department, a Government corporation, and an independent establishment" of the United States Government, as those terms are defined in 5 U.S.C. chapter 1. 5 U.S.C. § 105.

[155] *See* Section V.A.5., *infra,* regarding quality of service.

[156] 39 U.S.C. § 3705; Order No. 6659. 39 U.S.C. § 3705(b)(2) authorizes the Commission to initiate proceedings to improve the quality, accuracy, or completeness of Postal Service data filed pursuant to 39 U.S.C. § 3705. In the FY 2022 ACD, the Commission directed the Postal Service to develop a proposed methodology for calculating and attributing costs and revenue to interagency agreements. FY 2022 ACD at 102. As directed, the Postal Service filed its proposal in Docket No. RM2023-7. In Order No. 6659, the Commission conditionally approved the Postal Service's proposed methodology, subject to seven conditions. Order No. 6659 at 14-17. The Postal Service filed a motion for partial reconsideration of Order No. 6659, which is currently pending before the Commission. Docket No. RM2023-7, USPS Motion for Reconsideration and Clarification of Commission Order No. 6659, With Portions Filed Under Seal, September 15, 2023.

[157] FY 2023 ACR at 109-10; Library Reference USPS-FY23-20, December 29, 2023, PDF file "FY23-20+Public+IAA+Preface.pdf," at 2; Library Reference USPS-FY23-NP32, PDF file "PROTECTED_FY23-NP32+NonPublic+IAA+Preface.pdf," at 5.

modifications to existing agreements made during FY 2023,[158] and provided workbooks reflecting summary IAA information and the calculation of costs, revenue, and contribution for each category of IAA.[159] In response to an information request, the Postal Service confirmed that costs attributable to IAAs were not treated as institutional costs in FY 2023.[160]

As shown in Figure IV-4, in total, there were 140 IAAs in effect in FY 2023 broken out among six categories. The program as a whole brought in $434 million in revenue and incurred $251 million in costs, for a contribution of $183 million.[161]

[158] Order No. 6659 at 14. *See* Library Reference USPS-FY23-20, folder "Public Copies of Redacted IAA Agreements;" Library Reference USPS-FY23-NP32, folder "NP Copies of Unredacted IAA Agreements." In Order No. 6659, the Commission directed that with respect to copies of specific IAAs, the Postal Service should justify any filings made under seal and redact only the information claimed to be nonpublic. Order No. 6659 at 14. However, consistent with Commission Order No. 6440, the Postal Service is allowed to file a single representative redacted public version of an agreement for the "Lease Agreements" category of IAAs, as well as for the "EEO Services" subcategory within the "Contracting Services" category of IAAs. *See* Docket No. ACR2022, Order Granting Motion for Extension of Time to Respond and for Partial Reconsideration of Question 9 of Chairman's Information Request No. 10, February 10, 2023 (Order No. 6440).

[159] Order No. 6659 at 15. *See* Library Reference USPS-FY23-NP32, Excel files "ACR 2023 IAA Summary.List.xlsx," "FY2023 IAA NonPublic Financial Workbook.xlsx;" Library Reference USPS-FY23-NP34, folder "Q.40," Excel file "ChIR.2.ACR 2023 IAA Summary.List.xlsx;" Library Reference USPS-FY23-NP41, folder "Qs 15 and 16.d," Excel file "FY2023 IAA NonPublic Financial Workbook CHIR 10.xlsx;" Library Reference USPS-FY23-NP41, folder "Q.16," Excel files "ChIR10.Q16_COVIDTestKitFulfillment.xlsx," "ChIR10Q16Resp.COVIDTestKits_FCPS_Analysis_FY23.xlsx," "ChIR10Q16Resp.COVIDTestKits_GA_Analysis_FY23.xlsx," "ChIR10Q16Resp.COVIDTestKits_PM_Analysis_FY23.xlsx," "ChIR10Q16Resp.COVIDTestKits_Summary_FY23.xlsx."

[160] January 19 Response to CHIR No. 2, question 39. In Order No. 6659, the Commission directed the Postal Service to develop a proposed change in accepted analytical principles to enable the attribution of costs and related revenue to IAAs, which the Postal Service did. Order No. 6659 at 16; *see* Docket No. RM2023-7, Response of the United States Postal Service to Order No. 6659, September 29, 2023.

[161] *See* Notice of the United States Postal Service of Revisions to Certain Pages of the FY 2023 Annual Compliance Report – Errata, February 22, 2024.

Figure IV-4
Interagency Agreements by Category in Effect During FY 2023

Source: Library Reference USPS-FY23-NP34, folder "Q.40," Excel file "ChIR.2.ACR 2023 IAA Summary.List.xlsx."

The Commission continues to work with the Postal Service to finalize a methodology for calculating and attributing costs and revenue to IAAs. *See generally* Docket No. RM2023-7. For purposes of this compliance review of the overall IAA program pursuant to 39 U.S.C. § 3705(e)(2), the record reflects that the total reimbursement the Postal Service received from other Federal agencies for services rendered pursuant to IAAs effective in FY 2023 exceeded the total estimated cost associated with providing such services, which complies with 39 U.S.C. § 3704.

The Commission finds that the Postal Service complied with the applicable requirements of 39 U.S.C. chapter 37 during FY 2023.

CHAPTER V. SERVICE PERFORMANCE

A. Service Performance Results

1. Introduction

A. KEY FINDINGS

Figure V-1 presents the FY 2023 weekly service performance results for First-Class Mail. As shown, beginning in March of 2023 service performance results for First-Class Mail began lagging the FY 2022 results. Analyzing weekly service performance results at a class-level is a different approach than that taken in previous ACDs. However, the dataset underlying the analysis is from the Postal Service's own public-facing dashboard. The service performance issues identified in the in-depth analysis in this Chapter strongly suggest that service performance failures are ongoing and systemic problems rather than isolated events causing accumulated failures.

Figure V-1
First-Class Mail
USPS Service Performance Dashboard Weekly Data, FY 2022–FY 2023

Source: USPS Service Performance Dashboard Source Data Extract File, available at https://spm.usps.com/#/main.

Key findings and the corresponding Commission directives/recommendations relating to service performance include:

- *The Commission is concerned about the Postal Service's continued failure to meet service performance targets:*
    - The majority (15) of the 27 Market Dominant products/categories measured failed to meet their targets in FY 2023.

- The products/categories that failed to meet their targets in FY 2023 represented 35.9 percent of Market Dominant mail volume and the products/categories that met their targets in FY 2023 represented 64.1 percent of Market Dominant mail volume.
- This is the 9th year in a row that more than 48 percent of products/categories have failed to meet their targets.
- The Postal Service continues to fail to meet targets despite changes in service standards that have lengthened days to delivery for several products/categories over the past several years.
- *The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target levels in FY 2024.*
- *The Commission has developed specific directives designed to increase transparency regarding service performance for non-compliant products. These directives elicit data from the Postal Service and information on the steps that the Postal Service will have to take to restore service performance for those products in FY 2024. These directives include continued Postal Service reporting of specific information developed from its internal metrics within 90 days of the issuance of this ACD and as part of the Postal Service's FY 2024 ACR.*

- *The Commission is concerned with the Postal Service's inability to address key issues impacting service performance including:*
    - *Employee Availability*
        - The Postal Service has been unable to mitigate seasonal fluctuations in employee availability.
        - *The Commission recommends that the Postal Service analyze trends in employee availability and focus its efforts to reduce seasonal variation in employee availability to improve service performance.*
    - *Employee Turnover*
        - Employee turnover in the Processing & Distribution function has the most significant impact on service performance in the month immediately following the employee turnover and persists through the month after that.
        - *The Commission recommends that the Postal Service analyze the diverse impacts of employee turnover across functional areas to focus retention efforts where they are likely to yield the most benefit for service performance.*
    - *Transportation Challenges*
        - In FY 2023 all districts saw a decline in Critically Late Trips (CLTs) compared to FY 2022.

        - The Postal Service continues to assert that it must first implement a new contract management system (Contract Logistics Enterprise Acquisition Resource (CLEAR)) and a new Integrated Logistics Environment (ILE) to enable assessing remedies for CLTs caused by suppliers.
        - *Because decreasing CLTs represents an opportunity to improve service performance across many products and categories, the Commission recommends that the Postal Service prioritize the migration to CLEAR and the full implementation of its ILE as soon as possible. The Commission also recommends continued consistent monitoring of delayed inventory to mitigate other transportation backlogs.*
    - *Operational Changes by the Postal Service*
        - As in previous years, the Commission finds the Postal Service's inability to quantify the impact of any of its operational improvement initiatives—particularly those related to nationwide changes in the nature of postal services—problematic. For an improvement initiative to be successful, it must be possible to identify its impact and determine if the initiative had the desired effect on service performance results.
        - *The Commission recommends that the Postal Service develop an independent method to enable it to isolate and measure the impact of specific improvement initiatives on service performance.*
- *The Commission is concerned that the operational and sample data used for the internal service performance measurement system may not fully capture the current nationwide service issues.*
    - The Postal Service uses a Collection Box sample to measure the persistent First Mile delays in Single-Piece First-Class Mail. Recent network and operational changes for collection mail implemented by the Postal Service in FY 2024 such as Optimized Collections may negatively impact the quality of this critical component of the service performance measurement system.
    - The Postal Service uses automation scans and IMb data to measure the processing phase. Less than 70 percent of presort First-Class Mail was included in measurement each quarter of FY 2023. Similarly, the FY 2023 volume in measurement for USPS Marketing Mail fluctuated between 65 and 71 percent, with 68 percent of volume included in measurement for the fiscal year. Approximately 50 percent of Periodicals were included in measurement in each quarter of FY 2023. For Package Services in FY 2023, the percentage of mailpieces measured by IMb peaked in the second and third quarters at 30 percent and slipped down to 25 percent in Quarter 4. The primary obstacle to increasing the volume in service performance

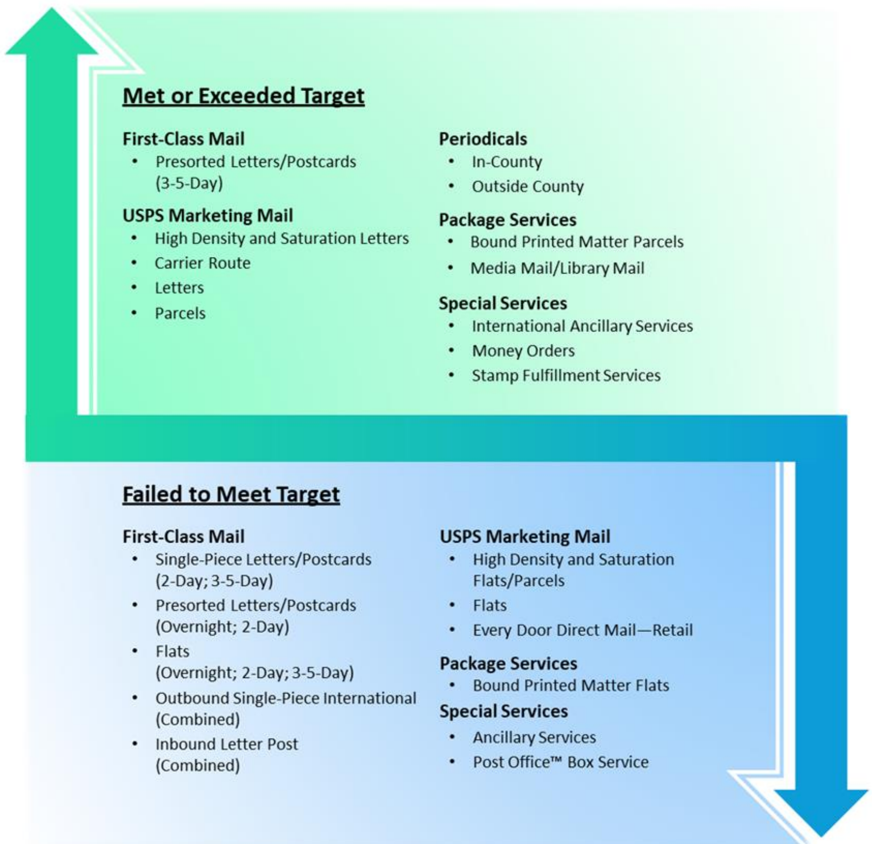
measurement in FY 2023 is the limitations of the Postal Service's operational data.

- The leading causes of mailpieces being excluded from measurement were the Postal Service's failure to capture consistent and usable data.
- Missing "Start-the-Clock" scans was a leading cause to exclude eligible mailpieces from service performance measurement for presort First-Class Mail, Periodicals, and USPS Marketing Mail. Additionally, the "Start the Clock" time may not adequately reflect delays related to long waits in line for transportation.
- The Postal Service uses a Last Mile sample to measure the persistent Last Mile delays for each Market Dominant product.
- *The Commission recommends that the Postal Service renew its focus on increasing the percentage of mail in measurement and analyzing and improving its mail in measurement program.*
- *The Commission intends to evaluate if the quality of service data has become significantly inaccurate pursuant to 39 U.S.C. § 3652(e)(2)(B) and to determine if any planned Postal Service changes to the "measurement systems, service standards, service goals or reporting methodologies [will] have a material impact on the accuracy, reliability, or utility of the [service performance] measurement" pursuant to 39 C.F.R. § 3055.5.*

- *The Commission is concerned regarding the impact of the DFA Plan on service performance:*
    - Given the lack of service performance data at the 5-Digit level, as well as a lack of clarity on the level of implementation and current scale and scope of the DFA Plan, the Commission is currently unable to assess the effects of the DFA Plan in FY 2023 on service.
    - *The Commission urges the Postal Service to be forthcoming with the data necessary to conduct a thorough evaluation of the DFA Plan's impact on service performance in Docket No. PI2023-4 and subsequent annual compliance determinations.*

Figure V-2 categorizes Market Dominant products according to whether or not they achieved their annual service performance targets for FY 2023.

Figure V-2
Market Dominant Products Service Performance Results, FY 2023



Source: Library Reference USPS-FY23-29, December 29, 2023, PDF file "FY23-29 Service Performance Report.pdf," at 4-5, 9, 13, 16, 19-20 (FY 2023 Service Performance Report).

First, the Commission provides context to the results in the background section below. Second, the Commission provides an overview of the factors in FY 2023 that affected the service performance of all Market Dominant products. Third, the Commission describes the systems the Postal Service uses to measure service performance for Market Dominant products. Fourth, the Commission discusses the Postal Service's FY 2023 service performance results by class of mail. Fifth, the Commission discusses nonpostal services.

B. BACKGROUND

Before the PAEA, the Postal Service had internal delivery service standards for major types of mail but lacked statutory guidance on how to establish delivery standards and did not measure and report delivery performance for most types of mail.[162] The PAEA required the Postal Service to establish an initial set of service standards for Market Dominant products to take effect within 1 year of the PAEA's enactment. 39 U.S.C. § 3691(a). The PAEA directed the Postal Service, in consultation with the Commission, to establish these standards "by regulation" and permitted revision "from time to time thereafter by regulation."[163] The PAEA also required the Postal Service to develop a "plan for meeting those [service] standards," within which it was to "establish performance goals" for its delivery performance. PAEA § 302(a), (b)(1), 120 Stat. at 3219.

The Postal Service promulgated its initial service standards in 2007.[164] As designed by the Postal Service, the standards specify the amount of time within which a customer may ordinarily expect that a particular mailpiece will be delivered, in accordance with a detailed set of "business rules."[165] The Postal Service has since revised these standards several times, including lengthening the service standards for First-Class Mail and end-to-end Periodicals by up to 2 days, effective October 1, 2021 (the beginning of FY 2022)[166] and most recently by changing the critical entry times (CETs) for certain categories of Periodicals, effective January 29, 2023 (Quarter 2 of FY 2023).[167]

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[162] United States Government Accountability Office, Report No. GAO-06-733, U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement, published July 2006, at 2-4, available at *https://www.gao.gov/assets/260/250894.pdf* (GAO-06-733).

[163] *Id.* Any "change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis" requires an advisory opinion by the Commission. *Id.* § 3661(b).

[164] *See* Modern Service Standards for Market-Dominant Products, 72 Fed. Reg. 72,216 (Dec. 19, 2007) (codified at 39 C.F.R. parts 121 and 122).

[165] *Id.* at 72,220. The Postal Service defines service standards as "[s]tated delivery performance goals for each mail class and product that are usually measured by days for the period of time taken by [the Postal Service] to handle the mail from end-to-end (that is, from the point of entry into the mailstream to delivery to the final destination)." United States Postal Service Publication 32, Glossary of Postal Terms, July 2013, available at *http://about.usps.com/publications/pub32/pub32_terms.htm* (Postal Service Glossary of Postal Terms). "Established service standards also include destination entry standards for mail entered by the mailer at or near a postal destination facility. A separate set of standards is established for noncontiguous states such as Alaska and Hawaii and territories such as American Samoa and Guam." *Id.*

[166] *See* Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941 (Aug. 11, 2021) (codified at 39 C.F.R. part 121); *see also* Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1, Advisory Opinion). The Postal Service estimated that its proposed changes would impact 38.5 percent of First-Class Mail and 7 percent of Periodicals. *See* Docket No. N2021-1, Advisory Opinion at 1. The Postal Service also requested advisory opinions from the Commission regarding revisions to service standards for three Competitive products, First-Class Package Service, USPS Retail Ground, and Parcel Select Ground. *See* Docket N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021 (Docket No. N2021-2, Advisory Opinion); Docket No. N2022-1, Advisory Opinion on the Service Standard Changes Associated with USPS Retail Ground and Parcel Select Ground, June 9, 2022, (Docket No. N2022-1, Advisory Opinion). The Postal Service implemented these new service standards during FY 2022: on May 1, 2022, for First-Class Package Service and on August 1, 2022, for USPS Retail Ground and Parcel Select Ground. United States Postal Service, U.S. Postal Service Implements New First-Class Package Service Standards and Updates Priority Mail Service Standards, April 18, 2022, available at *https://about.usps.com/newsroom/national-releases/2022/0418-usps-implements-new-first-class-package-service-standards.htm;* United States Postal Service, Postal Service Accelerates Delivery for Retail Ground, Parcel Select Ground Products, June 23, 2022, available at *https://about.usps.com/newsroom/national-releases/2022/0418-usps-implements-new-first-class-package-service-standards.htm*.

[167] *See* United States Postal Service, Changes to Periodical Critical Entry Times, Effective January 29, 2023, USPS Postal Pro (December 29, 2022), available at *https://postalpro.usps.com/node/11634*; *see also* Docket No. N2022-2, Advisory Opinion on Changes to the Critical Entry Times for Certain Categories of Periodicals, November 30, 2022 (Docket No. N2022-2, Advisory Opinion).

As required by section 302 of the PAEA, the Postal Service also prepared a plan for meeting its service standards and, as a part of that plan, developed a set of percentage on-time performance targets.[168] Since enactment of the PSRA on April 6, 2022, the Postal Service is now required to establish its targets within 60 days of the beginning of the fiscal year for which they will apply. 39 U.S.C. § 3692(a)(1). The Postal Service has explained that targets are set by the Board of Governors of the Postal Service, taking into account "prior year performance and expected operational improvement based on known network and operational changes."[169]

Each year, the Commission must "make a written determination" as to "whether any service standards in effect during such year were not met." 39 U.S.C. § 3653(b)(2). In this vein, 39 U.S.C. § 3692(a)(2) requires the Postal Service to "provide the previous fiscal year's performance targets in its Annual Compliance Report to the Postal Regulatory Commission for evaluation of compliance for each product."

To make this assessment, the Commission compares the percentage of mailpieces that achieve the stated service standard against the targets established by the Postal Service.

The Postal Service intends to eventually raise its service performance targets to 95 percent on-time for all Market Dominant products consistent with its DFA Plan. *See* FY 2023 ACR at 54. It asserts that its ability to do so depends on successful implementation of the ongoing network improvements laid out in the DFA Plan and, as such, it will set interim goals intended to show continued progress towards its ultimate 95 percent on-time target goal.[170]

However, the Postal Service fell short of meeting the target in over half of its products/ categories in FY 2023. The Commission has concerns regarding the pace of improvement in service performance. For example, for domestic First-Class Mail categories, the performance results reveal that two categories (2-Day Single-Piece Letters/Postcards and Overnight Presorted Letters/Postcards) exhibited no improvement, while the progress observed in other categories was minimal. If the Postal Service were to improve each year from now on by the same amount as observed in FY 2023, it would take a minimum of 3 years for 2-Day Presorted Letters and Postcards and 3-5-Day Presorted Letters and Postcards to reach 95 percent on-time service performance. It would take 39 years for 3-5-Day Single-Piece Letters and Postcards to achieve this result.

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[168] *See* United States Postal Service, *Postal Accountability and Enhancement Act § 302 Network Plan*, June 2008, at 7; The Three R's of the Postal Network Plan: Realignment, Right-Sizing, and Responsiveness, Hearing Before the Subcomm. on Federal Workforce, Postal Service, and Dist. of Columbia of the H. Comm. on Oversight and Gov't Reform, 110th Cong., at 47 (July 24, 2008) (statement of Patrick R. Donahoe, Deputy Postmaster General/Chief Operating Officer, United States Postal Service) (stating that the Postal Service would fulfill its section 302 mandate by, among other things, establishing "'percentage on-time' targets [that] will be shared with the Commission and will serve as the basis for its annual review of [the Postal Service's] service standards compliance[]").

[169] Docket No. ACR2022, Library Reference USPS-FY22-29, December 29, 2022, PDF file "PREFACE folder FY22-29.pdf," at 5 (Docket No. ACR2022, Library Reference USPS-FY22-29 Preface).

[170] *See* January 19 Response to CHIR No. 1, question 17.b.; Docket No. ACR2022, Library Reference USPS-FY22-29 Preface at 4-5.

2. Issues Affecting Service Performance for All Market Dominant Products in FY 2023

A. OVERVIEW

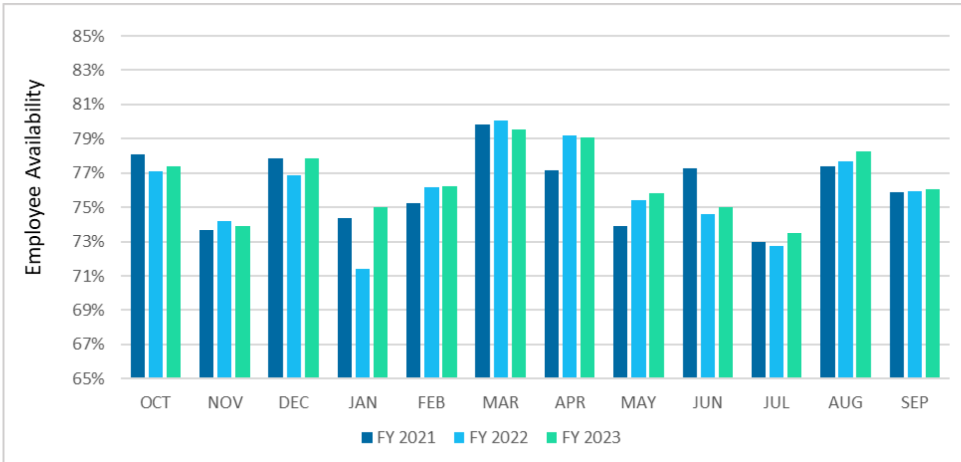
During FY 2020 and FY 2021, the Postal Service claimed that the COVID-19 pandemic had a substantial impact on service performance, specifically by reducing employee availability, disrupting its contract transportation arrangements, and altering the traditional mail mix. *See, e.g.,* FY 2021 ACD at 108. While the worst COVID-19 pandemic impacts subsided during FY 2022, low employee availability and transportation challenges—along with significant operational changes made by the Postal Service—continue to impact the Postal Service's FY 2023 Market Dominant service performance results. These factors are discussed in detail below.

B. LOW EMPLOYEE AVAILABILITY

In FY 2022, the Postal Service stated that employee availability shortages caused by the COVID-19 pandemic began to subside after Quarter 1 of FY 2022. *See* FY 2022 ACR at 54-55; FY 2022 Service Performance Report at 6. The Postal Service notes that "[e]mployee availability can be affected by numerous factors, many of which are not within the control of the Postal Service, such as overall economic factors, employment, labor, and public health conditions." February 2 Response to CHIR No. 7, question 2. The Postal Service claims that it made "several efforts to improve employee availability, including maintaining the authorized career workforce, replacing attrition, increasing supervisory staffing, and providing flexibility through part-time (pre-career) workforce." *Id.*

Figure V-3 presents overall employee availability by month for FY 2021, FY 2022, and FY 2023.

Figure V-3
Employee Availability, by Month, FY 2021–FY 2023



Source: January 12 Response to CHIR No. 1, question 1, Excel file "ChIR No 1 Q1 Employee Availability Data;" Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-13 of Chairman's Information Request No. 3, January 17, 2023, question 3, Excel file "ChIR.3.Q.3.FY22_EmployAvailblty.xlsx" (Docket No. ACR2022, Response to CHIR No. 3); Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 6, February 1, 2022, question 4, Excel file "ChIR.6 Q.4_Data_ChIR.1 Q.13b.xlsx" (Docket No. ACR2021, Response to CHIR No. 6).

Employee availability showed only a slight improvement in FY 2023 compared to both FY 2022 and FY 2021 despite the fact that COVID-19 pandemic-related impacts should have abated. Monthly, it surpassed FY 2022 levels for 9 months of the year. Annually, there was a 0.5 percent increase compared to FY 2022.

According to the Postal Service, as part of its efforts to improve the fluidity of its network, it began increasing staff levels in FY 2022, "aiming to enhance processing efficiency." FY 2023 ACR at 50. Specifically, it reports that it did so "by converting non-career employees to career in Mail Processing."[171] In this way, the Postal Service attempted to "improve the fluidity of [its] network" and update its operations as a whole. FY 2023 Division Report at 1. The Postal Service explains that it maintained the increased staffing levels in FY 2023. FY 2023 ACR at 50.

The Postal Service represents that it has undertaken "efforts to increase the proportion of career employees, in the interest of greater seasonal resilience and improved service performance." FY 2023 ACR at 2. However, these efforts appear to have had little impact on seasonal trends observed in employee availability. For all 3 years, maximum employee availability was consistently observed in March, hovering around 80 percent. Conversely, the lowest employee availability occurred in July for FY 2023 and FY 2021, at 73.5 percent

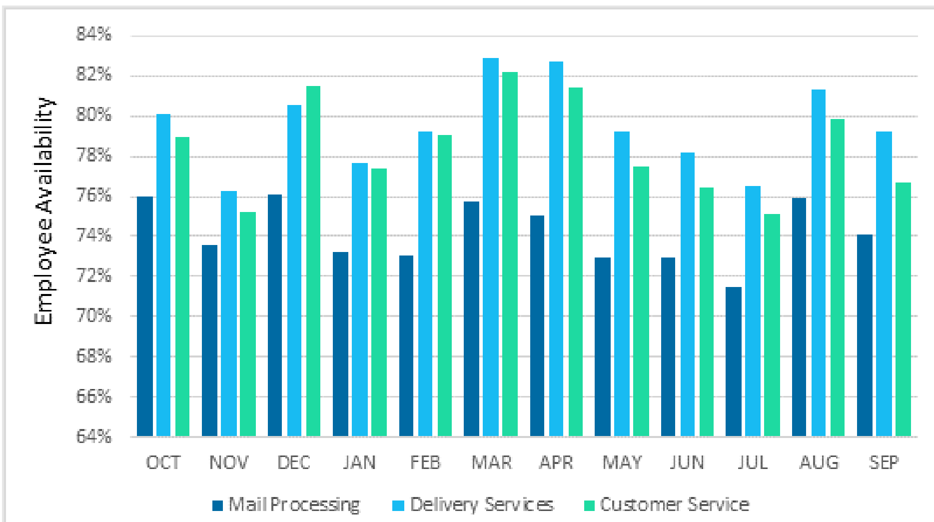
[171] Library Reference USPS-FY23-29, December 29, 2023, PDF file "FY23-29 Division Reports.pdf," at 1 (FY 2023 Division Report).

and 73.0 percent, respectively, and in January for FY 2022 at 71.4 percent.[172] The Commission finds that despite its efforts the Postal Service has been unable to mitigate seasonal fluctuations in employee availability.

The Commission recommends that the Postal Service analyze trends in employee availability and focus its efforts to reduce seasonal variation in employee availability to improve service performance.

Figure V-4 displays employee availability in FY 2023 by function: mail processing (Function 1), delivery services (Function 2), and customer service (Function 4).

Figure V-4
Employee Availability, by Function, by Month, FY 2023



Note: A complete list of the Postal Service's functions and Labor Distribution Codes appears in Docket No. R2006-1, Library Reference USPS-LR-L-55, May 3, 2006, folder "LR-L-55 electronic version (.doc & .excel)," folder "lr-l-55 part1," PDF file "_Labor Distribution Codes.pdf."

Source: January 12 Response to CHIR No. 1, question 1, Excel file "ChIR No 1 Q1 Employee Availability Data."

[172] The January 2022 employee availability was particularly challenged compared to January 2021 and 2023 due to the coronavirus omicron variant and a national labor shortage rendering it difficult to hire part-time workers. *See* Docket No. ACR2022, Library Reference USPS-FY22-29, December 29, 2022, PDF file "FY22-29 Service Performance Report.pdf," at 6 (FY 2022 Service Performance Report).

Figure V-4 provides insight into the fluctuation of employee availability, at the national level, throughout FY 2023. These data indicate that the Postal Service's national employee availability was consistently lower for mail processing than delivery services and customer service. National employee availability for mail processing (Function 1) was most challenged in July, while both delivery services (Function 2) and customer service (Function 4) had the lowest availability in January 2023.

The Postal Service is unable to quantify the impact of employee availability on service performance. January 12 Response to CHIR No. 1, question 9. However, it identifies several steps that it took to address issues with employee availability. The Postal Service explains generally that a continuous hiring process is required to maintain the career workforce, replace attrition, and "provid[e] flexibility through part-time (pre-career) workforce." January 26 Response to CHIR No. 6, question 3. It states that, though staffing levels for pre-career employees remained consistent in most areas of the country, some regions experienced local staffing shortages. *Id.* To mitigate these shortages, the Postal Service explains that it worked with the National Association of Letter Carriers to identify "pockets of hard to hire locations," after which the parties negotiated joint Memoranda of Understanding allowing for external hires to career positions. *Id.*

Additionally, the Postal Service explains that high employee turnover (*i.e.*, employees leaving the Postal Service and being replaced with new hires) is "likely to be associated with lower service performance" because "[o]n-time service performance depends on timely completion of a sequential series of operational steps, and less experienced employees are likely to face greater challenges in completing their portion of these steps in the required time frame." January 12 Response to CHIR No. 1, question 14.a.

Figure V-5 displays employee turnover in FY 2023 by function:

Figure V-5
Monthly Turnover by Function, FY 2022–FY 2023

Source: January 12 Response to CHIR No. 1, question 14.c., Excel file "ChIR No. 1 Q14a Turnover PFC FY22-23."

The Postal Service reports that it is unable to quantify the magnitude of the relationship between employee turnover and service performance "because of the simultaneous occurrence of too many other variables." January 12 Response to CHIR No. 1, question 14.a. The Commission analyzed this relationship by conducting a preliminary correlation analysis between turnover for different functions and service performance for several mail categories.[173] The Commission confirms that there is a consistent negative relationship between Processing & Distribution turnover and service performance across various categories of mail. Additionally, the Commission finds that turnover in the Processing & Distribution function has the most significant impact on service performance in the month immediately following the employee turnover in question.[174] This correlation persists, albeit slightly weakened, after 2 months before dropping off at 3 months and remaining relatively stable thereafter. This persistent negative correlation highlights the potential impact of turnover for this function on service performance, underscoring the importance of addressing turnover issues to maintain and improve service performance.

For the Logistics function, the Commission finds that although there is only a weak negative correlation between turnover and service performance, the impact of turnover on service performance is immediate and lasts into the subsequent month.[175] For the Retail & Delivery function, the Commission observes a strong negative correlation between turnover and service performance for flat-shaped categories of mail, and weaker correlation between turnover and service performance for letter-shaped categories of mail.[176]

The Commission recommends that the Postal Service analyze the diverse impacts of employee turnover across functional areas to focus retention efforts where they are likely to yield the most benefit for service performance.

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[173] A preliminary correlation analysis was conducted on 2 years of monthly data encompassing turnover and performance metrics. It is important to note that the sample size of months falls below the typical threshold of 30, which is commonly used for robust statistical analysis. As such, the findings are considered preliminary and subject to revision as more data becomes available. The analysis focused on exploring correlations between turnover and service performance, as well as turnover and service performance at lags of 1, 2, 3 and 4 months. These correlations were examined separately for each functional area, including Logistics, Processing & Distribution, and Retail & Delivery, for nine categories of mail that include: (1) First-Class Mail Presorted Letters/Postcards 2-Day; (2) First-Class Mail Single-Piece Letters/Postcards 2-Day; (3) First-Class Mail Single-Piece Letters/Postcards 3-Day; (4) Outside County 3-Day; (5) Outside County 2-Day; (6) First-Class Mail Flats 2-Day; (7) USPS Marketing Mail Carrier Route 3-to-5-Day; (8) USPS Marketing Mail Flats; and (9) USPS Marketing Mail High Density and Saturation Flats/Parcels 3-to-5-Day.

[174] The correlation coefficients for lags 0, 1, 2, and 3 are consistently negative for all categories of mail analyzed. This suggests a consistent inverse relationship between turnover in the Processing & Distribution area and service performance, regardless of the time lag considered. Many of the lag 1 correlations observed are clustered around the range of -0.5 to -0.6, indicating a moderate to strong negative correlation between turnover and service performance.

[175] The Commission observes consistently negative correlations at lags 0 and 1 across all categories of mail. Correlation coefficients range from -0.15 to -0.38 at lag 0 and from -0.16 to -0.34 at lag 1.

[176] The Commission finds negative correlations at lags 0, 1, and 2. The largest magnitude of correlation is observed at lag 0, followed by a tapering off effect in subsequent lags. For flat-shaped mail, the correlation coefficients at lag 0 range from -0.44 for First-Class Mail Flats 2-Day to -0.74 for Periodicals Outside County 3-Day.

C. TRANSPORTATION CHALLENGES

Transit has been a major area of concern in the Commission's past evaluations of the Postal Service's service performance results.[177] The COVID-19 pandemic exacerbated the Postal Service's challenges relating to transporting mailpieces that were destined for an address outside of the local service area from which the mailpiece was mailed.[178] After completing origin processing, the Postal Service assigns mail to the air or surface network for transportation to a facility closer to the addressee. Because the Postal Service does not operate its own aircraft, it contracts with commercial airlines to rent space for mail on passenger flights as well as cargo-only flights.[179] To move mail to the next facility via the surface network, the Postal Service may use contractors or Postal Service career employees as drivers. OIG Report No. 20-144-R20 at 8.

The Postal Service states that it considers surface transportation to be less expensive and more reliable than air transportation. FY 2023 ACR at 49. As such, the Postal Service asserts that it is working to transition from air to surface transportation as well as to "optimiz[e] [its] surface transportation network to reduce trips and improve utilization." *Id.* To allow for this shift, it implemented new service standards for certain First-Class Mail and Periodicals and also changed the Periodicals' CETs. *Id.* According to the Postal Service, based on the 8 months of FY 2023 when the new CETs were in effect for Periodicals, the CET changes improved the processing score by 2.8 percentage points.[180]

The Postal Service states that it is also "focus[ed] on merging letter and flat products into streamlined, shape-based mailflows as opposed to class-based mailflows" to "increase density in containers and trucks and facilitate greater use of ground transportation." FY 2023 Division Report at 1. The Postal Service also explains that local Divisions have been working with Headquarters Logistics to optimize surface transportation schedules, including by identifying "opportunities to create new service-responsive surface lanes to reduce reliance on the air network." *Id*. at 3. Additionally, according to the Postal Service, "[t]rue transit root causes such as contractor failures are shared with Headquarters Logistics in order to develop mitigation plans." *Id.*

[177] *See, e.g.,* FY 2022 ACD at 110-16; FY 2021 ACD at 112-17; FY 2020 ACD at 108-16; FY 2019 ACD at 106-12, 119-21.

[178] Local service area, or local zone, refers to a nonnumbered zone that applies to mail deposited at any Post Office for delivery to addresses within the delivery area of that Post Office. This includes ZIP Codes assigned to postal facilities, Post Office Box sections, Caller Service, vertical improved mail units in buildings, and delivery units. *See* Postal Service *Glossary of Postal Terms*.

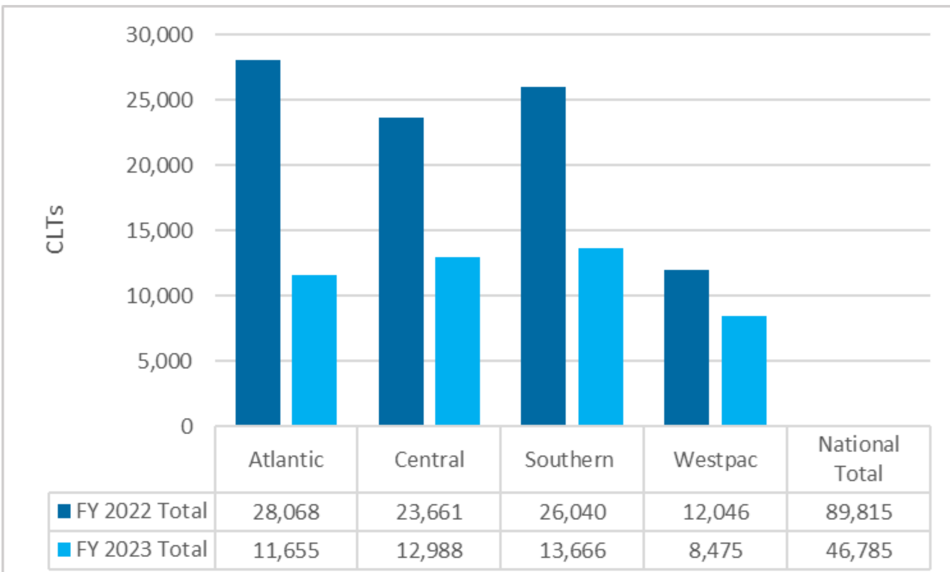
[179] United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, at 12, available at *https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf* ("The Postal Service does not own planes and is forced to rely on third parties for air transport."); United States Postal Service, Office of Inspector General, Report No. 20-144-R20, Transportation Network Optimization and Service Performance, June 5, 2020, at 8, available at *https://www.uspsoig.gov/sites/default/files/reports/2023-01/20-144-R20.pdf* (OIG Report No. 20-144-R20).

[180] *See* January 12 Response to CHIR No. 1, question 16, Excel file "CHIR No. 1 Q16 Periodicals CET.xlsx." The Postal Service calculates this number by estimating the volume that would have been processed under the previous Periodicals' CET, calculates the relevant processing score, and compares that score to the actual FY 2023 results. *See id.*

The Postal Service tracks surface trips that arrive more than 4 hours late, referred to as CLTs.[181] The Postal Service states that "[t]he CLT is identified by [comparing] the actual arrival scan [to the] scheduled arrival scan at the destination facility."[182]

Figure V-6 illustrates the number of CLTs for First-Class Mail on highway contract routes (HCRs) on an annual basis for FY 2022 and FY 2023.

Figure V-6
First-Class Mail CLTs for HCRs, by Area and Nation, FY 2022–FY 2023



Source: January 12 Response to CHIR No. 1, question 3, Excel file "ChIR No. 1 Q3a CLT Added FY2022 and FY2023 SV;" Docket No. ACR2022, Library Reference USPS-FY22-29, December 29, 2022, Excel file "CLT FY22 11.20.2022.xlsx;" Docket No. ACR2021, Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 19, February 24, 2022, question 1.

[181] February 9 Response to CHIR No. 9, question 9.a.; Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 22, November 15, 2016, question 12.b.i.

[182] Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 2, January 17, 2018, question 7.b.iii.; Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-41 of Chairman's Information Request No. 4, January 24, 2020, question 30.b.

In FY 2023, the Postal Service implemented a change in its data source for reporting on CLTs. January 12 Response to CHIR No. 1, question 3.a. Previously, CLT data was collected through the legacy system, which derived information from the Enterprise Data Warehouse. *See* January 26 Response to CHIR No. 6, question 2.b. The new data source for CLT reporting utilizes the Surface Visibility (SV) CLT dashboard, which accesses surface transportation scan data directly from the SV database. *Id.* According to the Postal Service, the updated approach incorporates the latest organizational structure and network changes, including facility activations and deactivations. *Id.* For comparison purposes the Postal Service provided data using both the legacy and the new system. *See id.* question 2.c. The following analysis is based on CLTs measured using the SV CLT dashboard.

The number of nationwide First-Class Mail CLTs for HCRs experienced significant fluctuations over the last few years. CLTs notably increased from FY 2020 to FY 2021, then tapered off slightly in FY 2022.[183] In FY 2023 all districts saw a decline in CLTs compared to FY 2022. *See* January 26 Response to CHIR No. 6, question 2.c.

The cause for a given CLT is determined by platform personnel during operations using their own observations and information from the supplier operating the trip.[184] CLTs designated as caused by the Postal Service include those related to dock congestion and operations, “late inbound [and] late outbound,” dock personnel issues, mail processing issues, late processing, cancelled trips, failure to bring mail to the loading dock, equipment and mechanical failures, “station/customer service op[erations],” customer delay, schedule failure, driver unavailability, “load after depart,” and “late inbound PVS.”[185] CLTs designated as caused by outside forces are those due to “traffic, weather, construction, and accidents.” Docket No. ACR2021, Response to CHIR No. 9, question 2. The Postal Service does not define what specific incidents constitute contractor failures. *See id.*

Figure V-7 shows the number of total CLTs for all products, disaggregated by responsible party for FY 2022 and FY 2023.[186]

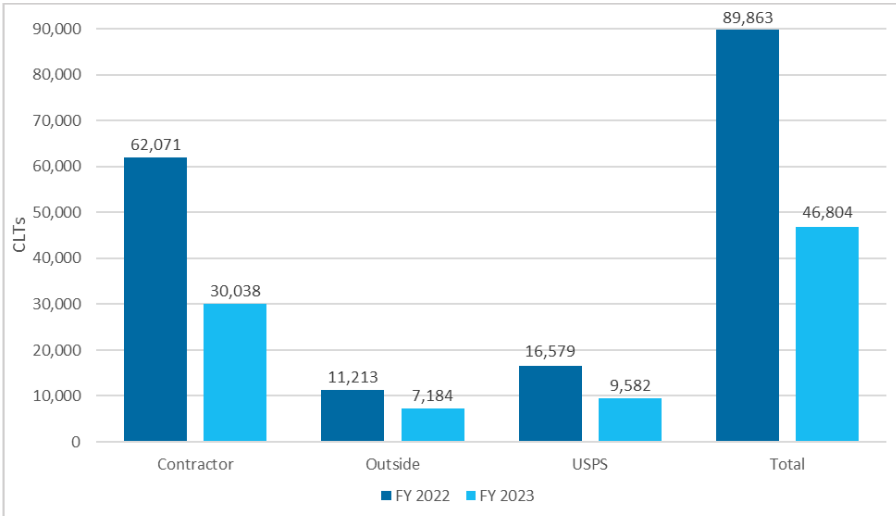
[183] January 12 Response to CHIR No. 1, question 3, Excel file “ChIR No. 1 Q3a CLT Added FY2022 and FY2023 SV.”

[184] Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-29 of Chairman’s Information Request No. 1, January 18, 2022, question 28.a.

[185] *See* Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-22 of Chairman’s Information Request No. 9, February 7, 2022 (Docket No. ACR2021, Response to CHIR No. 9), Excel file “ChIR.9 Q2_Late Trip Reasons FY21 vs FY20.xlsb.”

[186] The Commission has reservations about relying on the Postal Service's categorization of CLTs, especially considering the deficiencies in the current system that have been highlighted through the Postal Service's explanation of the benefits of transitioning to the Integrated Logistics Environment (ILE). The current system depends on manual scans by Postal Service dock employees to record on-time arrivals and departures. This reliance may lead to an overinflation of CLTs categorized as contractor failures, as trucks waiting in line may not receive immediate scans. *See* February 2 Response to CHIR No. 7, question 7.

Figure V-7
Total CLTS, by Responsible Party, FY 2022–FY 2023



Source: January 12 Response to CHIR No. 1, question 3, Excel file "ChIR No. 1 Q3a CLT Added FY2022 and FY2023 SV.xlsb."

Not only did total CLTs decrease between FY 2022 and FY 2023, Postal Service-caused CLTs, contractor-caused CLTs, and CLTs caused by outside factors (*e.g.,* weather delays) all decreased in FY 2023. Contractor-caused CLTs decreased the most significantly from 62,071 in FY 2022 to 30,038, which represents a decrease of 51.6 percent, decreasing the share of Contractor-caused CLTs from 69.1 percent to 64.3 percent.

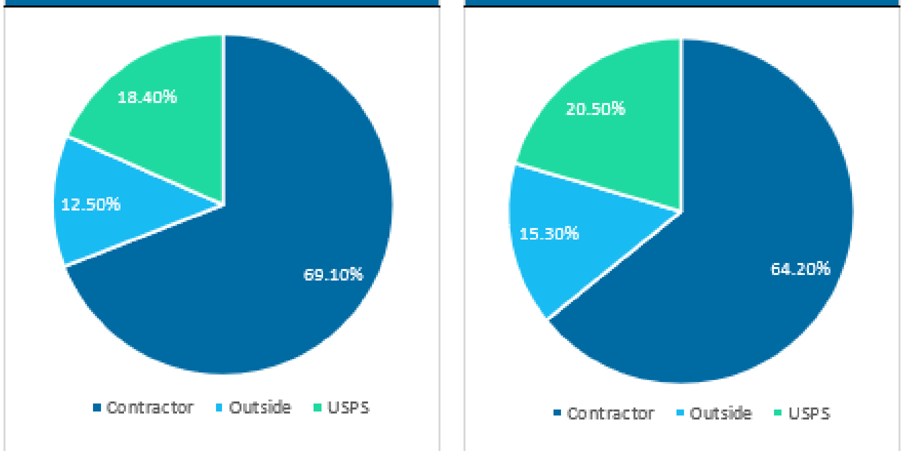
Figure V-8 presents the distribution of causes as a percent of total annual CLTs for FY 2022 and FY 2023.

Figure V-8
Total CLTS and Proportional Representation, by Responsible Party, FY 2022–FY 2023

Cause	FY 2022
Contractor	62,071
Outside	11,213
USPS	16,579
Total	**89,863**

Cause	FY 2023
Contractor	30,038
Outside	7,184
USPS	9,582
Total	**46,804**

% of FY 2022 Total / **% of FY 2023 Total**



Source: January 12 Response to CHIR No. 1, question 3, Excel file "ChIR No. 1 Q3a CLT Added FY2022 and FY2023 SV.xls."

This data illustrate that the distribution of CLT causes remained relatively consistent between FY 2022 and FY 2023, with contractors responsible for the majority of CLTs in both years.

Although the Postal Service tracks the number of CLTs, it remains unable to quantify the impact of CLTs on service performance results. *See* January 12 Response to CHIR No. 1, question 10. The Postal Service states that it attempted to remediate CLTs through initiatives focused on achieving operational clearance targets, addressing issues with supplier performance, and training and developing employees. *See* January 12 Response to CHIR No. 1, question 3.b.

In terms of CLTs caused by late processing and containers that were not ready to load, the Postal Service states that it has retained the additional processing employees that were added in the past 2 years and continues to expand "package sort[] capacity" and refine each facility's operating plan "ensuring timely clearance and adherence to service standards."[187] According to the Postal Service, it measures Operating Plan Precision (OPP) in an effort to understand how each facility is dispatching mail in a timely manner. Library Reference USPS-FY23-29 Preface at 12. It also states that its introduction of the "Operational

[187] Library Reference USPS-FY23-29, December 29, 2023, PDF file "FY23-29 Preface.pdf," at 12 (Library Reference USPS-FY23-29 Preface).

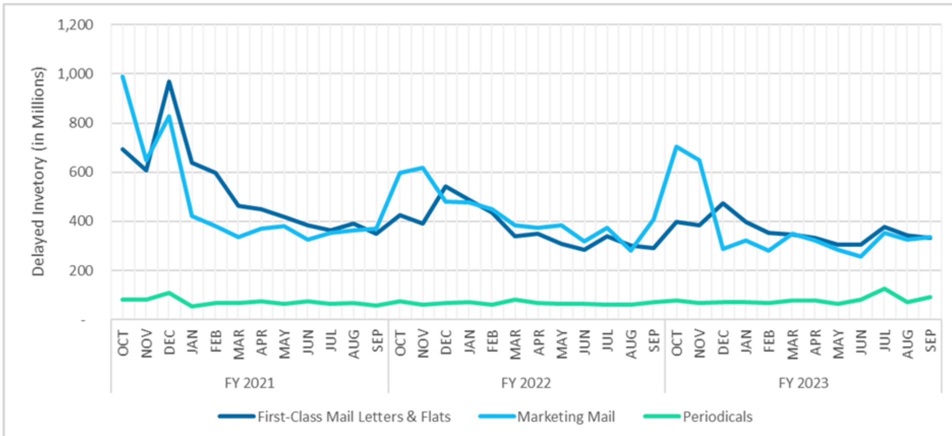
Engineer" and "Operational Support Specialists," as well as the Ground Advantage product, has led to a better understanding of mail routing, labeling, and dispatching, thus increasing service performance. *Id.* at 13.

In terms of CLTs related to supplier performance, the Postal Service states that it has "conducted[] regular training sessions for field personnel" designed to increase their understanding and management of supplier performance. *Id.* The Postal Service also continues to assert that it is considering the implementation of liquidated damage contract clauses to address supplier-caused CLTs and it explains that it has developed a new contract management system (CLEAR) that, along with its new ILE, "will enable all the other process improvements that the Postal Service wants to implement, including, potentially, a method for assessing remedies for late trips." January 12 Response to CHIR No. 1, question 4.a. The Postal Service explains that, prior to ILE, its primary source of arrival and departure information was manual scans by employees, but that ILE "enables enhanced tracking and visibility into Highway Contract Route (HCR) trip arrival and departure times using multiple sources to include EDI, GPS, and scanning at the dock, allowing for improved accuracy for on-time performance tracking." February 2 Response to CHIR No. 7, question 7.b. According to the Postal Service, this enhanced tracking (unlike manual scans, which do not provide a reliable basis for assessing actual truck transportation performance), "will provide the level of accuracy needed to support the assessment of damages." *Id.* The Postal Service expects to migrate all its HCR contracts to CLEAR—a necessary step in transitioning to ILE—by the end of FY 2024. *Id.* question 7.f.

As CLTs can result in delayed inventory, which negatively impacts service performance, the Commission examines monthly inventory delays. Figure V-9 shows the delayed inventory by month for FY 2021 through FY 2023.[188]

[188] "Delayed inventory" is defined as "mailpieces that remain on hand at their facility and that have not received their next expected processing operation scan by 0659 for destinating final processing operations and 0600 for all other operations." Docket No. ACR2021, Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 22, February 28, 2022, question 1.

Figure V-9
Delayed Inventory, by Month, FY 2022–FY 2023



Source: Response to CHIR No. 1, question 8, Excel file "ChIR No. 1 Q8a FY23 Delayed Inventory.xlsx."

As depicted in Figure V-9, inventory delays remained relatively stable throughout FY 2023, mirroring patterns observed in FY 2022. Similar to the previous fiscal year, delays were more prevalent during the early months of the fiscal year. Notably, December posed the greatest challenge for First-Class Letters and Flats in both years. For USPS Marketing Mail, more significant delays were observed in October and November, with approximately 600 million delays recorded for both in FY 2022 and approximately 700 million delays recorded for both in FY 2023. In the case of Periodicals, inventory delays fluctuated from a low of 65 million pieces in May 2022 to a peak of 125 million pieces in July 2022.

Because decreasing CLTs represents an opportunity to improve service performance across many products and categories, the Commission recommends that the Postal Service prioritize the migration to CLEAR and the full implementation of its ILE as soon as possible. The Commission also recommends that continued consistent monitoring of delayed inventory to mitigate other transportation backlogs.

D. OPERATIONAL CHANGES BY THE POSTAL SERVICE

In the past several years, the Postal Service claimed that unprecedented package volume contributed to decreased Market Dominant service performance during the Postal Service's peak season and subsequent months. *See* FY 2021 ACD at 117. Specifically, as a result of the COVID-19 pandemic, many people increased their reliance on e-commerce and mail-ordering, which consequently increased the demand for packages in FY 2020 and FY 2021, leading to a variety of compounding issues. *Id.* More information regarding these mail mix changes and their effects on service performance is available in the Commission's FY 2021 ACD. *See* FY 2021 ACD at 117-19.

In March of 2021, the Postal Service published its DFA Plan, one of the goals of which was to achieve service excellence (defined, as explained above, as meeting or exceeding 95 percent on-time delivery for all products). FY 2023 ACR at 48. The Postal Service explains that the DFA Plan "is a living plan" that is constantly being evaluated and updated and that, pursuant to the DFA Plan, "the Postal Service makes operational adjustments on a regular basis, at the local, district, division, and national level." January 19 Response to CHIR No. 1, question 17.a.

The Postal Service identifies the Richmond Regional Processing and Delivery Center (RPDC) as an example of "both the complications that can arise in implementation, and how [the Postal Service has] learned and made adjustments to [its] DFA initiatives to improve execution." Response to CIR No. 1. It explains that, after several issues arose after the July 29, 2023 implementation of the Richmond RPDC that impacted regional service performance, it dispatched a team of 20 employees "from Headquarters to identify and correct for errors," including preexisting weaknesses in the facility, "issues with machine sort plans and adherence to the operating plan following activation, issues with the transportation schedule and its alignment with operations, and issues with staffing and scheduling." Response to CIR No. 1, question 1; February 9 Response to CHIR No. 9, question 8. The Postal Service asserts that it used the lessons learned in Richmond to adjust the planning and execution processes for other RPDCs. Response to CIR No. 1, question 1.

In response to numerous information requests, and despite the Postal Service repeatedly emphasizing the importance of the DFA Plan on its future service performance, the Postal Service did not share meaningful information about the implementation of the plan and its anticipated impact; instead, it generally reiterated the talking points it had previously made in its press releases. *See, e.g.,* January 19 Response to CHIR No. 1, question 17.a. The Commission has opened Docket No. PI2023-4 to examine the recent and anticipated network changes related to the DFA Plan and more information can be found in that ongoing docket.

To effectuate the DFA Plan and to respond to the mail mix shifts that coincided with the COVID-19 pandemic (declining mail volume), the Postal Service began to implement a variety of operational changes. For instance, the Postal Service explains that it undertook "facility space upgrades to correct [ ] years of underinvestment and deferred maintenance, and procurement of new processing equipment." FY 2023 ACR at 49. The Postal Service also indicates that during the first 2 years of implementation of the DFA Plan, and in order "to move mail and packages more cost effectively and deliberately across the Nation," it "aggregate[d] processing facilities into both RPDCs and newly designed Local Processing Centers (LPCs)." January 25 Response to CHIR No. 2, questions 62.a-62.b. While RPDCs "form the backbone of the future network," "LPCs are designed to connect RPDCs to delivery operations with the primary mission of sorting letter and flat mail to carrier route or delivery walk sequence and serving as a transfer center to aggregate product on its way to delivery." *Id.* The Postal Service explains that "[c]reating the LPC operation as a separate and distinct functional unit from the network RPDC function will allow the Postal Service to standardize operations across regions and provide specific management focus on local letter and flat operations" and should result in "significant operational and logistics savings." *Id.* The Postal Service also states that, in furtherance of "Delivery Unit Removal," it is evaluating "space constrained facilities, facilities with expiring leases, or facilities that have experienced other operational impacts that may trigger them to be relocated to another facility" in order to determine their compatibility with the DFA Plan. *Id.* Despite the Postal Service's avowed reliance on these facility-related initiatives, the Postal Service is unable to determine how these changes impacted FY 2023 service performance. *See id.* question 62.d.

The Postal Service also reports "extensive preparation and planning for the peak holiday season at all levels of the organization, including hiring efforts, investments, and operational precision improvements." FY 2023 ACR at 50. Specifically, these efforts included "acquiring long-term Package Support Annexes (PSAs), continuing to purchase additional package sorting machines in sites with capacity shortfalls in order to process more volume by machine and less manually, and creating a larger standing career workforce by converting non-career employees to career in Mail Processing." FY 2023 Division Report at 1. The Postal Service explained that, while these strategies were driven by the influx of packages, they have benefited service performance for all mail products. *Id.*

The Postal Service also emphasizes its efforts to "right-size" its mail processing equipment to fit current and projected mail volumes. *See* FY 2023 ACR at 49. Specifically, this involved removing excess Flats Sequencing System machines that were not needed for the current Flats volume. *Id.* However, the Postal Service is again unable to determine whether this effort resulted in improved service performance, other than noting that service performance has generally improved since it intensified its efforts to right-size mail processing in FY 2021. February 2 Response to CHIR No. 7, question 1.

The Postal Service also states that it continued to work with facilities to create site-specific operating plans (SSOPs) "to streamline operations and set predictable, service-responsive, achievable goals for operational clearance times." *See* FY 2023 ACR at 50. According to the Postal Service, this represented a change from its previous adherence to network-wide operating plans and clearance goals. FY 2023 Division Report at 1. The Postal Service notes that in FY 2023, it exceeded its nationwide target for OPP, which it associates with an increase in service performance.[189] It explains that the SSOPs "are expected to continue to improve service performance in each Division by providing more precision and predictability in mail processing operations." *Id.* at 2.

In the materials provided by the Postal Service along with its FY 2023 ACR, it generally describes several other initiatives aimed at improving service performance. *See, e.g.,* FY 2023 Service Performance Report at 7-21; FY 2023 Division Report at 2-4. The Postal

[189] *Id.* at 1-2. OPP "is the percentage of achieved operating plan based on site-specific designed operating plans" and "is measured as the pass or fail of the major operational groupings that are run within a facility *(i.e.,* cancellations, outgoing primary, outgoing secondary, incoming primary, Delivery Point Sequencing, etc.)" *Id.* at 2. Each facility has one OPP score, which is the aggregate of the daily scores for each of the facility's operational groupings. *Id*.

Service reports that it generally cannot quantify the impact that any individual initiative has on service performance. January 12 Response to CHIR No. 1, question 11.a. It states that attempting to make such an assessment would require developing the appropriate analytical framework and the value of any results, in its estimation, “would not justify the effort and expense of attempting to” develop such a framework. *Id.* questions 11.b-11.d.

As in previous years, the Commission finds the Postal Service’s inability to quantify the impact of any of its improvement initiatives—particularly those related to nationwide changes in the nature of postal services—problematic. For an improvement initiative to be successful, it must be possible to identify its impact and determine if the initiative had the desired effect on service performance results. The Postal Service generally claims that there is no way to tell how any one individual improvement initiative contributed to overall service performance scores in internal service performance measurement (SPM).[190] The Commission also continues to find that narrative reporting and quantifiable data regarding the Postal Service’s progress are imperative to ensure transparency and accountability of the Postal Service’s improvement initiatives. Consequently, the Commission directs the Postal Service to provide additional information, as described in Sections V.A.4.a.(6), b.(6), c.(6), d.(6), and e.(6), *infra*.

The Commission recommends that the Postal Service develop an independent method to enable it to isolate and measure the impact of specific improvement initiatives on service performance.

E. COMMENTS AND RELATED COMMISSION ANALYSIS

Comments specific to each class of mail are summarized and responded to in Section V.A.4., *infra*. The comments (and reply comments, if applicable) that pertain more generally to events affecting service performance for all Market Dominant products in FY 2023 are organized by topic, summarized, and responded to below.

FY 2023 Service Performance Targets and Service Standards. The Public Representative points out that the Postal Service has raised its service performance targets modestly from FY 2022 through FY 2024 but that, while many of the targets are not set at or near 95 percent (as contemplated by the DFA Plan), “there remains considerable work to do to attain that level of service performance.” PR Comments at 48. He observes that “[t]he significance to be attached to an on-time service performance target depends upon its purpose and upon the adequacy of the basis for its selection.” *Id.* at 47. He asserts that if the purpose of the targets is to provide an incentive to improve service performance, a higher target is appropriate, while if the purpose is to give customers a reliable expectation of what service is to be expected, a more moderate, realistic target is in order; if the purpose is both, a balance must be struck. *Id.* He asserts that in any case, the Postal Service should identify the target’s purpose and supporting basis. *Id.*

[190] *See, e.g.,* Docket No. ACR2022, Response to CHIR No. 11, question 12.a.; *see also* Docket No. ACR2022, Response to CHIR No. 7, question 30.a.

The Public Representative contends that a similar balance must be struck in the case of service standards: where service standards are unattainable, they should be lowered, but "beyond a point, achieving their targets by lowering service standards is fruitless" and becomes a "race to the bottom." *Id.* at 48.

In its comments, PostCom notes that, "despite the fact that the Postal Service has unconstrained freedom to set its own performance targets and measures its own performance," it has never met its yearly service performance goals. PostCom Comments at 11. It also states that, in FY 2023, the Postal Service "fell well short" of the 95 percent DFA goal for service performance, not to mention the Postal Service's own self-imposed targets. *Id.* Additionally, it notes that the Postal Service has set targets after the beginning of the relevant fiscal years, allowing it "to account for all possible [impediments] to target attainment." *Id.* PostCom concludes that "customers are not receiving the level of service for which they are being charged" and the Commission should therefore determine that the Postal Service is in violation of the requirements of chapter 36 of the United States Code and should withhold rate authority until compliance is demonstrated. *Id.*

NPPC commends the work of postal employees and "appreciates that the Postal Service is working to improve service performance." NPPC Comments at 8. Nevertheless, NPPC reiterates its previously expressed sentiment that service performance targets should match service standards and that anything less "means that the Postal Service plans to provide service that is less good than advertised." *Id.* at 9.

In response, the Postal Service rejects any contention that its service performance is not improving, pointing out that "although not every FY 2023 performance goal was achieved, service performance continued to improve year-over-year, with FY 2023 performance eclipsing FY 2022 results for nearly all products and categories." Postal Service Reply Comments at 24, 27-28. The Postal Service also explains that it is required by statute to set "reasonable targets" for service performance and that these targets "sought to establish realistic goals for its market-dominant products based on its careful consideration of prior year performances and expected operational capabilities and anticipated improvements." *Id.* at 26-27. The Postal Service also specifically disputed NPPC's suggestion that targets should be set at the level of its service standards, stating that given "real-world circumstances," a network could never achieve such a goal. *Id.*

The Commission recommends that the Postal Service provide greater clarity regarding the purpose and basis behind changed targets to help the Commission evaluate the reasonableness of such targets and promote public transparency.

Other subjects. The Public Representative states that he "believes that the Postal Service's transportation initiatives should have a positive effect on service performance, particularly for products featuring three-day and longer service standards, but only if implemented zealously across the entire network, which will be quite challenging." PR Comments at 79. He also states that it appears that these initiatives are already having a positive impact given the “significant decrease” in CLTs in FY 2023. *Id.* Further, he notes, in relation to initiatives targeted at monitoring facilities and routes reporting delayed mail, that he is encouraged by the Postal Service’s focus on delayed mail, but cautions that it “may not be just a ‘blip’ in terms of service performance scores” and notes that it is clearly “of considerable concern to those areas where this occurs, many of which need the Postal Service the most.” *Id.* at 80.

The Commission reiterates its expectation that the Postal Service continue to consistently monitor and leverage CLTs and delayed inventory metrics to improve the efficacy of its transportation initiatives.

TPA states that the Postal Service suffered a “decline in on-time performance” and that this decline was “the direct result of hiring fewer part-time workers to facilitate holiday deliveries.” TPA Comments at 1. It notes that “[i]nstead of hiring a significant holiday workforce to adequately meet consumer demands, the agency limited itself to hiring just 10,000 workers for the November-December 2023 (FY 2024 Quarter 1) while raising the salary cap for managers, supervisors, and postmasters, which it claims limited the Postal Service’s delivery capacity. *Id.*

The Commission recommends that the Postal Service continue to consider options to maximize peak season staffing for November-December 2024 (FY 2025 Quarter 1) to ensure that it is able to maintain consistent levels of service performance throughout this period.

F. COMMISSION ANALYSIS OF OVERALL FY 2023 IMPACTS AND FY 2024 OUTLOOK

Though service performance generally improved in FY 2023 compared to FY 2022, the Postal Service must continue to focus on improving service performance so that it meets the Postal Service’s ultimate goal of 95 percent on-time for all Market Dominant products as well as the expectations broadly held by the general public. *See* FY 2023 ACR at 50-51, 54.

As discussed above, to improve service performance and meet the challenges of a changing postal environment, the Postal Service implemented several initiatives as part of its DFA Plan, including revising service standards and CETs and significantly altering its transportation network. The Postal Service repeatedly represents that these changes resulted in increased on-time service performance results in FY 2023. However, the Commission cannot specifically attribute the improved on-time results to any of the initiatives instituted by the Postal Service (as opposed to outside factors) since the Postal Service remains unable to measure their impact.

The Commission recommends that the Postal Service develop an independent method to enable it to isolate and measure the impact of specific improvement initiatives on service performance. In particular, the Commission encourages the Postal Service to develop a method that would enable it to measure the impact of changes associated with requests for *advisory opinions under 39 U.S.C. § 3661, given that the Postal Service often justifies such changes with expectations about service performance effects made prior to implementation.*

As part of the PSRA, Congress directed the Postal Service to develop and maintain a publicly available online "dashboard" that provides weekly service performance data for Market Dominant products. *See* 39 U.S.C. § 3692(c). In Docket No. RM2022-7, the Commission issued final regulations codifying the reporting requirements for this dashboard and the Postal Service has since posted this dashboard online.[191]

As explained above, the Postal Service states that it is committed, as part of its DFA Plan, to eventually achieving 95 percent on-time service performance across all product categories. FY 2023 ACR at 54. To this end, it asserts that it will "continue to implement the operational, technological, and employee training initiatives set forth in the Plan to improve the mail and package delivery process." *Id.* It notes that it expects these initiatives to lead to increased service performance in FY 2024 and has generally increased its service performance targets accordingly. *Id.* at 57.

G. COMMISSION FINDINGS AND DIRECTIVES

Of the 27 Market Dominant products/categories measured, 15 products/categories (55 percent) failed to meet their targets in FY 2023. *See* Figure V-2, *supra*. The products/categories that failed to meet their targets in FY 2023 represented 35.9 percent of Market Dominant mail volume.[192] This is the 9th year in a row that more than 48 percent of products/categories have failed to meet their targets. The Commission will continue to monitor the Postal Service's efforts to improve service performance through its class- and product-specific directives, as discussed in Sections V.A.4.a.(6), b.(6), c.(6), d.(6), and e.(6), *infra*.

The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these non-compliant products in FY 2024. The Commission has specifically developed directives designed to increase transparency regarding service performance for non-compliant products. These directives elicit data from the Postal Service and information on the steps that the Postal Service will have to take to restore service performance for those products in FY 2024. These directives include continued Postal Service reporting of specific information developed from its internal metrics within 90 days of the issuance of this ACD and as part of the Postal Service's FY 2024 ACR.

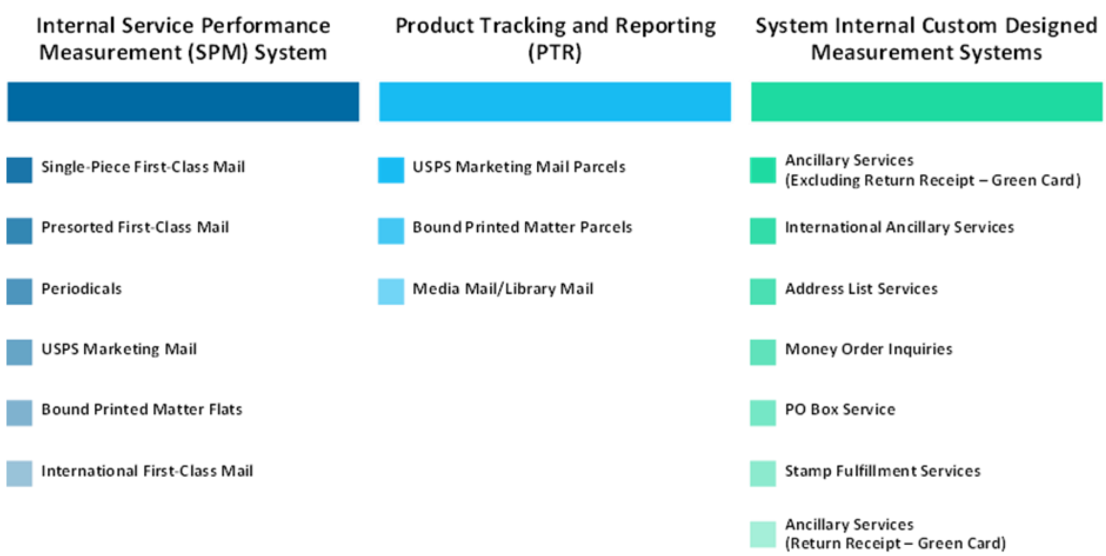
[191] *See* Order No. 6439; United States Postal Service, Service Performance, available at *https://about.usps.com/what/performance/service-performance/external-service-measurement.htm.*

[192] The Commission calculated this figure based on the targets, on-time performance information, and volumes for each product reported in Library Reference USPS-FY23-29, December 29, 2023, folder "MD Service Performance Results."

3. FY 2023 Service Performance Measurement Systems

The Postal Service began reporting service performance results for most Market Dominant products in the third quarter of FY 2011. Since then, the Postal Service's measurement systems have evolved. Figure V-10 identifies the systems used by the Postal Service during FY 2023 to measure service performance for Market Dominant products. The Commission uses the following acronyms and abbreviations: IMb for "Intelligent Mail barcode," PTR for "Product Tracking and Reporting System," and Internal SPM for "Internal Service Performance Measurement System."

Figure V-10
Service Performance Measurement Systems, FY 2023



Source: Library Reference USPS-FY23-29, PDF file "FY23-29 Methodologies Report.pdf" (FY 2023 Methodologies Report).

A. INTERNAL SERVICE PERFORMANCE MEASUREMENT SYSTEM (INTERNAL SPM)

Effective in FY 2019 Quarter 1, the Postal Service began to use Internal SPM to generate data to report service performance results for products within domestic First-Class Mail, Periodicals, USPS Marketing Mail, and Package Services.[193] Accordingly, service performance results for these mailpieces are comparable for FY 2019 through FY 2023. Beginning in FY 2021, Outbound Single-Piece First-Class Mail International, Inbound Letter Post, and Return Receipt-Green Card (a component of Ancillary Services) have also been measured by Internal SPM.[194]

Internal SPM divides measurement into the following three independent segments. First Mile, which applies only to Single-Piece First-Class Mail, measures the time between collection and the first processing operation. FY 2023 Methodologies Report at 1; Order No. 4697 at 17-19. The Postal Service uses a sample of collection box mail as a component for the First Mile measurement. *See* Order No. 4697 at 58. Only mail with a unique identifier, such as an IMb deposited in collection boxes, office buildings, and retail facilities is eligible to be sampled. *See id.* at 17-18. During collection, a mail carrier receives a prompt to scan a set number of mailpieces, as randomly determined pursuant to the sample frame. *See id.* at 18. The scan data from the sampled mailpieces when the pieces reach the cancellation operation are used to start the clock of the first mile measurement. *See id.* at 18-19. The Postal Service targets 200 collection box samples per week, per district.[195] In FY 2023, the Postal Service sampled 3.9 million Single-Piece First-Class Mail mailpieces. March 12 Response to CHIR No. 17, question 4. Processing Duration measures the time between the first processing operation, captured by a mail processing equipment scan, and the last processing operation.[196] Last Mile measures the time between the last processing operation and final delivery. FY 2023 Methodologies Report at 1; Order No. 4697 at 17-19. The Postal Service uses a sample of delivery mail for the Last Mile measurement. *See* Order No. 4697 at 19. Final delivery is recorded when a carrier is prompted to scan mailpieces upon arrival at a delivery point. *See id.* The Postal Service targets 500 delivery point samples per day, per district.[197] The Postal Service sampled 11 million Single-Piece First-Class Mail mailpieces in FY 2023. March 8 Response to CHIR No. 17, question 8. Overall

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[193] *See* Docket No. PI2015-1, Order Approving Use of Internal Measurement Systems, July 5, 2018, at 17-19, 21, 66-67 (Order No. 4697); Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018 (Order No. 4771); Docket No. ACR2022, Library Reference USPS-FY22-29, December 29, 2022, PDF file “FY22-29 Methodologies Report.pdf,” at 1 (FY 2022 Methodologies Report); *see also* Docket No. PI2018-2, Order Conditionally Approving Modifications to Market Dominant Service Performance Measurement Systems, November 5, 2018 (Order No. 4872). The measurement systems used prior to FY 2019 are discussed in the FY 2019 ACD. FY 2019 ACD at 92-93.

[194] *See* Docket No. PI2019-1, Order Granting Request and Approving Use of Internal Service Performance Measurement System, July 1, 2020, at 10-11 (Order No. 5576).

[195] Docket No. PI2015-1, Library Reference USPS-LR-PI2015-1/1, October 29, 2015, PDF file “USPS.StatPlan.Tech.Conf.10.28.15.pdf,” at 10.

[196] FY 2023 Methodologies Report at 1. Mailpieces for which the first processing scan is the same event as the last processing scan may be included in measurement of Processing Duration. Order No. 4697 at 19 n.40.

[197] Docket No. PI2015-1, Library Reference USPS-LR-PI2015-1/1, October 29, 2015, PDF file “USPS.StatPlan.Tech.Conf.10.28.15.pdf,” at 24.

service performance time is obtained by applying the first and last mile factors to the processing duration measurement.

The Commission requires the Postal Service to continue its external auditing program and file quarterly audit reports regarding Internal SPM.[198] *The Commission also recommends that the Postal Service build on its existing audit program so that the audit captures not simply process (whether the Internal SPM is being implemented according to its design) but also results (whether the measurement system is representative, reliable, and accurate).*

B. PRODUCT TRACKING AND REPORTING SYSTEM (PTR)

The Postal Service measures service performance for parcels using PTR, a system that records all scan events captured from USPS Marketing Mail Parcels, Bounded Printed Matter (BPM) Parcels, and Media Mail/Library Mail with a trackable service feature. FY 2023 Methodologies Report at 8. PTR is based on over-the-counter and delivery confirmation scans of retail products, as well as barcode scans of parcels that utilize the Postal Service's tracking service.[199] PTR uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock). *See* Docket No. ACR2016, February 17 Response to CHIR No. 16, question 3.

C. INTELLIGENT MAIL BARCODE (IMB) USED TO TRACK MAIL IN SPM

An IMb is a barcode applied to a mailpiece either by the mailer or by the Postal Service that generates Informed Visibility electronic scan data that can be used to track mailpieces as they pass through automated scan operations.[200] These barcodes are also used to track the collection and delivery of mailpieces via the collection box and Last Mile samples. Mailers receive a discount for applying an IMb to mailpieces prior to entering them into the mailstream. However, for various reasons, the Postal Service is not able to include all IMb mailpieces in its performance measurement system. As discussed below, the leading causes for the exclusion of IMb pieces from service performance measurement involve a lack of scan data captured by the Postal Service.

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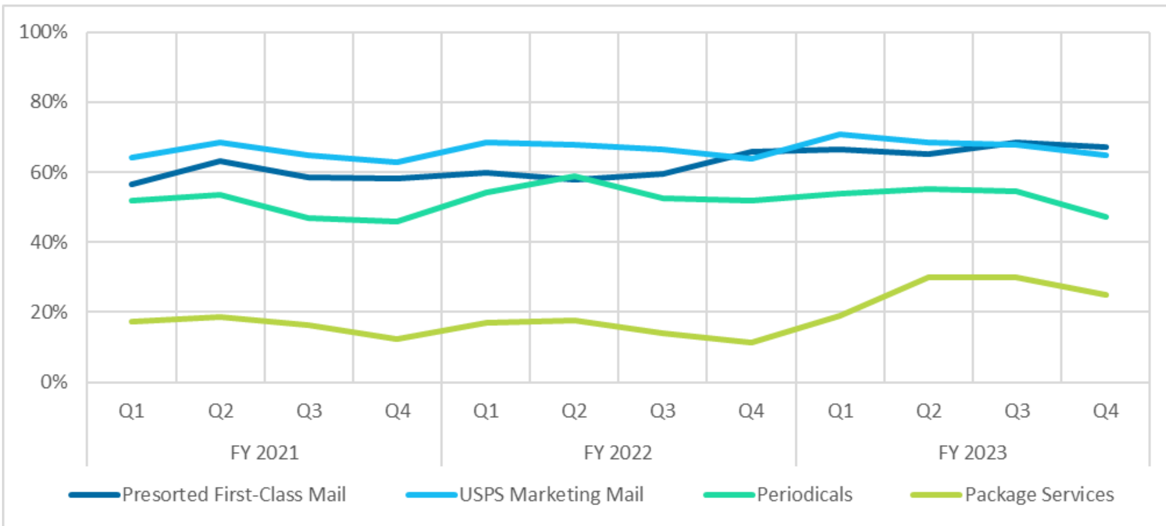
[198] *See* Order No. 4697 at 67. This requirement has been codified by regulation in 39 C.F.R. § 3055.31(i).

[199] Docket No. ACR2016, Responses of the United States Postal Service to Questions 2-4 and 7-13 of Chairman's Information Request No. 16, February 17, 2017, question 3 (Docket No. ACR2016, February Response to CHIR No. 16).

[200] *See* United States Postal Service, Mailing Standards of the United States Postal Service, Domestic Mail Manual, January 21, 2024, § 507.10.1.1 (DMM).

Figure V-11 displays the percentage of total mailpieces entered into the mailstream that are measured by Full-Service IMb for FY 2021, FY 2022, and FY 2023.

Figure V-11
Nationwide Market Dominant Mail Measured by Full-Service IMb, by Percentage, by Quarter, FY 2021–FY 2023



Note: BPM Flats is the only Package Services product measured using IMb; the remaining Package Services products are measured using PTR. FY 2023 Service Performance Report at 14-15.

Source: January 19 Response to CHIR No. 2, question 55; Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-13 of Chairman's Information Request No. 3, January 17, 2023, question 10.

Less than 70 percent of presort First-Class Mail was included in measurement each quarter of FY 2023. The Postal Service has not had a quarter where 70 percent of all presorted First-Class Mail volume was included in service performance measurement since FY 2019 Quarter 4, in which it measured 70.84 percent of presort First-Class Mail volume.[201] Similarly, the FY 2023 volume in measurement for USPS Marketing Mail fluctuated between 65 and 71 percent, with 68 percent of volume included in measurement for the fiscal year. Approximately 50 percent of Periodicals were included in measurement in each quarter of FY 2023. For Package Services in FY 2023, the percentage of mailpieces measured by IMb peaked in the second and third quarters at 30 percent and slipped down to 25 percent in Quarter 4.

[201] Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-22 of Chairman's Information Request No. 3, January 21, 2020, question 21.

The Commission has monitored trends in Full-Service IMb measurement since the Postal Service began using IMb to track service performance because the more mailpieces that are in measurement, the more representative, accurate, and reliable service performance results will be.[202] The Postal Service has not meaningfully increased the percent of presort First-Class Mail, USPS Marketing Mail, or Periodicals in measurement since FY 2017. Since FY 2017, presort First-Class Mail and USPS Marketing Mail in measurement has stagnated near 65 percent and Periodicals has stagnated near 50 percent in measurement. When IMb was first introduced, one of the obstacles to increasing the volume in measurement was obtaining widespread adoption of the Full-Service IMb by presort First-Class Mail and USPS Marketing Mail users.[203] However, as shown in Table V-1, the primary obstacle to increasing the volume in service performance measurement in FY 2023 is the limitations of the Postal Service's operational data.

Among other things, the Postal Service must provide regular, detailed information concerning mailpieces included and excluded from measurement, as well as the reasons for exclusion. *See* 39 C.F.R. § 3055.2(n).

Table V-1 displays the percentage of mail that received the Full-Service IMb discount and was included in measurement, and the percentage of mail that received the Full-Service IMb discount but was excluded from measurement since FY 2021.

[202] *See, e.g.*, FY 2015 ACD at 99-102; FY 2016 ACD at 96-99; FY 2017 ACD at 103-06; FY 2018 ACD at 133-36; FY 2019 ACD at 98-101; FY 2020 ACD at 155-59; FY 2021 ACD at 131-34; FY 2022 ACD at 126-30.

[203] Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 64-66 (FY 2011 ACD).

Table V-1
Mail in Measurement and Excluded from Measurement, by Percentage, FY 2021–FY 2023

Class	Product(s)	Percent of Mail Entered at Full-Service IMb Prices and Included in Measurement			Percent of Mail Processed as Full-Service IMb, but Excluded from Measurement		
		FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023
First-Class Mail	Presorted Letters/Postcards	66.10	65.82	68.33	33.90	34.18	31.67
	Flats	62.20	64.59	68.24	37.80	35.41	31.76
USPS Marketing Mail	High Density and Saturation Letters	79.63	79.95	78.20	20.37	20.05	21.80
	High Density and Saturation Flats/Parcels	53.68	39.75	71.87	46.32	60.25	28.13
	Carrier Route	72.62	76.77	76.42	27.38	23.23	23.58
	Letters	80.47	82.24	84.01	19.53	17.76	15.99
	Flats	71.49	76.51	77.67	28.51	23.49	22.33
	Every Door Direct Mail–Retail	Not Applicable					
	Parcels	Data Not Available					
	Total USPS Marketing Mail	78.23	80.14	82.12	21.77	19.86	17.88
Periodicals	In-County	Data Not Available	11.87[a]	9.40[a]	Data Not Available	88.13[a]	90.60[a]
	Outside County		79.46[a]	78.25[a]		20.54[a]	21.75[a]
	Total Periodicals		70.73	67.92		29.27	32.08
Package Services	Bound Printed Matter Flats	26.39	33.47	43.25	73.61	66.53	56.75

[a] The proportions displayed are estimated by assigning undifferentiated Periodicals mailpieces to In-County Periodicals and Outside County Periodicals in the same proportions as their respective volumes. For In-County Periodicals, the Commission cautions that the estimates could be significantly distorted because, as a relatively low volume product, erroneously assigning Outside County Periodicals mailpieces to In-County Periodicals could have a significant impact on the resulting proportions of mail in and out of measurement. *See* FY 2022 ACD Report at 126-27.

Source: Library Reference USPS-FY23-29, Excel file "FY23 Incl-Excl Dir Resp.xlsx;" January 12 Response to CHIR No. 1, question 12; Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 16, March 9, 2023, question 1.b. (Docket No. ACR2022, March Response to CHIR No. 16); Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-13 of Chairman's Information Request No. 3, January 17, 2023, question 11, Excel file "ChIR No 3 - Response to Questions 10 and 11.xlsx;" Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-29 of Chairman's Information Request No. 1, January 18, 2022, question 23.; Docket No. ACR2020, Response to CHIR No. 1, question 35.

After declining from FY 2020 to FY 2021, the percentage of mail entered at Full-Service IMb and included in measurement increased for the second year in a row for most categories measured. The most notable increase was for High Density and Saturation Flats/Parcels, with a 32.1 percentage point increase in mail in measurement compared with FY 2022. However, High Density and Saturation Flats/Parcels has historically tended to experience large fluctuations in mail in measurement. On the other hand, High Density and Saturation Letters, Carrier Route, and In-County Periodicals each experienced a slight decrease in measurement in FY 2023.

Given that the Commission has been closely monitoring mail included and excluded in measurement for several fiscal years, the Commission expects the Postal Service to again file this information in table form, including detailed descriptions for data that are not available or not applicable, for FY 2024 along with the FY 2024 ACR.

Figure V-12 displays the top two reasons that a mailpiece was excluded from measurement in FY 2023, and the corresponding percent for each class of mail. Not all reasons applied to all classes of mail, although “No Start-the-Clock” and “No Piece Scan” affected multiple mail classes.

Figure V-12
Reasons for Mailpiece Exclusions, by Percentage, by Quarter, FY 2023

Reason	Package Services
Invalid Entry Point for Discount Claimed: Entry Point for Entry Discount claimed in eDoc* is invalid for the entry point and destination of the mail.	Q1: 4.63% Q2: 5.42% Q3: 4.92% Q4: 4.09%

Reason	First-Class Mail
Long Haul: Mail verified at a Detached Mail Unit (DMU), then transported by USPS to a mail processing facility in a different district than the DMU	Q1: 21.75% Q2: 22.24% Q3: 18.27% Q4: 23.58%

Reason	First-Class Mail	USPS Marketing Mail	Periodicals
No Start-the-Clock: Lack of a container unload scan or inability to identify the Facility Access and Shipment Tracking (FAST) appointment associated to the container	Q1: 48.62% Q2: 49.48% Q3: 54.24% Q4: 48.41%	Q1: 35.90% Q2:37.26% Q3: 42.12% Q4: 42.35%	Q1: 13.92% Q2: 18.14% Q3: 20.12% Q4: 17.71%

Reason	Package Services	USPS Marketing Mail	Periodicals
No Piece Scan: No automation scan observed for the mail piece	Q1: 90.69% Q2: 89.07% Q3: 88.52% Q4: 88.47%	Q1: 38.30% Q2: 32.57% Q3: 29.22% Q4: 31.62%	Q1: 55.37% Q2: 58.56% Q3: 61.92% Q4: 64.13%

Source: Library Reference USPS-FY23-29, Excel file "AttachA_ExclusionReasonBreakdoown_FY23."

The most common reason for mailpiece exclusion for First-Class Mail and USPS Marketing Mail in FY 2023 was reported to be "No Start-the-Clock," which occurs when the Postal Service lacks a container unload scan or is unable to identify the Facility Access and Shipment Tracking (FAST) appointment associated with the container. The Postal Service excludes these mailpieces from measurement because the Postal Service cannot determine when the measuring process should begin without an initial scan or an identified FAST appointment. *See* FY 2020 ACD at 159.

For First-Class Mail, "Long Haul" was also a significant cause of exclusion throughout FY 2023. A "Long Haul" exclusion occurs when a mailpiece verified at a Detached Mail Unit (DMU) is transported by the Postal Service to a mail processing facility in a different District than the DMU. *Id.* The Postal Service excludes these mailpieces from measurement because this type of operational failure results in a loss of visibility of the mailpiece. *See* FY 2015 ACD at 101-02.

Consistent with previous years, "No Piece Scan," which occurs when no automation scan is observed for the mailpiece, was the top reason for exclusion for both Periodicals and Package Services in FY 2023. The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2019 ACD at 101. For Periodicals, "No Start-the-Clock" and for Package Services, "Invalid Entry Point for the Discount Claimed" also contributed to the exclusion of mailpieces from measurement.

Comments and Related Commission Analysis. NPPC notes that it "is concerned that the Postal Service's reported service performance does not match the performance its members believe that they in fact are experiencing." NPPC Comments at 9. It states that one potential reason for this disconnect is a "lack of clarity" on the Postal Service's "Start the Clock" time. *Id.* Specifically, NPPC states that, although measurement is said to begin when the mail enters the Postal Service's possession, "it is generally unclear whether in actual practice the Postal Service starts the clock with possession or waits until a first scan, which might occur later." *Id.* NPPC states that another potential reason may be that a large portion of First-Class Presorted Letters/Postcards are not being measured. *Id.* It explains that "[i]t is conceivable that pieces not in measurement have received poorer service than those in measurement, which mailers may be able to track but the Postal Service cannot." *Id.* at 9-10.

In response, the Postal Service states that:

> While the Postal Service greatly appreciates the input of NPPC's members and is disappointed to hear that some members' perception of market-dominant mail service performance differs from the published results, the Postal Service is unable to meaningfully address those unsupported, unspecific, and vague assertions, let alone NPPC's speculations about why those members might have a different perception of service performance than what the Postal Service reports.

Postal Service Reply Comments at 31. Instead, the Postal Service expresses confidence in the accuracy of its results. *Id.*

The Commission is concerned that the operational and sample data used for the internal service performance measurement system may not match the performance that mailers may be experiencing and/or fully capture the current nationwide service issues. Recent network and operational changes for collection mail implemented by the Postal Service in FY 2024 such as Optimized Collections[204] may negatively impact the quality of collection box samples used to measure First Mile delays for Single-Piece First-Class Mail, which is a critical component of the service performance measurement system.

In terms of NPPC's observation as to the "Start the Clock" time, the Commission notes that the Postal Service, in response to an information request, states that, prior to the implementation of its ILE, its "primary source for on-time arrivals and departures were manual scans by Postal Service dock employees" which "record the time of the scan rather than actual truck transportation performance." February 2 Response to CHIR No. 7, question 7.b. On the other hand, the ILE will leverage GPS systems to allow for "improved accuracy for on-time performance tracking." *Id.* The Commission is concerned that, based on this response, the "Start the Clock" time may not adequately reflect delays related to long waits in line for transportation.

The primary regulatory purpose for the service performance measurement systems is to produce data for use in the annual compliance review process. The PAEA directed the Postal Service, in consultation with the Commission, to establish these standards "by regulation" and permitted revision "from time to time thereafter by regulation." 39 U.S.C. § 3691(a). The service standards must be designed to achieve four objectives appearing in 39 U.S.C. § 3691(b)(1)(A)-(D), taking into account eight factors appearing in 39 U.S.C. § 3691(c)(1)-(8)). The service standard objectives encompass both objectives for the service standards themselves, and include an objective: "[t]o provide a system of objective external performance measurements for each market-dominant product as a basis for measurement of Postal Service performance." 39 U.S.C. § 3691(b)(1)(D). However, "with the approval of the Postal Regulatory Commission an internal measurement system may be implemented instead of an external measurement system." 39 U.S.C. § 3691(b)(2). Finding the internal SPM capable of reporting accurate, reliable, and representative service performance data, the Commission previously provided such approval to allow the Postal Service to transition to internal SPM, conditioned upon the Postal Service continuing its external auditing program and filing quarterly audit reports with the Commission.[205]

The Commission recommends that the Postal Service prioritize pursuing the full implementation of its ILE as soon as possible. The Commission also reminds the Postal Service that, pursuant to 39 C.F.R. § 3055.5, "all changes to measurement systems" are required to be filed with the "30 days prior to planned implementation." Further, the Commission intends to evaluate if the quality of service data has become significantly inaccurate pursuant to 39 U.S.C. § 3652(e)(2)(B) and to determine if any planned Postal Service changes to the "measurement systems, service standards, service goal or reporting methodologies [will] have

[204] *See* Docket No. PI2023-4, Responses of the United States Postal Service to Chairman's Information Request No. 5, December 4, 2023, questions 1-2.

[205] *See* Order No. 4697 at 3-4, 67; Order No. 5576 at 2, 9-11. The quarterly auditing requirements has been codified in 39 C.F.R. § 3055.31(h)(4)(i).

a material impact on the accuracy, reliability, or utility of the [service performance] measurement" pursuant to 39 C.F.R. § 3055.5.

Moreover, as explained above, the Commission recognizes that the percentage of mail in measurement increased by several percentage points for some products and decreased several percentage points for others. The Commission codified reporting requirements for mail included and excluded from measurement to allow for continued monitoring of trends in measurement and the reasons for exclusions. *See* Order No. 6439 at 17-21, Attachment at 3-5 and 11-13.

The Commission recommends that the Postal Service renew its focus on increasing the percentage of mail in measurement and analyzing and improving its mail in measurement program.

4. FY 2023 Service Performance Results by Class

A. FIRST-CLASS MAIL

(1) FY 2022 ACD Directives

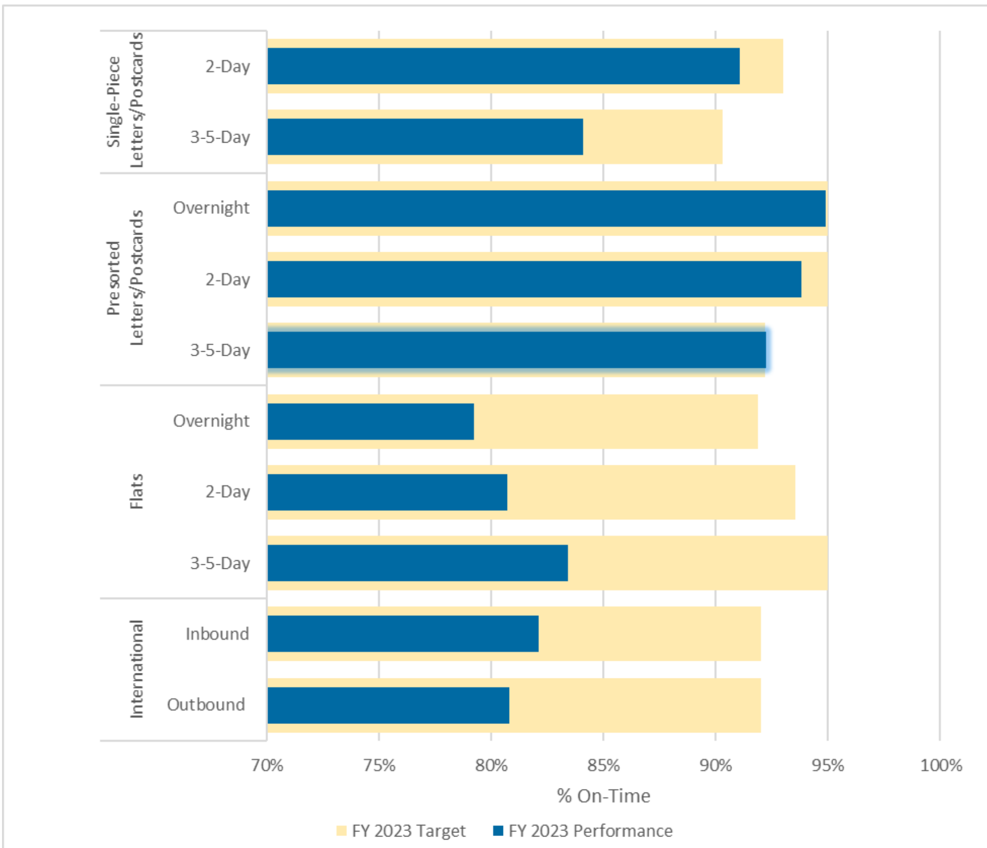
Finding that four First-Class Mail products/categories did not meet their FY 2022 service performance targets (3-5-Day Single-Piece Letters/Postcards, Flats, Inbound Letter Post, and Outbound Single-Piece First-Class Mail International), the Commission directed the Postal Service to improve service performance for these categories and determined that the Single-Piece Letters/Postcards, Flats, Inbound Letter Post, and Outbound Single-Piece First-Class Mail International products were out of compliance in FY 2022. FY 2022 ACD at 147. Therefore, the Commission issued a series of directives to monitor the progress and efficacy of the Postal Service's service performance improvement initiatives in FY 2023. *See id.* at 147-50.

First, to evaluate the Postal Service's nationwide initiatives to improve transit and Last Mile performance, the Commission directed the Postal Service to report on its progress and plans for remedying those issues. *See id.* at 147-48. Second, to evaluate the Postal Service's Division-level initiatives to address the top root causes of failure to deliver First-Class Mail on time, the Commission directed the Postal Service to report on its Division-level progress and plans for remedying those issues. *See id.* at 148-49. Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directed the Postal Service to provide Area- and District-level data concerning air carrier capacity and the number of CLTs during FY 2022. *See id.* at 149-50. Fourth, to monitor the Postal Service's initiatives to improve service performance results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International, the Commission directed the Postal Service to report on its progress at addressing processing deficiencies at International Service Centers (ISCs) and plans for remedying those issues. *See id.* at 150.

(2) FY 2023 Results

Figure V-13 shows the FY 2023 service performance results compared to the annual targets for all First-Class Mail products.

Figure V-13
First-Class Mail
Service Performance Results, by Percent, FY 2023



Notes: The Postal Service reports its targets for its domestic products and service standard categories to two decimal places, whereas results are reported to one decimal place. The difference between the target and the result is rounded to two decimal places.

Source: FY 2023 Service Performance Report at 4-5.

Table V-2 summarizes service performance results compared to the annual targets for all First-Class Mail products for FY 2021 through FY 2023.

Table V-2
First-Class Mail
Service Performance Results, by Percent, FY 2021–FY 2023

Product		FY 2021	Target	FY 2022	Target	FY 2023	Target
Single-Piece Letters/Postcards	2-Day	92.03	96.50	91.60	90.25	91.07	93.0
	3-5-Day	79.67	95.25	83.80	90.50	84.08	90.28
Presorted Letters/Postcards	Overnight	94.95	96.80	95.10	94.75	94.91	95.00
	2-Day	93.03	96.50	93.40	93.00	93.83	95.00
	3-5-Day	90.15	95.25	91.40	90.50	92.23	92.20
Flats	Overnight	80.32	96.80	82.00	94.75	83.39	95.00
	2-Day	77.52	96.50	80.10	93.00	80.71	93.52
	3-5-Day	73.35	95.25	78.60	90.50	79.23	91.87
Outbound Single-Piece International	Combined	71.98	94.00	77.50	90.18	80.8	91.99
Inbound Letter Post	Combined	66.18	94.00	81.20	90.18	82.1	91.99

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

Source: FY 2023 Service Performance Report at 4-5; FY 2022 Service Performance Report at 3-4; Docket No. ACR2021, Library Reference USPS-FY21-29, December 29, 2021, PDF file "FY21-29 Report.pdf," at 4 (FY 2021 Service Performance Report).

(3) Postal Service Report

Only one category—3-5-Day Presorted Letters/Postcards—met its target in FY 2023. FY 2023 Service Performance Report at 6. The Postal Service explains that eight of ten First-Class Mail products/categories had improved service performance from FY 2022 to FY 2023: (1) 3-5-Day Single Piece Letters/Postcards; (2) 2-Day Presorted Letters/Postcards; (3) 3-5-Day Presorted Letters/Postcards; (4) Overnight Flats; (5) 2-Day Flats; (6) 3-5-Day Flats; (7) Outbound Single-Piece First-Class Mail International; and (8) Inbound Letter Post. *Id.* Additionally, it observes that "Flat mail continues to trail letter mail in service performance" and identifies the cause as "machine performance, multiple mail flows, and proportion of manual volume compared to letters." *Id.* The Postal Service asserts that its operational changes "ensure a logical sequencing of processing, transportation, and cross-docking functions for all products" and will therefore improve Flats service performance. *Id.* at 7.

As directed in the FY 2022 ACD, the Postal Service provided a variety of information regarding the identity and causes of on-time service performance failures, its nationwide and Division-level initiatives in FY 2023 to improve service performance and address the top root causes of failure to deliver First-Class Mail on time and plans for further improvement in FY 2024.[206]

(4) Comments and Related Commission Analysis

Comments concerning First-Class Mail service performance are organized by topic, summarized, and responded to below.

Domestic products. The Public Representative notes that, based on the service standards in place prior to the changes made in FY 2022 pursuant to Docket No. N2021-1, no Single-Piece Letters/Postcards categories and only two Presorted Letters/Postcards categories would have met their FY 2023 targets, although more would have met the targets imposed in FY 2022. PR Comments at 51-52. Similarly, under these previous service standards, no Single-Piece Flats met their FY 2022 or FY 2023 targets, although Presorted Flats performed better. *Id.* at 52-53.

NPPC notes that the service performance targets for several First-Class Mail products will not change (or will change very slightly) for several service standards from FY 2023 to FY 2024 and that these remain short of the service standards set for these products. NPPC Comments at 10. NPPC also continues to urge the Commission to modify service performance reporting requirements to include a report on the service quality accorded to remittance mail. *Id.* at 8.

As explained in more detail above, the Commission reiterates that greater clarity from the Postal Service regarding the purpose and basis behind changed targets would promote

[206] *See, e.g.,* Library Reference USPS-FY23-29 Preface; FY 2023 Division Report; Library Reference USPS-FY23-29, Excel files "FY23 FCM Root Cause.xlsx;" "ACR2023 CLT Data.xlsx."

public transparency as to why targets are set at given levels. In terms of remittance mail, the Commission already modified service performance reporting requirements to require the Postal Service to report service performance for the related Reply Mail on its online dashboard. 39 C.F.R. § 3055.102(h).

International products. The Public Representative makes several observations about the service performance trends for international products and identifies opportunities for improvement. PR Comments at 54-66. Specifically, he suggests that the accuracy of the dispatch process between processing facilities should be improved to address the top known root cause (Origin Missent) for Outbound Single-Piece First-Class Mail International. *Id.* at 60-61. He also recommends that the Postal Service address the underlying data insufficiencies apparent in the large proportion of 2-Day Outbound Single-Piece First-Class Mail International for which the Postal Service is unable to assign a root cause of failure. *Id.* at 62. In response, the Postal Service states that the Public Representative:

> Does not sufficiently acknowledge that on-time performance for the combined volumes for [Outbound Single-Piece First-Class Mail International], as well as for [Inbound Letter Post], increased in two subsequent fiscal years by 22.8 points (19.5 points and then 3.3 points), and 8.3 points (7.4 points and then 0.9 point), respectively, from FY 2021 to FY 2023.

Postal Service Reply Comments at 34. In terms of root cause point impacts, the Postal Service states that it will take under consideration the Public Representative's recommendation to improve the accuracy of mail dispatches between processing facilities but suggests that what is actually needed is for it "to work with domestic facilities concerning highest opportunity domestic origins to improve processing and dispatch for mailstreams that include [First-Class Mail International] items bound for International Service Centers." *Id.* at 34-35.

The Commission agrees that the Postal Service should focus on improving processing and dispatch for mailstreams that include First-Class Mail International items bound for International Service Centers.

Single-Piece Letters/Postcards. GCA states generally that 3-5-Day Single-Piece Letters/Postcards have markedly poorer service performance than 2-Day Single-Piece Letters/Postcards or any service standard of Presorted Letters/Postcards. GCA Comments at 1-2. It asserts that [t]his disparity raises significant questions of fairness – especially in light of recent, frequent, and substantial increases in the price of a stamp." *Id.* at 2. GCA also notes a decrease in on-time service performance results for 3-5-Day Single-Piece Letters/Postcards from FY 2022 to FY 2023 in relation to its target. *Id.* at 3.

With this in mind, GCA suggests that the Commission "investigate and, so far as its authority extends, [ ] remedy this disparity in service performance" between the categories of First-Class Mail. *Id.* at 4. It also states that this disparity raises material issues of compliance with governing statutes, particularly the Postal Service's mandate to maintain high quality service standards. *Id.* at 6-8. Therefore, GCA "urges the Commission to take prompt and effective action to require the Postal Service to improve its service performance for [3-5-Day Single-Piece Letters/Postcards.]" *Id.* at 8.

The Postal Service acknowledges that 3-5-Day Single-Piece Letters/Postcards fell "well below" its service performance target but points out that it has improved since FY 2021 and indeed, "during that time, the Postal Service has been actively implementing and evolving initiatives intended to produce just such improvement." PR Comments at 32-33.

The Commission notes that mail that travels a longer distance is generally subject to a greater number of potential delays. This mail is often subject to a longer service standard than mail that travels shorter distances, but also appears prone to poorer service performance. This is generally confirmed by the root cause data discussed below.[207] The Commission will continue to monitor service performance for 3-5-Day Single-Piece Letters/Postcards closely in light of the Postal Service's significant changes to its transportation and processing systems.

(5) Commission Analysis

(a) Overview

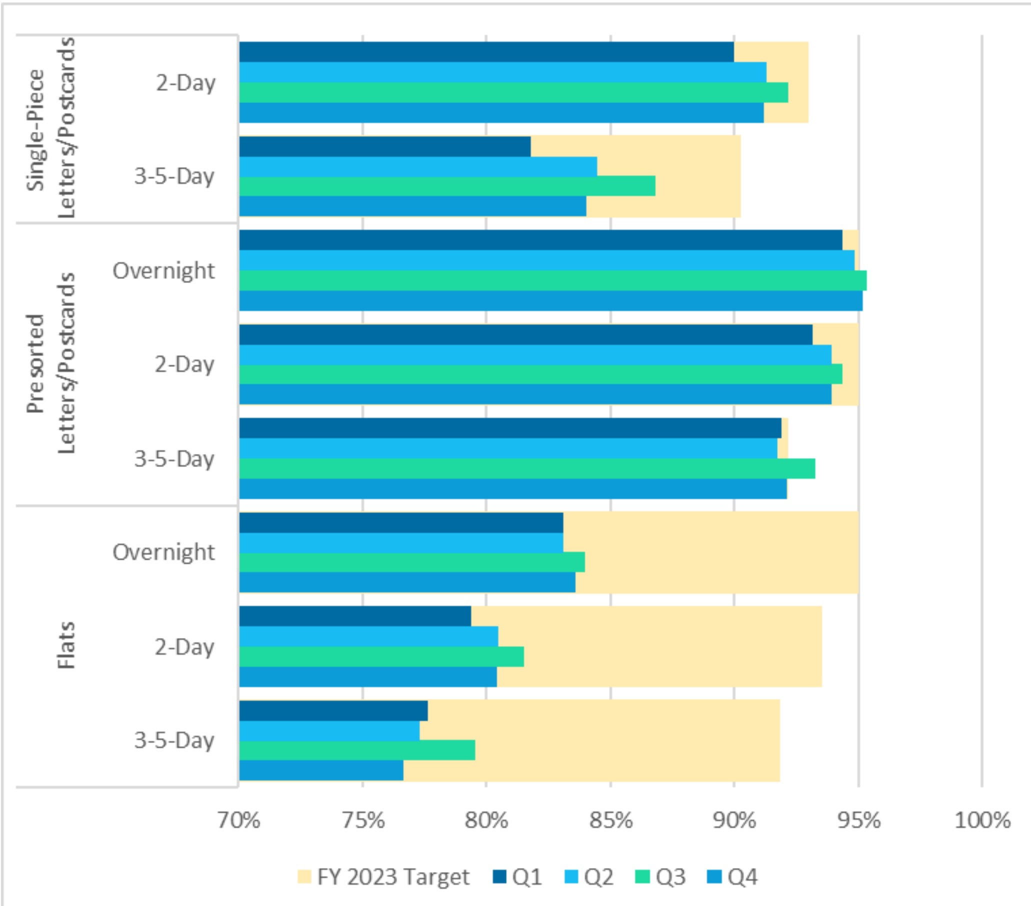
In FY 2023 only one First Class Mail product category met its annual service performance target. To discern whether Service Performance was improving or declining over FY 2023, the Commission compares quarterly service performance results to service performance targets.

(b) Domestic Products

Figure V-14 displays quarterly results for FY 2023, disaggregated by shape, service standard, and whether the mailpiece was presorted or single-piece, for Domestic First-Class Mail products.

[207] *See* Section V.A.4.a.iv., *infra.* For the Transit Late Destination Primary Scan root cause indicator, the 2-Day Single-Piece Letters/Postcards category experienced a point impact of only 0.35 percentage points whereas the 3-5-Day category experienced a point impact of 5.22 percentage points. Library Reference USPS-FY23-29, Excel file "FY23 FCM Root Cause.xlsx. This indicator is assigned if the last outgoing scan of any type at an origin facility is on time and the First Incoming Primary Scan at the expected destination facility is late. Docket No. ACR2020, Response to CHIR No. 1, question 20.c., Excel file "FY20.ChIR.1.RootCauseDefintnsHierarchy.xlsx."

Figure V-14
Domestic First-Class Mail
Service Performance Results, by Quarter, FY 2023



Note: Except for Presorted Overnight and Flats Overnight, the Postal Service implemented service standard changes for all categories appearing in this Figure, effective October 1, 2021 (the beginning of FY 2022). 86 Fed. Reg. 43,941, 43,951 (Aug. 11, 2021) (codified at 39 C.F.R. part 121); *see* Docket No. N2021-1, Advisory Opinion.

Source: Library Reference USPS-FY23-29, Excel file "FY23 ACR First-Class Mail.xlsx."

For most categories of First-Class Mail, service performance improved in the second and third quarters of FY 2023 compared to the same period last fiscal year but then declined again in the fourth quarter compared to the same period last fiscal year. The first quarter of FY 2023 had the lowest on-time performance for nearly all categories, with Presorted 3-5-Day Letters and Postcards and 3-5-Day Flats being the only exceptions. Service performance was the strongest during the third quarter across all domestic First-Class Mail categories.

As mentioned above, in FY 2023, only one First-Class Mail category met its target. While Presorted 3-5-Day Letters and Cards only achieved its target in the third quarter, the proximity of its performance scores to its target in the other quarters allowed it to meet its target for FY 2023 as a whole. However, the majority of First-Class Mail categories fell short of annual service performance targets in FY 2023 and also struggled to attain target-level service performance on a quarterly basis.

In recent years, the Postal Service has reported that it planned to address service performance issues by driving local facilities' adherence to the Postal Service's existing multi-year, national, data-driven strategies. *See* FY 2019 ACD at 106, 118. The Commission has, therefore, obtained data and information at and below the national level to monitor the connection between the Postal Service's national headquarters and the field. *Id.* These data were obtained to increase transparency about how the Postal Service sets operational targets for the local facilities, provides local facilities with resources and training to meet those targets, measures local facilities' performance in a meaningful and consistent manner, and holds local facilities accountable for gaps between the target and actual performance. *Id.*

(i) Single-Piece Letters/Postcards

Single-Piece Letters/Postcards is a retail product made available to the general public and includes stamps and postage paid through meters. *See* MCS § 1105. In FY 2015, and every fiscal year since, the Commission determined that this product was out of compliance and issued directives to monitor the Postal Service's remediation initiatives.[208]

In FY 2023, there were two service standard categories for this product: 2-Day and 3-5-Day.[209] The 2-Day service standard applies to Single-Piece Letters/Postcards in the continental United States only if the drive time between the origin processing and distribution center/facility (P&DC/F), destination area distribution center (ADC), and destination SCF is 3 hours or less.[210] From FY 2022 to FY 2023, there was minimal change in service performance for Single-Piece Letters/Postcards. Service performance results for

[208] *See* FY 2019 ACD at 101-02, 119; FY 2020 ACD at 180-85; FY 2021 ACD at 148-52; FY 2022 ACD at 147.

[209] *See* FY 2023 Service Performance Report at 4; *see also* 39 C.F.R. § 121.1(c), (d), (e), (f). Effective October 1, 2022 (FY 2023 Quarter 1), the Postal Service implemented new service standards for First-Class Mail, revising the standard for some First-Class Mail to the 3-Day, 4-Day, or 5-Day standard depending on the distance between origin and destination. *See id.; see also* Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43941, 43954 (August 11, 2021) (codified at 39 C.F.R. pt. 121); Docket No. N2021-1, Advisory Opinion at 12-13.

[210] *See* 39 C.F.R. § 121.1(c)(1), (2); *see also* 86 Fed. Reg. 43952, 43954.

2-Day Single-Piece Letters/Postcards decreased by 0.5 percentage points. Conversely, service performance for 3-5-Day Single-Piece Letters/Postcards increased by 0.3 percentage points.[211] The performance score for both categories fell below their corresponding FY 2023 targets.

(ii) Presorted Letters/Postcards

Presorted Letters/Postcards is a commercial product made available to mailers that adhere to volume, sortation, and/or drop-shipment requirements. *See* MCS § 1110. There are three service standard categories for this product: overnight, 2-Day, and 3-5-Day. *See* FY 2023 Service Performance Report at 4; *see also* 39 C.F.R. § 121.1(c), (d), (e), (f).

Of the service standard categories for Presorted Letters/Postcards, only the 3-5-Day category met its service performance target. Despite missing its target, the performance for the 2-Day category increased from FY 2022 by 0.4 percentage points. Performance for the overnight category fell by 0.2 percentage points.

(iii) Flats

The Commission has previously observed the significant challenges the Postal Service has experienced in processing and delivering flat-shaped mailpieces across all Market Dominant classes. *See, e.g.*, FY 2015 ACD at 160-82. Since the FY 2015 ACD, the Commission has separately evaluated the long-standing cost and service issues for flat-shaped mailpieces.[212] In FY 2019, the Commission finalized rules for the Postal Service to provide additional information to improve transparency into cost and service performance issues with respect to flats, as well as increase the accountability of the Postal Service with respect to operational initiatives directed at flats.[213] The Commission noted that these challenges have persisted despite numerous operational initiatives to improve cost and service for flat-shaped mailpieces. *See* FY 2019 ACD at 155.

The Flats product includes both retail (single-piece) and commercial (presorted) mailpieces that are flat-shaped. *See* FY 2023 Service Performance Report at 4; *see also* MCS § 1115.

Service performance across all First-Class Mail Flats categories fell short of their respective performance targets by double digits in FY 2023, despite an improvement in service performance compared to FY 2022.

[211] *Compare* FY 2023 Service Performance Report at 4, *with* FY 2022 Service Performance Report at 3-4.

[212] *See* FY 2015 ACD at 160-82; FY 2016 ACD at 158-70; FY 2017 ACD at 174-82; FY 2018 ACD at 213-23; FY 2019 ACD at 155-75; FY 2020 ACD at 236-62; FY 2021 ACD at 228-77; *see also* Docket No. SS2022-1, Flats Operations Study Report, April 6, 2023.

[213] *See* Docket No. RM2018-1, Order Adopting Final Rules on Reporting Requirements Related to Flats, May 8, 2019 (Order No. 5086).

(iv) Root Causes and Point Impacts

While the Postal Service often cites external factors like weather events as causes of disruptions in postal operations,[214] a deeper analysis often reveals systemic challenges that extend beyond singular events. In the FY 2015 ACD, the Commission observed that the Postal Service's efforts using numerous data systems and diagnostic tools to improve service performance for multiple products and classes were ineffective; thus, the Commission analyzed and directed the Postal Service to report information that would describe the root causes of service performance failures.[215] After the FY 2015 ACD, the Commission has developed root cause analysis in its ACD reports based on the data provided from the Postal Service and has directed the Postal Service to expand its reporting of root causes to the Commission.[216]

To monitor and quantify the impact of performance failures, the Postal Service uses root cause diagnostic tools. It assigns a root cause indicator to a mailpiece that is delivered after the applicable service standard. FY 2019 ACD at 103. The root cause indicator corresponds with the failure to clear a mailpiece through a specific processing action from First Mile to Last Mile. The Commission examines root cause data to gain a comprehensive understanding of the factors influencing the Postal Service's performance. By scrutinizing root cause data, the Commission seeks to identify systemic inefficiencies in processes that contribute to performance fluctuations.

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[214] *See, e.g.*, FY 2023 Annual Report at 42.

[215] *See* FY 2015 ACD at 131-44 (discussing the ineffectiveness of the Postal Service's efforts to improve service performance and directing the Postal Service to report specific information), 180-81 (directing the Postal Service to report regarding operational pinch points for flat-shaped mailpieces).

[216] *See, e.g.*, FY 2016 ACD at 100-29; FY 2017 ACD at 107-42; FY 2018 ACD at 138-63; FY 2019 ACD at 101-32; FY 2020 ACD at 163-202; FY 2021 ACD at 138-96; FY 2022 ACD at 131-70.

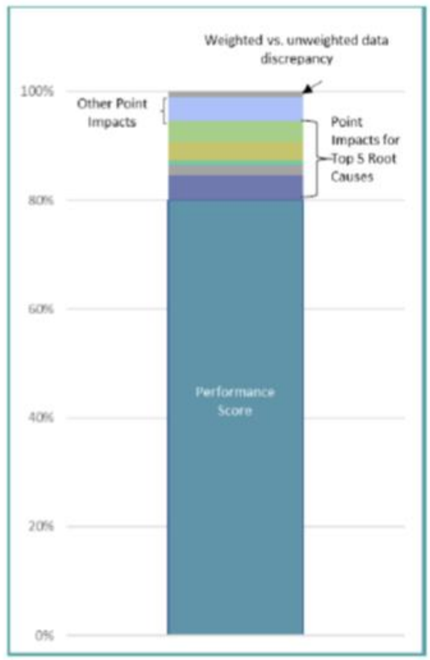
Root Causes and Point Impacts

METHODOLOGY AND INTERPRETATION

Point impacts are determined through the application of the following formula, where the Failure Rate denotes the proportion of Failed volume to the Total volume:

$$Point\ Impact = \left[\frac{Failed\ Volume\ Attributed\ to\ Specific\ Root\ Cause}{Total\ Failed\ Volume\ Attributed\ to\ All\ Root\ Causes} * Failure\ Rate\right] * 100$$

Source: 2019 ACD at 105.



The Postal Service identifies root causes contributing to service performance failures across product categories, spanning from collection (first mile) to delivery (last mile).

Point impact data indicate the extent (in percentage points) by which on-time performance is reduced due to specific root causes of failure. It's calculated by multiplying the proportion of failed volume attributed to each root cause by the failure rate, where the failure rate represents the proportion of failed volume to total volume.

Note that the sum of point impacts for a category does not equal the point difference between 100 percent and the annual on-time performance score. This is because the root cause pass rate, representing the raw passed volume over measured volume, is unweighted, whereas the annual performance score is weighted across quarters using inputs from RPW.

Point impact data enables the identification of the primary root causes of failure and those contributing most significantly to declines in service performance results. This information is valuable for determining where efforts to improve performance could be most effective.

Root Causes for First-class Mail			
First Mile	Transit Late Dest Primary Scan	Origin Missent	DPS Delay - Non-Standard Flow
Origin Delay - Late Cancellation	Transit Missing Destination Primary Scans	AADC Processing Delay - Non Standard Flow	DPS Delay - DPS Looping
Origin Delay - Cancellation to Outgoing Primary	Transit Missing Outgoing Scan	AADC Processing Delay – Incoming Primary to DPS Delay	DPS Delay - Bin 2
Origin Delay - Outgoing Primary to Outgoing Secondary	Transit Late Secondary Scan	Destinating Missent	Last Mile

Root causes are determined using a hierarchical approach. For example, a First mile failure is assigned if pieces pass the Last Mile and Processing steps but fail overall. For root cause definitions, and the hierarchy by which they are assigned see Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-22 of Chairman's Information Request No. 3, Excel file "ChIR.3.RootCauseDefintnsHierarchy. xlxs".

Table V-3 displays the top five root causes for the failure of categories of First-Class Mail to be delivered on time in FY 2023, along with the corresponding point impact and difference from FY 2022.

Table V-3
First-Class Mail
FY 2023 National Top Five Root Causes and Point Impact

Single-Piece Letters/Postcards				Presorted Letters/Postcards				Flats			
2-Day				Overnight				Overnight			
Root Cause	FY 2022	FY 2023	Point Change	Root Cause	FY 2022	FY 2023	Point Change	Root Cause	FY 2022	FY 2023	Point Change
Last Mile	3.13	2.85	-0.28	Last Mile	2.72	2.43	-0.29	Last Mile	6.21	6.61	0.40
First Mile	2.86	2.44	-0.42	Transit Late Secondary Scan	0.89	0.9	0.01	Transit Missing Outgoing Scan	3.58	3.36	-0.22
Unable to Assign	0.42	0.79	0.37	Transit Missing Outgoing Scan	0.59	0.65	0.06	Transit Late Secondary Scan	2.14	2.23	0.09
Transit Late Destination Primary Scan	0.33	0.35	0.02	DPS Delay - Non-Standard Flow	0.29	0.18	-0.11	Transit Missing Destination Primary Scans	1.03	1.37	0.34
AADC Processing Delay - MMP to DPS Delay	0.29	0.28	-0.01	DPS Delay - DPS Looping	0.19	NA	NA	AADC Processing Delay - Non Standard Flow	0.88	0.42	-0.46
3-5-Day				2-Day				2-Day			
Transit Late Destination Primary Scan	5.16	5.22	0.06	Last Mile	2.66	2.57	0.09	Last Mile	6.94	7.92	0.98
Last Mile	2.70	2.25	-0.45	Transit Late Secondary Scan	1.60	1.72	0.12	First Mile	4.81	4.09	-0.72
First Mile	2.26	1.91	-0.35	Transit Missing Outgoing Scan	1.08	1.27	0.19	Transit Late Destination Primary Scan	1.61	1.27	-0.34
Unable to Assign	1.10	1.85	0.75	DPS Delay - Non-Standard Flow	0.29	0.17	-0.12	Unable to Assign	1.47	1.71	0.24
Late Cancellation	1.01	NA	NA	DPS Delay - DPS Looping	0.17	NA	NA	Transit Missing Destination Primary Scans	1.26	1.37	0.11
				3-5-Day				3-5-Day			
				Transit Missing Outgoing Scan	2.31	2.63	0.32	Last Mile	4.70	5.09	0.39
				Transit Late Secondary Scan	2.21	2.57	0.36	First Mile	3.49	3.11	-0.90
				Last Mile	2.00	1.70	-0.31	Transit Late Destination Primary Scan	2.89	1.99	-0.07
				DPS Delay - Non-Standard Flow	0.30	0.18	-0.12	Transit Missing Outgoing Scan	2.61	2.54	-0.11
				Transit Late Destination Primary Scan	0.21	NA	NA	Unable to Assign	1.84	2.69	0.85

Note: The Single-Piece Letters/Postcards product no longer has an Overnight service standard.

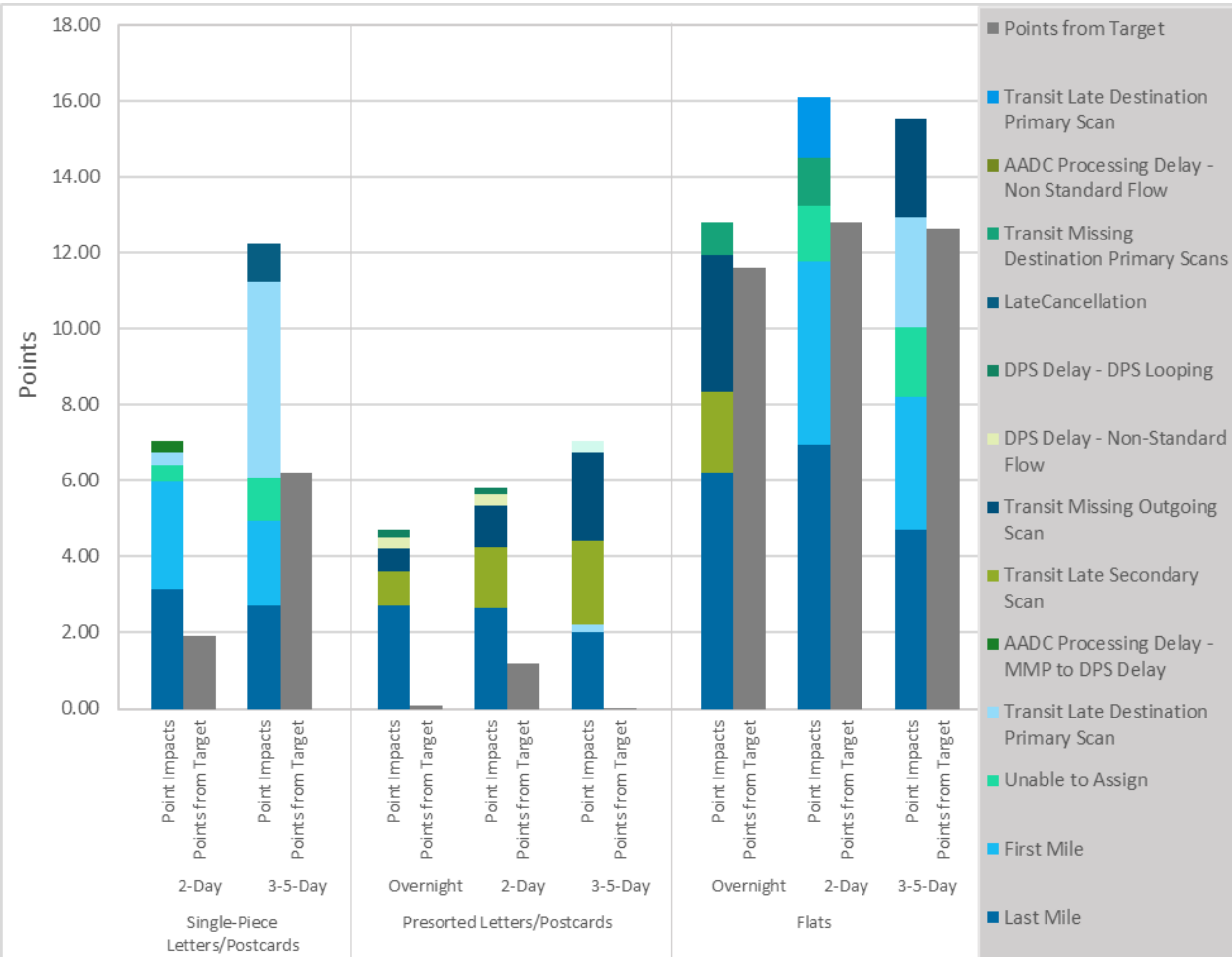
Source: Library Reference USPS-FY23-29, Excel file "FY23 FCM Root Cause.xlsx;" Docket No. ACR2022, Library Reference USPS-FY22-29, Excel file "FY22 FCM Root Cause.xlsx;" February 16 Response to CHIR No. 10, question 1, Excel file "FY22 FCM Flats Root Cause_ChIR10_Q1.xlsx."

The top root causes and their respective point impacts have seen minimal change compared to FY 2022 across all categories of First-Class Mail letter- and flat-shaped items. In fact, as shown in Table V-3, the point impact variation from FY 2022 remains less than one point for the top five root causes across all categories. As in FY 2022, Last Mile failures persist as the predominant root cause of service performance shortcomings across nearly all mail categories.

Every service standard of Single-Piece Letters/Postcards and Presorted Letters/Postcards continues to be affected by Last Mile failures, with point impacts of approximately three points. For Flats service standards, the point impacts of these failures exhibit a range, from 4.7 for 3-5-Day Flats to 6.94 for 2-Day Flats. For each First-Class Mail product, the 2-Day classification bears the highest point impact attributed to Last Mile failures. Compared to FY 2022, the point impacts of Last Mile failures increased for every service standard for letters and cards and decreased across all Flats categories.

For each category of First-Class Mail, Figure V-15 compares the point impact of the top five root causes with the points by which the Postal Service missed the target.

Figure V-15
Comparison of the Point Impacts of the Top Five Root Causes with the Deviation from the Target Performance Score in Percentage Points

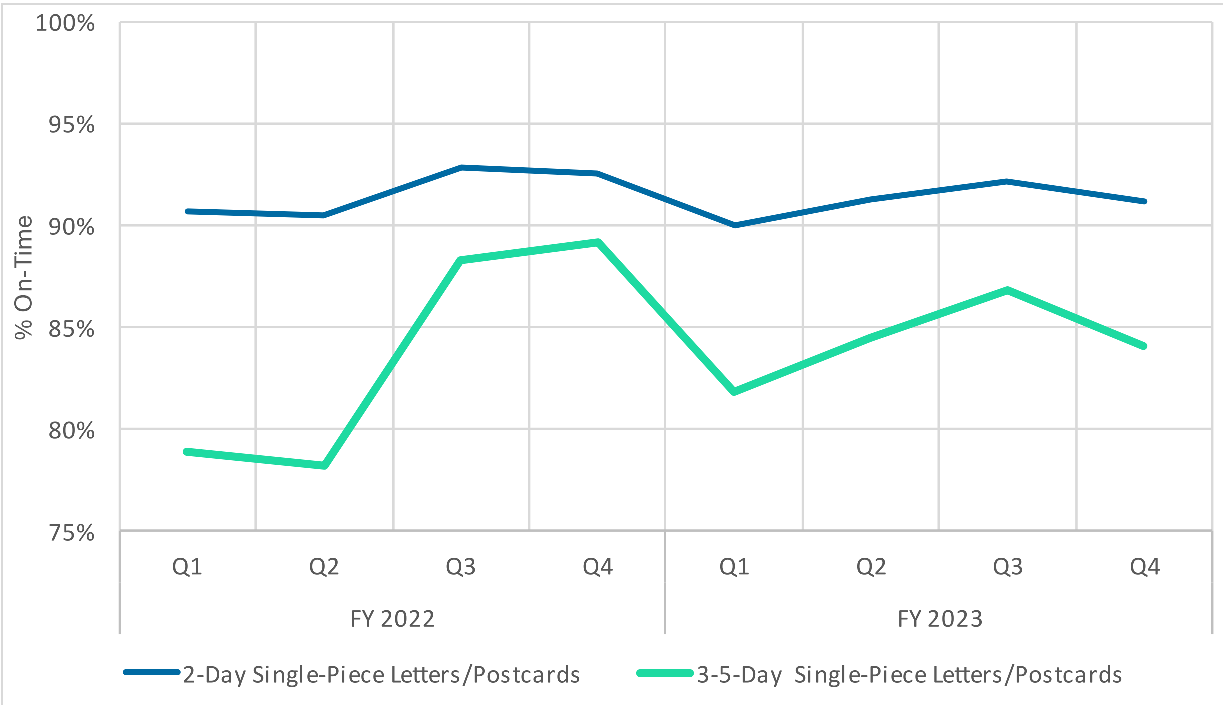


Source: Library Reference USPS-FY23-29, Excel file "FY23 FCM Root Cause.xlsx;" Docket No. ACR2022, Library Reference USPS-FY22-29, Excel file "FY22 FCM Root Cause.xlsx."

While deficiencies in multiple areas caused the Postal Service to miss its targets in FY 2023, for a few categories, simply reducing Last Mile failures would have been enough to score above the target.

The on-time service performance results for First-Class Mail vary throughout the year. As described in Figure V-16, the service performance results for First-Class Mail Single-Piece Letters/Postcards were lower in the first half of FY 2023 and were at their highest levels in Quarter 3. Figure V-16 presents the service performance results by quarter for FY 2023. Figure V-16 displays the quarterly results for FY 2022 and FY 2023 disaggregated by service standard.

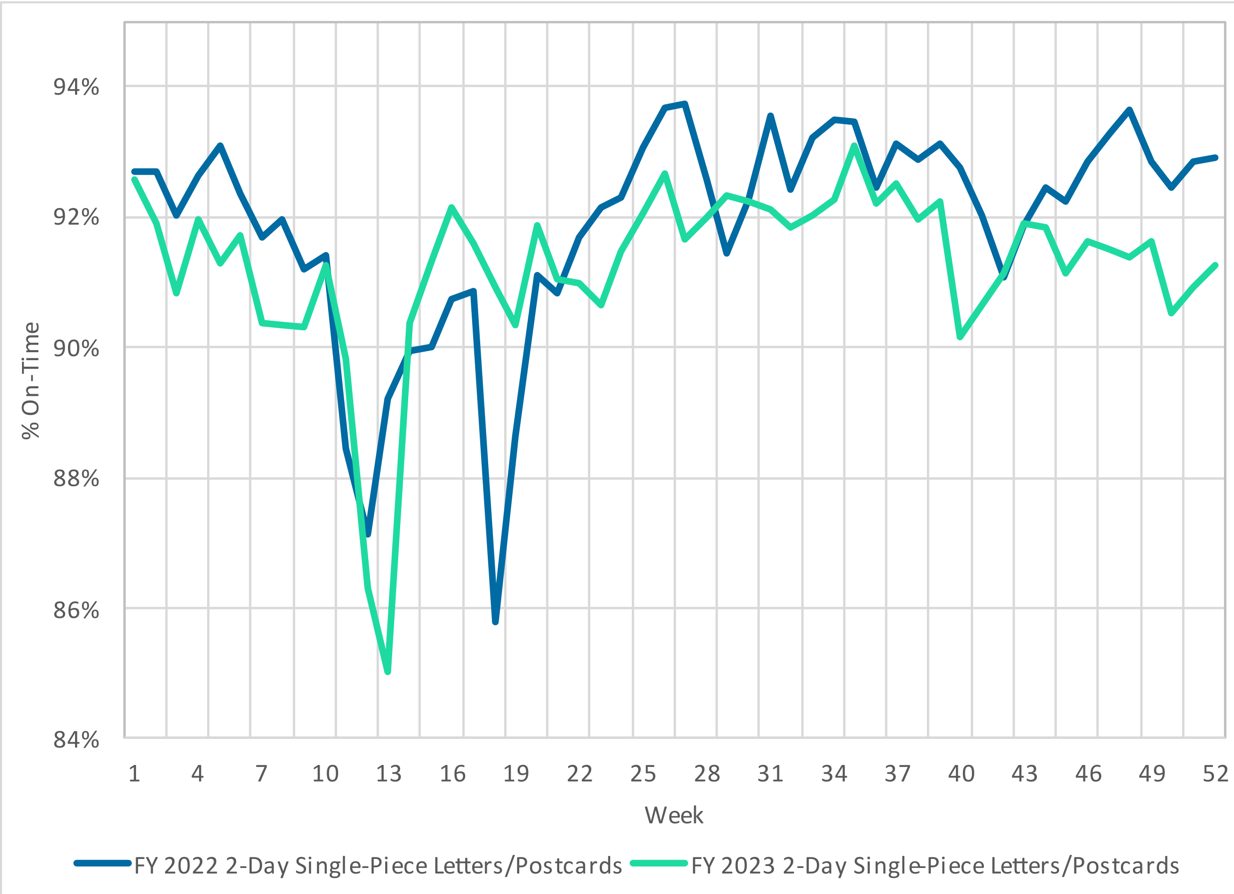
Figure V-16
First-Class Mail Single-Piece Letters/Postcards
Nationwide On-Time Service Performance by Service Standard by Quarter, FY 2022–FY 2023



Source: Library Reference USPS-FY23-29, Excel file "FY23 ACR First-Class Mail.xlsx," tab "Aggregation"; Docket No. ACR2022 Library Reference USPS-FY22-29, Excel file "FY22 ACR First-Class Mail.xlsx," tab "Aggregation."

The quarterly results over this period highlight several of the service-related issues for First-Class Mail Single-Piece Letters/Postcards. The service performance results for First-Class Mail Single-Piece Letters/Postcards with a 2-Day service standard followed the same seasonal trend in FY 2023 that occurred in FY 2022, with lower on-time performance in the first half of the year and higher performance in the second half of the year. Single-Piece Letters/Postcards with a 2-Day service standard met the service performance target in FY 2022 but did not meet the target in FY 2023. With significant variability in service performance throughout the year, analyzing weekly service performance results disaggregated by service standard provides valuable information. Figure V-17 displays a comparison of the 2-Day service standard weekly service performance results for FY 2022 and FY 2023.

Figure V-17
2-Day Single-Piece Letters/Postcards
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023



Source: USPS Service Performance Dashboard Source Data Extract File.

As detailed in Figure V-17, the weekly service performance results for 2-Day Single-Piece Letters/Postcards were consistently lower in FY 2023 than in FY 2022. In 40 of the 52 weeks in FY 2023 the results were lower than the corresponding week of FY 2022. Weeks 14 to 21, which correspond to the months of January and February, exhibited significantly higher service performance in FY 2023 than in FY 2022. The Postal Service did not sustain this level of service performance through the rest of the year, and, as a result, the FY 2023 target for 2-Day Single-Piece Letters/Postcards was not met. As discussed above, the top root causes for service performance failures for 2-Day Single-Piece Letters/Postcards in FY 2023 were First Mile and Last Mile failures. The point impact of both First Mile and Last Mile failure increased in FY 2023 compared to FY 2022.

The volume of the 2-Day Single-Piece Letters/Postcards accounted for roughly 60 percent of the volume[217] for Single-Piece Letters/Postcards, declining from 63 percent of the volume in Quarter 1 of FY 2022 to 58 percent in Quarter 4 of FY 2023.

The remaining 40 percent of Single-Piece Letters/Postcards volume was entered with a 3-Day, 4-Day, or 5-Day service standard. For compliance purposes, the Postal Service aggregates the service performance results for these three categories into a 3-5 Day service standard. In Order No. 6439, the Commission modified its service performance reporting rules to include on-time service performance for each of the Single-Piece Letters/Postcards, Presorted Letters/Postcards, and Flats products within the First-Class Mail class disaggregated by mail subject to the overnight, 2-Day, 3-Day, 4-Day, and 5-Day service standards, as well as in the aggregate for the 3-to-5-Day service standards. *See* 39 C.F.R. § 3055.20. In FY 2022 and FY 2023, the Postal Service established separate service performance targets and publicly reported weekly results via its service performance dashboard for each of these categories.[218] Of the volume within the 3-5 Day service standards, the majority is 3-Day. Only 5 percent of Single-Piece Letters/Postcards is mailed with a 5-Day service standard.

The Postal Service also established a target for each of the service standards individually in FY 2022 and 2023. In FY 2022, the target for the aggregated 3-5 Day service standard was 90.5 percent and 90 percent for each individual service standard (3-Day, 4-Day, and 5-Day). In FY 2023, the aggregated 3-5 Day target was 90.28 percent and 90 percent for 3-Day and 4-Day service standards but 92 percent for the 5-Day service standard.[219] The Postal Service did not meet the target for any category within 3-5 Day Single-Piece Letters/Postcards in FY 2023.

Examining the results for each of the service standards reveals distinct differences between 3-Day, 4-Day, and 5-Day Single-Piece Letters/Postcards. Figure V-18 displays the weekly service performance results for FY 2022 and FY 2023 for the 3-Day, 4-Day, and 5-Day service standards.

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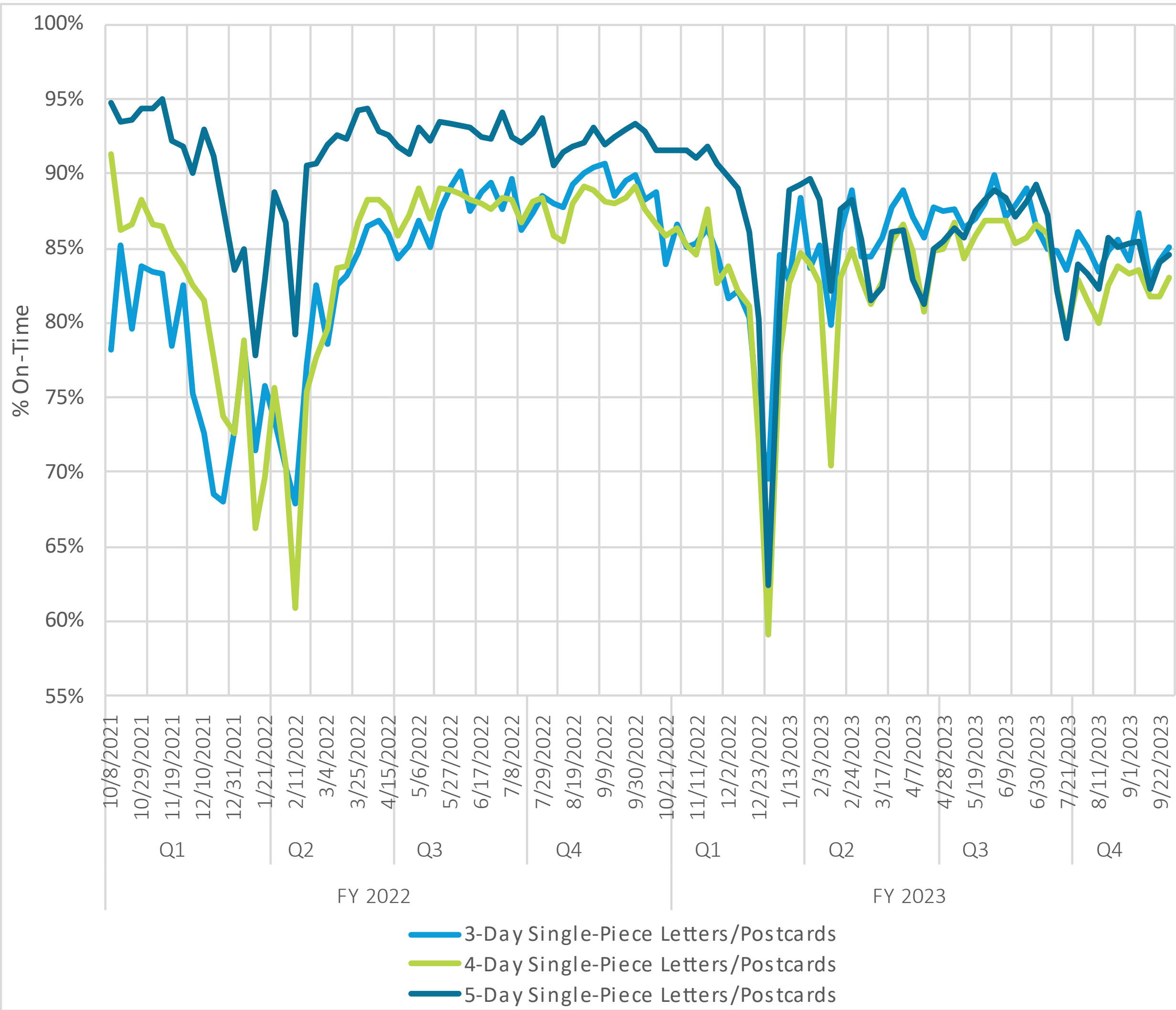
[217] Library Reference USPS-LR-FY23-29, Excel file “FY23 ACR FCM_by_SVC_STD_Split.xlsx,” tab “Aggregation.” The pieces included in this file are the volumes that are included in service performance measurement. Not all volume is included in measurement, which may impact the precision of these figures.

[218] An aggregated 3-5 Day weekly service performance result is not available.

[219] Library Reference USPS-FY23-29, Excel file “FY23 ACR FCM_by_SVC_STD_Split.xlsx,” tab “Aggregation.”

Figure V-18
3-Day, 4-Day, and 5-Day Single-Piece Letters/Postcards
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023

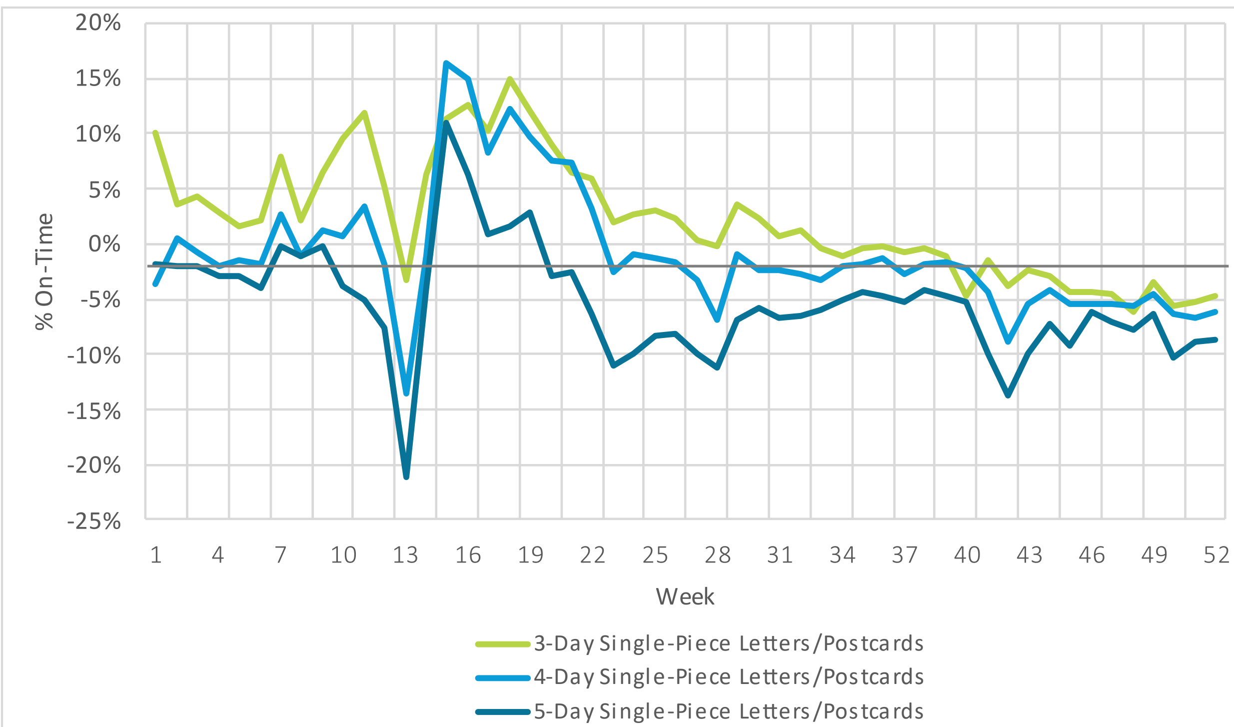


Source: USPS Service Performance Dashboard Source Data Extract File.

The weekly service performance results show two notable trends. Throughout FY 2022, the 5-Day Single-Piece/Letters Postcard service standard achieved higher results than both the corresponding 3-Day and 4-Day service standards. The 5-Day service standard consistently recorded weekly results above 92 percent for most weeks in FY 2022, which led to a year-end result of over 91 percent. However, in the week of December 23-30, 2022, service performance for each of these three service standards declined significantly, to 50 percent on-time for the 3-Day service standard, 59 percent on-time for the 4-Day service standard, and 62 percent on-time for the 5-Day service standard. Starting in the first week of calendar year 2023, the results for the 3-Day and 4-Day service standards began to exceed the result for the 5-Day service standard.

The yearly results for 3-Day and 4-Day Single-Piece Letters/Postcards improved in FY 2023 due to improved performance in the first two quarters of the year. As shown in Figure V-19, the weekly results for these service standards in the second half of FY 2023 were lower than the weekly results for the second half of FY 2022 but were offset by the higher results in the first half of the year. The 5-Day service standard exhibited a 5.6 percentage point decline in results in FY 2023. The FY 2023 service performance result for 5-Day Single-Piece Letters/Postcards was lower in 47 of the 52 weeks compared to those same weeks in FY 2022. Figure V-19 displays the year-over-year change in the weekly service performance results for FY 2022 and FY 2023 for the 3-Day, 4-Day, and 5-Day service standards.

Figure V-19
3-Day, 4-Day, and 5-Day Single-Piece Letters/Postcards
Year-Over-Year Change in Service Performance Result, by Week, FY 2022–FY 2023

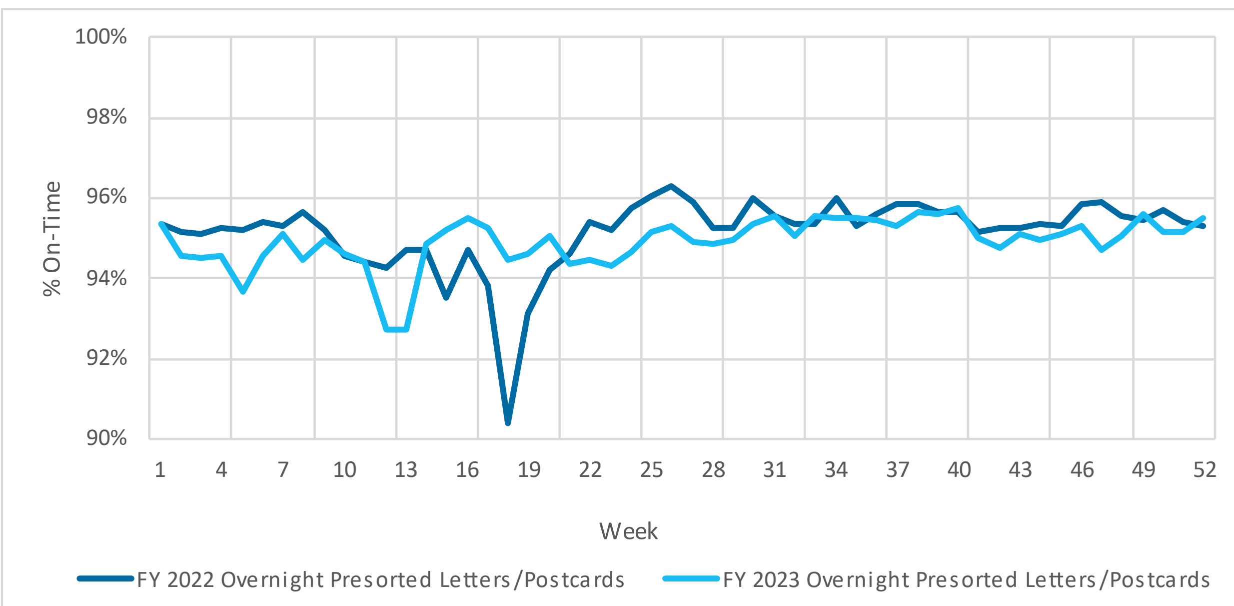


Source: USPS Service Performance Dashboard Source Data Extract File.

Figure V-19 shows that the on-time performance of 3-Day Single-Piece Letters/Postcards improved compared to the FY 2022 levels in nearly every week for the first half of the year. Starting in week 39 of FY 2023 (the first week of the fourth quarter), the year-over-year service performance trend reversed. In the fourth quarter the FY 2023, results for the 3-Day service standard were roughly 4 percentage points lower than in FY 2022. Figure V-19 also shows that the on-time performance of 5-Day Single-Piece Letters/Postcards decreased compared to the FY 2022 levels in nearly every week for the entire year. The decline in service performance for this category of Single-Piece Letters/Postcards lowered the average on-time performance for all Single-Piece Letters/Postcards in FY 2023.

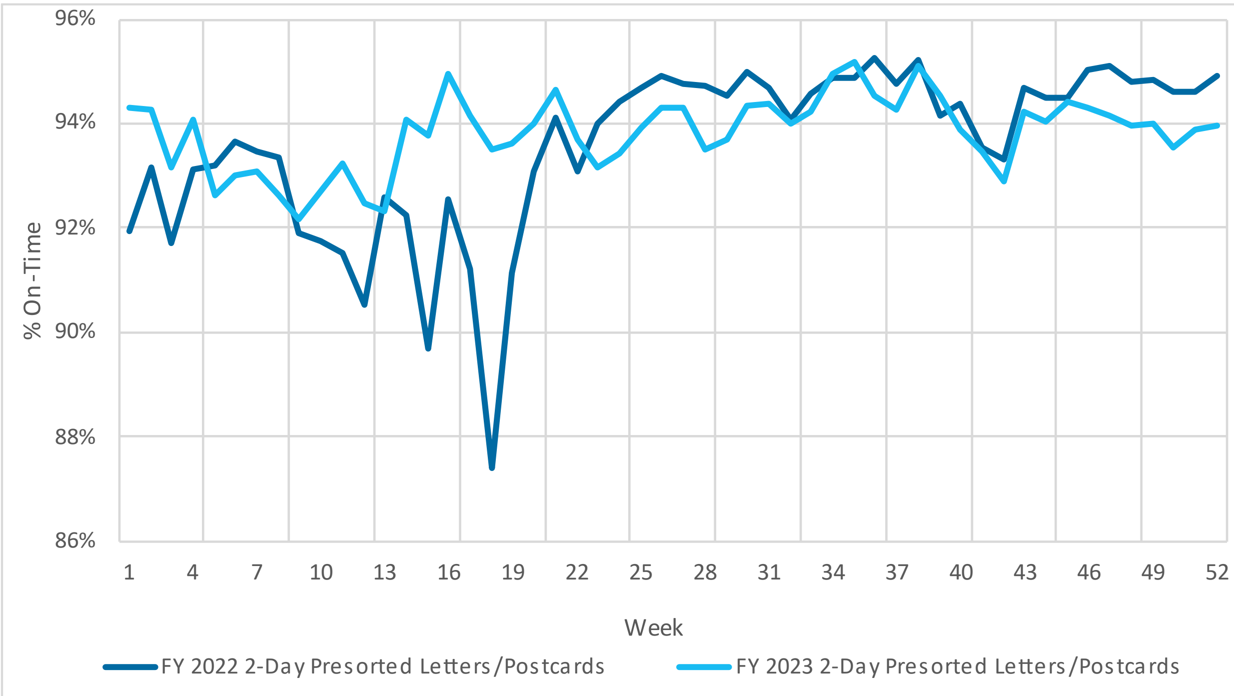
The same analysis for First-Class Mail Presorted Letters/Postcards shows similar results although, in general, service performance results are better than they are for First-Class Mail Single-Piece Letters/Postcards. Overnight and 2-Day Presorted Letters/Postcards accounted for roughly 20 percent of the total volume for the product in both FY 2022 and FY 2023. The remaining 80 percent of Presorted Letters/Cards volume was entered with a 3-Day, 4-Day or 5-Day service standard, the majority of which is split roughly evenly between 3-Day and 4-Day. Less than 15 percent of the volume is in the 5-Day service standard category. Figures V-20 through V-21 display the weekly results for FY 2022 and FY 2023 disaggregated by service standard.

Figure V-20
Overnight Presorted Letters/Postcards
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023



Source: USPS Service Performance Dashboard Source Data Extract File.

Figure V-21
2-Day Presorted Letters/Postcards
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023



Source: USPS Service Performance Dashboard Source Data Extract File.

The top root cause for service performance failures for Overnight and 2-Day Presorted Letters/Postcards in FY 2023 was Last Mile failure. The point impact of the Last Mile failure increased in FY 2023 Quarters 3 and 4 compared to FY 2022 for these categories.

Table V-2 details that the on-time service performance target for FY 2023 for 3-5-Day Presorted Letters/Postcards was 92.20 percent and the on-time service performance results increased from 91.40 percent in FY 2022 to 92.23 percent in FY 2023. Thus, the Postal Service achieved the target for 3-5-Day Presorted Letters/Postcards. The Postal Service also established a target for each of the service standards individually in FY 2022 and 2023. Table V-4 details the service performance results and targets for 3-Day, 4-Day, and 5-Day Presorted Letters/Postcards for FY 2022 and FY 2023.

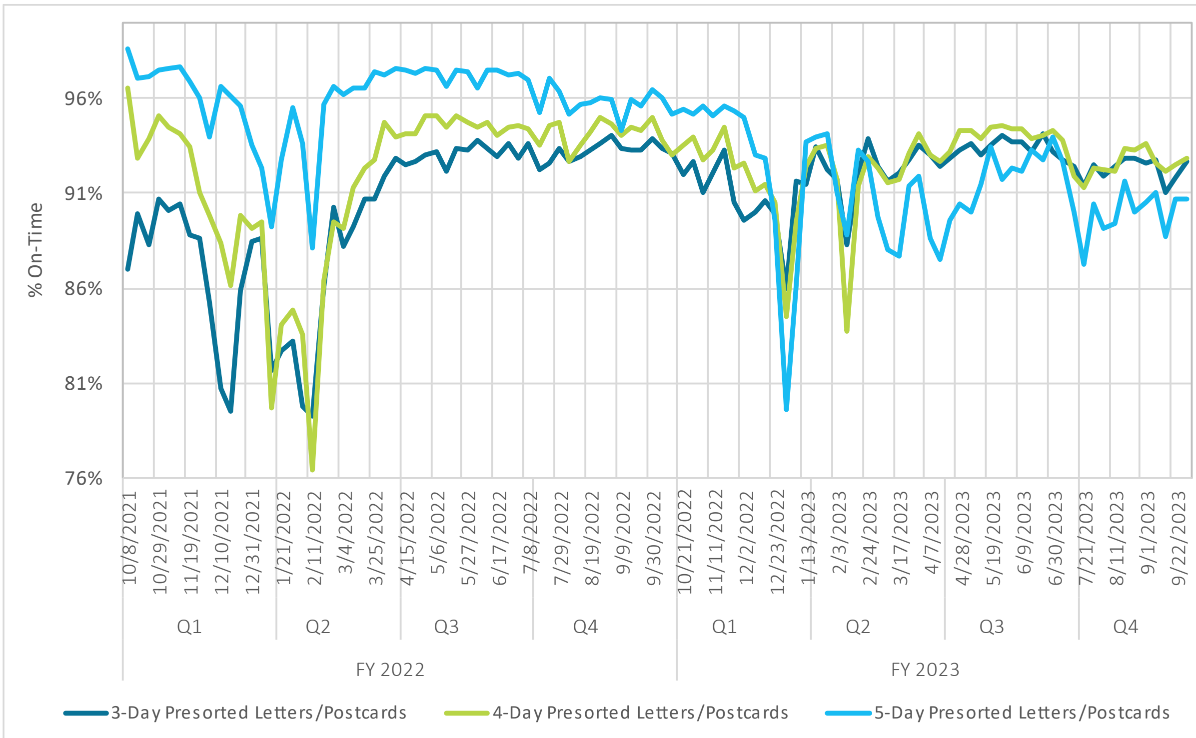
Table V-4
3-Day, 4-Day, and 5-Day Presorted Letters/Postcards
Service Performance Results and Targets, FY 2022–FY 2023

Presorted Letters/Postcards	FY 2022		FY 2023	
	Results	Target	Results	Target
3-Day	89.69	**90.50**	92.21	**90.50**
4-Day	91.75	**90.50**	92.57	**93.20**
5-Day	95.94	**90.50**	91.53	**96.75**

Source: Library Reference USPS-FY23-29, Excel file "FY23 ACR FCM_by_SVC_STD_Split.xlsx," tab "Aggregation;" Docket No. ACR2022 Library Reference USPS-FY22-29, Excel file "FY22 ACR FCM_by_SVC_STD_Split.xlsx," tab "Aggregation."

As shown in Table V-4, results for these service standards fluctuated more than the Overnight and 2-Day service standards. Examining the results for each of the service standards reveals distinct differences between 3-Day, 4-Day, and 5-Day Presorted Letters/Postcards. Figure V-22 displays the weekly service performance results for FY 2022 and FY 2023 for the 3-Day, 4-Day, and 5-Day service standards.

Figure V-22
3-Day, 4-Day, and 5-Day Presorted Letters/Postcards
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023

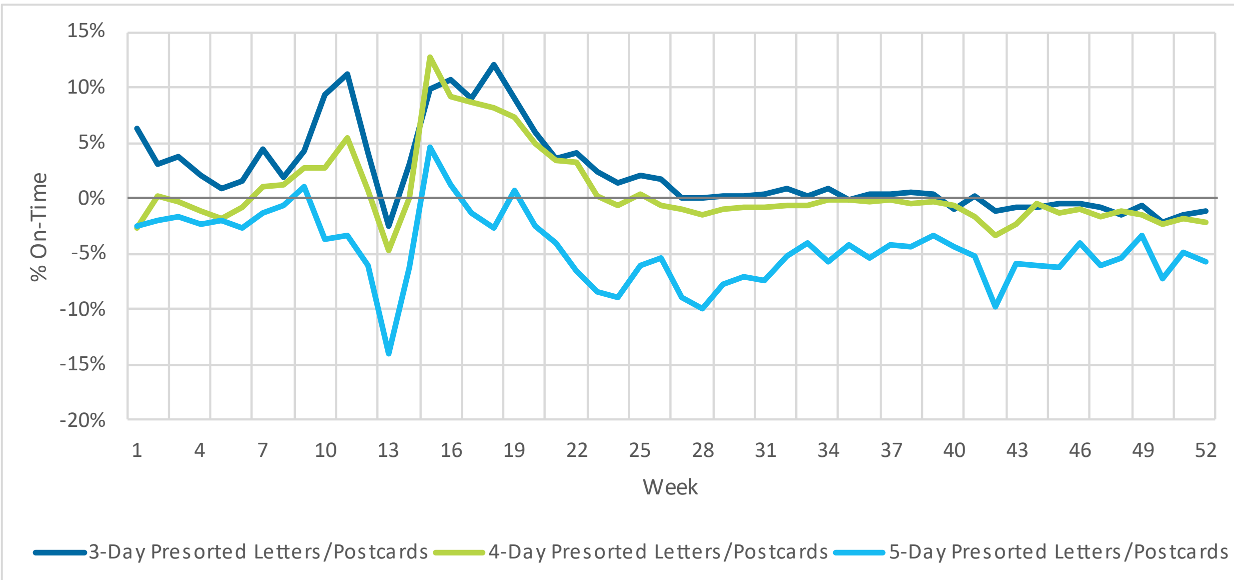


Source: USPS Service Performance Dashboard Source Data Extract File.

The weekly service performance results show the same two trends for First-Class Mail Single-Piece Letters/Postcards. Throughout FY 2022, 5-Day Presorted Letters/Postcards achieved higher results than both the 3-Day and 4-Day service standards. The 5-Day service standard consistently recorded weekly results above 95 percent for most weeks in FY 2022, which led to a yearend result of over 95 percent. However, in the week of December 23-30, 2022, service performance for each of these three service standards declined significantly, 86 percent on-time for 3-Day, 84 percent on-time for 4-Day, and 80 percent on-time for 5-Day. Although service performance rebounded the following week, starting in the first week of calendar year 2023 the results for the 3-Day and 4-Day service standards began to exceed the result for the 5-Day service standard.

The yearly results for 3-Day and 4-Day Presorted Letters/Postcards improved in FY 2023 due to improved performance in the first two quarters of the year. As shown in Figure V-22, the weekly results for these service standards in the second half of FY 2023 declined compared to the second half of FY 2022. However, these declines were offset by the increases in the first half of the year. The 5-Day service standard exhibited a 4.4 percentage point decline in results in FY 2023. The service performance result for 5-Day Presorted Letters/Postcards in FY 2023 decreased in 48 of the 52 weeks compared to the corresponding weeks in FY 2022. Figure V-23 displays the year-over-year change in the weekly service performance results for FY 2022 and FY 2023 for the 3-Day, 4-Day, and 5-Day service standards.

Figure V-23
3-Day, 4-Day, and 5-Day Presorted Letters/Postcards
Year-Over-Year Change in Service Performance Result, by Week, FY 2022–FY 2023

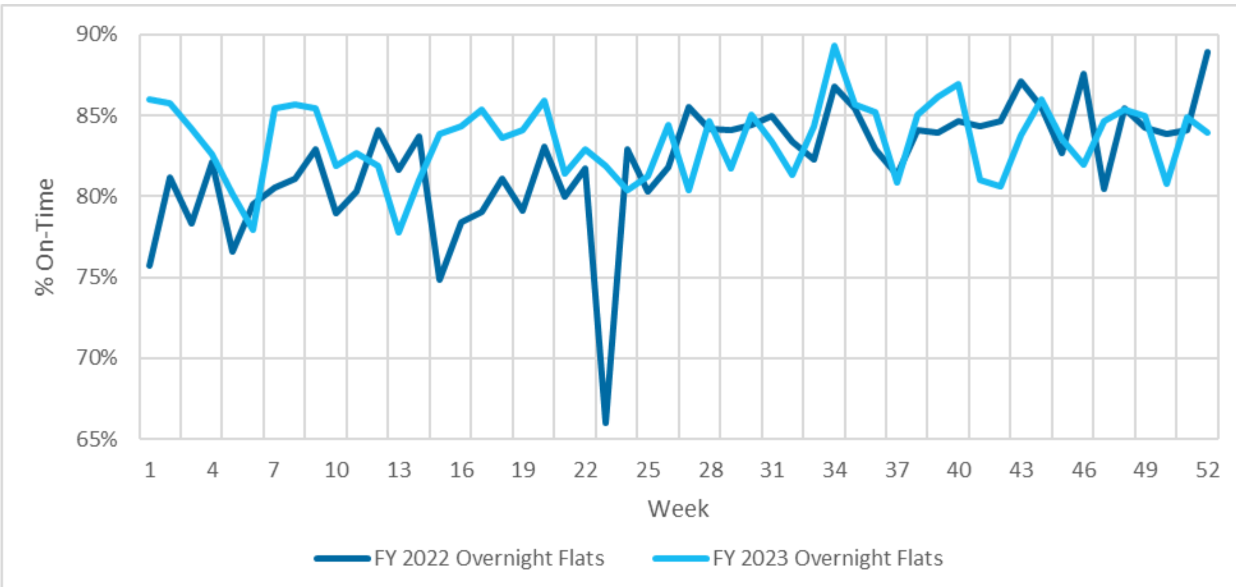


Source: USPS Service Performance Dashboard Source Data Extract File.

Figure V-23 shows that the on-time performance of 3-Day Presorted Letters/Postcards improved compared to the FY 2022 levels in nearly every week for the first half of the year. Starting in week 26 of FY 2023 (the first week of the third quarter), the year-over-year service performance improvement leveled off and the Postal Service did not improve from its FY 2022 scores. Figure V-23 also shows that the on-time performance of 5-Day Presorted Letters/Postcards decreased compared to the FY 2022 levels in nearly every week for the entire year. The decline in service performance for this category of Presorted Letters/Postcards lowered the average on-time performance for all Presorted Letters/Postcards in FY 2023.

The service performance results for First-Class Mail Flats are similar to those of First-Class Mail Single Piece Letters/Postcards and First-Class Mail Presorted Letters/Postcards with lower on-time performance in the first half of the year and higher performance in the second half of the year. However, the results differ from First-Class Mail Single Piece Letters/Postcards and First-Class Mail Presorted Letters/Postcards in that there are more weeks where the results are higher in FY 2023 than in FY 2022. Although the service performance results for Overnight First-Class Mail Flats improved throughout the year, they remained roughly 12 percentage points below target. Figure V-24 displays a comparison of the Overnight First-Class Mail Flats weekly service performance results for FY 2022 and FY 2023.

Figure V-24
Overnight First-Class Mail Flats
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023

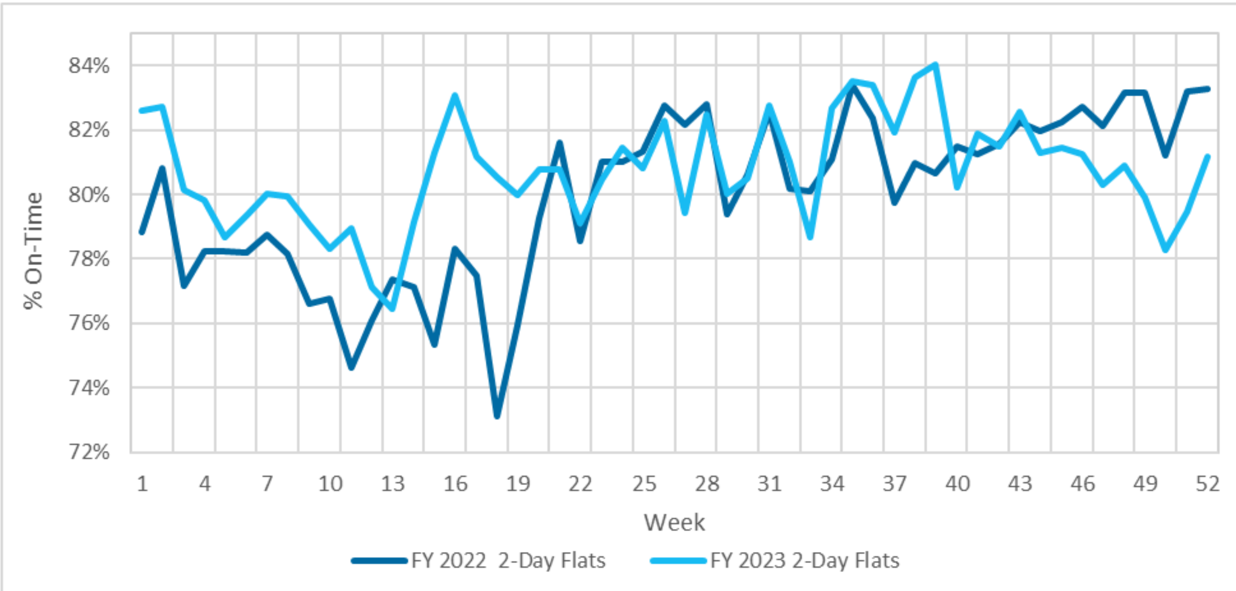


Source: USPS Service Performance Dashboard Source Data Extract File.

The weekly results for Overnight First-Class Mail Flats were consistently higher in FY 2023 than in FY 2022. In 35 of the 52 weeks in FY 2023, the service performance results were higher than the corresponding week of FY 2022. The top root causes for service performance failures for Overnight First-Class Mail Flats in FY 2023 were Last Mile and Transit failures. The top 5 root causes accounted for roughly 14 percent of mail that was not delivered on time. The point impacts decreased slightly in FY 2023 compared to FY 2022.

The service performance results for First-Class Mail Flats with a 2-Day standard followed the same seasonal trend in FY 2023 that occurred in FY 2022, with lower on-time performance in the first half of the year and higher performance in the second half of the year. The service results for 2-Day First-Class Mail Flats improved throughout the year but remained roughly 13 percentage points below target. Figure V-25 displays a comparison of the 2-Day First-Class Mail Flats weekly service performance results for FY 2022 and FY 2023.

Figure V-25
2-Day Flats
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023



Source: USPS Service Performance Dashboard Source Data Extract File.

As detailed in Figure V-25, the weekly results for 2-Day First-Class Mail Flats were consistently higher in FY 2023 than in FY 2022. In 32 of the 52 weeks in FY 2023, the service performance results were higher than the corresponding week of FY 2022. The results declined in Quarter 4 of FY 2023 compared to FY 2022, negating some of the improvement in the earlier portion of the year. The top root causes for service performance failures for 2-Day First-Class Mail Flats in FY 2023 were Last Mile and Transit failures.

Overnight and 2-Day First-Class Mail Flats accounted for roughly 30 percent of the volume for the product in FY 2022 and FY 2023.[220]

The remaining 70 percent of First-Class Mail Flats volume was entered with a 3-Day, 4-Day, or 5-Day service standard. Of the volume within the 3-5 Day service standard, the majority is 3-Day. In FY 2022 and FY 2023 the Postal Service established separate service performance targets for each of these service standards and publicly reported weekly results via its service performance dashboard.

[220] Library Reference USPS-LR-FY23-29, Excel file "FY23 ACR FCM_by_SVC_STD_Split.xlsx," tab "FCF Aggregation-1." The pieces included in this file are the volumes that are included in service performance measurement. Not all volume is included in measurement, which may impact the precision of these figures.

Table V-5 details that the on-time service performance result for 3-5-Day Flats was 79.23 in FY 2023. The Postal Service did not meet the target for any service standards within 3-5 Day First-Class Mail in FY 2023. The Postal Service also established a target for each of the service standards individually in FY 2022 and 2023. Table V-5 details the service performance results and targets for 3-Day, 4-Day, and 5-Day Flats for FY 2022 and FY 2023.

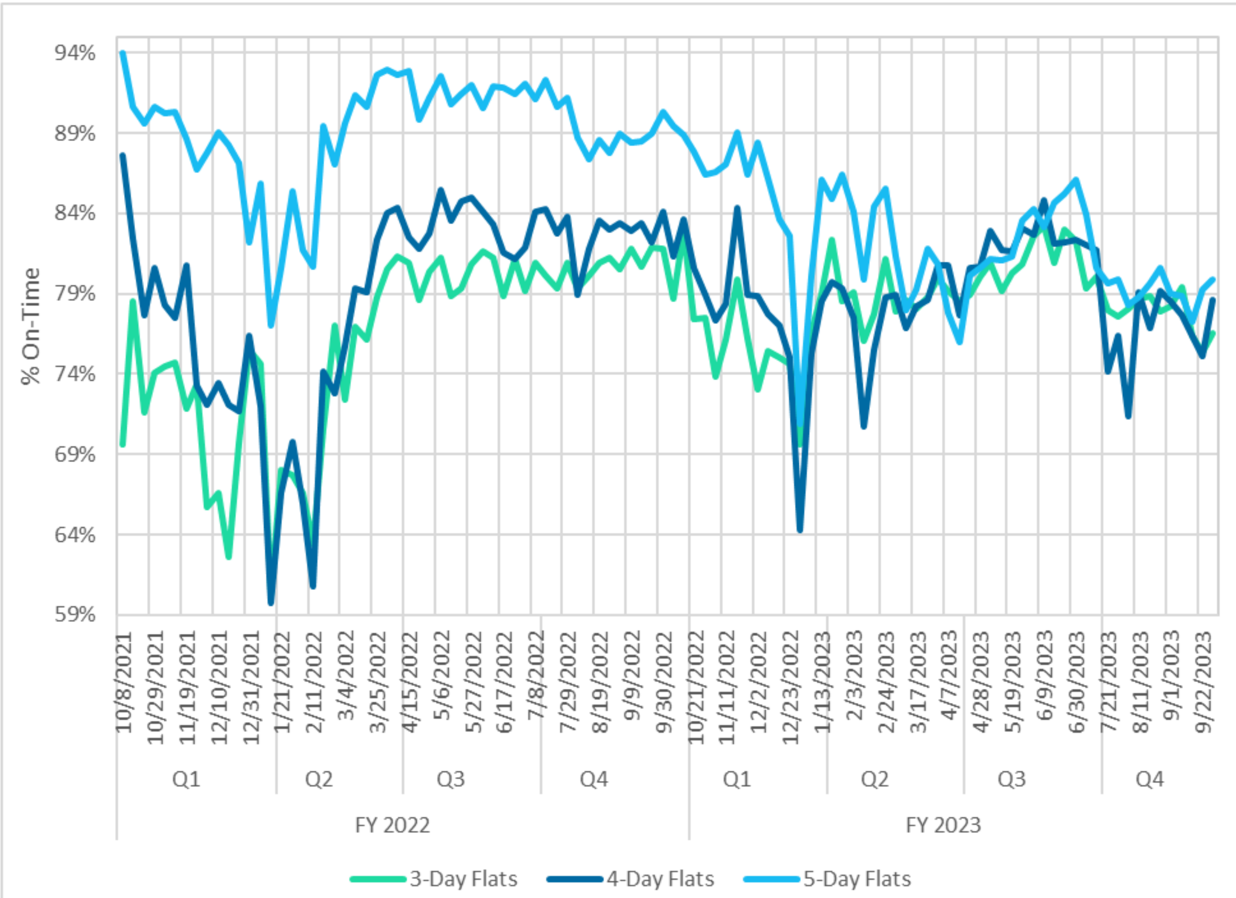
Table V-5
3-Day, 4-Day, and 5-Day Flats
Service Performance Results and Targets, FY 2022–FY 2023

Flats	FY 2022		FY 2023	
	Results	Target	Results	Target
3-Day	75.57	90.50	78.40	90.50
4-Day	78.55	90.50	78.78	93.20
5-Day	89.06	90.50	82.77	96.75

Source: Library Reference USPS-FY23-29, Excel file "FY23 ACR FCM_by_SVC_STD_Split.xlsx," tab "FCF Aggregation-1." Docket No. ACR2022 Library Reference USPS-FY22-29, Excel file "FY22 ACR FCM_by_SVC_STD_Split.xlsx," tab "FCF Aggregation-1."

As with First-Class Mail Single-Piece Letters/Postcards there are distinct differences between 3-Day, 4-Day, and 5-Day First-Class Mail Flats. Figure V-26 displays the weekly service performance results for FY 2022 and FY 2023 for the 3-Day, 4-Day, and 5-Day service standards.

Figure V-26
3-Day, 4-Day, and 5-Day Flats
Nationwide On-Time Service Performance by Week, FY 2022–FY 2023

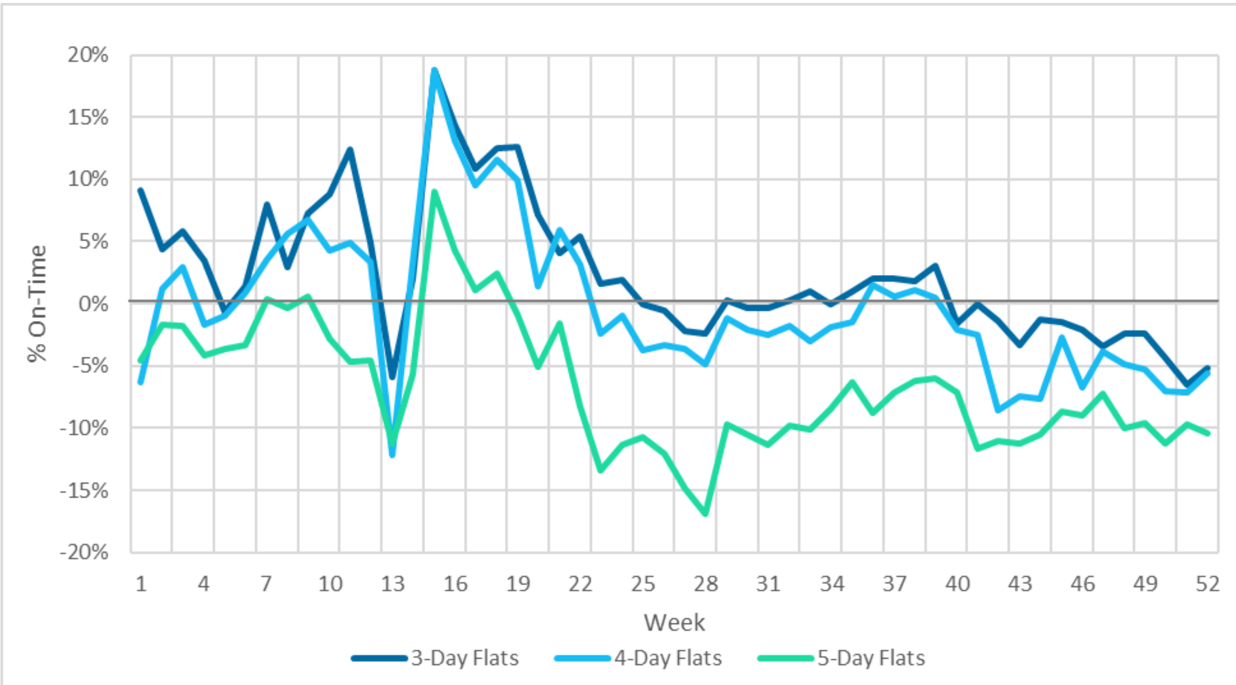


Source: USPS Service Performance Dashboard Source Data Extract File.

Throughout FY 2022, 5-Day Flats achieved higher results than both 3-Day and 4-Day Flats. The 5-Day service standard consistently recorded weekly results above 90 percent for most weeks in FY 2022, which led to a year-end result of over 89 percent. However, in the week of December 23- 30, 2022, service performance for each of these three service standards declined significantly, 67 percent on-time for 3-Day Flats, 64 percent on-time for 4-Day Flats, and 71 percent on-time for 5-Day Flats. Starting in the first week of calendar year 2023, the results for 3-Day and 4-Day Flats were much closer to the results for 5-Day Flats.

The yearly results for 3-Day Flats improved in FY 2023 due to improved performance in the first two quarters of the year. The 5-Day service standard exhibited a 6.3 percentage point decline in results in FY 2023. The FY 2023 service performance result for 5-Day Flats decreased in 46 of the 52 weeks as compared to the same week in FY 2022. Figure V-27 displays the year-over-year change in the weekly service performance results for FY 2022 and FY 2023 for the 3-Day, 4-Day, and 5-Day service standards.

Figure V-27
3-Day, 4-Day, and 5-Day Flats
Year-Over-Year Change in Service Performance Result, by Week, FY 2022–FY 2023



Source: USPS Service Performance Dashboard Source Data Extract File.

Figure V-27 shows that similar to First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards, the on-time performance of 3-Day First-Class Mail Flats improved compared to the FY 2022 levels in nearly every week for the first half of the year. Starting in week 40 of FY 2023 (the beginning of the fourth quarter), the year-over-year service performance trend reversed. In the fourth quarter the results for 3-Day declined roughly 4 percentage points from FY 2022 to FY 2023. Figure V-27 also shows that the on-time performance of 5-Day First-Class Mail Flats decreased compared to the FY 2022 levels in nearly every week for the entire year. The decline in service performance for this category of First-Class Mail Flats lowered the average on-time performance for all First-Class Mail Flats in FY 2023.

(c) International Products

Outbound Single-Piece First-Class Mail International is a retail product made available to the general public to send postcard-, letter-, and flat-shaped mailpieces to addressees outside of the United States. *See* MCS § 1125. Inbound Letter Post includes postcards, aerograms, and letter-shaped mailpieces, which originate outside of the United States, contain only documents, and are intended for delivery inside of the United States.[221]

Annual results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International have remained below their applicable service performance targets since FY 2009.[222] However, the on-time service performance score for Inbound Letter Post increased by 0.9 percentage points from FY 2022 to FY 2023. Outbound Single-Piece First-Class Mail International experienced an even larger improvement in service performance in FY 2023, with an increase of 3.3 percentage points. In FY 2023, the on-time service performance scores for Outbound Single-Piece First-Class Mail International and Inbound Letter Post were 80.8 percent and 82.1 percent, respectively, the highest scores both categories achieved in the last 5 years.

(d) Division-Level Performance and DFA Plan Impact on First-Class Mail

The Commission has conducted a division-level analysis of the Postal Service's performance to gain a nuanced understanding of how service quality varies across different regions or divisions within the postal sector. By examining performance metrics at this level of granularity, the Commission can identify disparities, trends, and patterns that may not be apparent when looking at aggregate data. In its Response to CIR No. 1, the Postal Service states, "[t]he monitoring of service performance results indicates to the Postal Service that the DFA Plan is having a positive impact on our nationwide service performance, but that much more work remains to be done in order to achieve the goals of the Plan." Response to CIR No. 1, question 1.a.iii. The Postal Service also identified the locations where the DFA initiatives that include the opening of sorting and delivery centers (S&DCs) or RPDCs/LPCs have been implemented. January 25 Response to CHIR No. 2, question 62.e. Although it is too early in the DFA implementation to definitively assess the results of the plan on service performance, the Commission grouped service performance results at the division level by divisions where DFA has been implemented and divisions where it has not been implemented.

Table V-6 shows performance scores by division for the First-Class Mail Single-Piece Letters/Postcards and Presorted Letters/Postcards categories, with colors denoting the deviation from the category average.[223] The six cities where the DFA plan implementation took place during FY 2023 Quarter 1 or 2 are: (1) Woburn, MA (New England Division); (2) Utica, NY (New York Metro Division); (3) Athens, GA (Southeast Division); (4) Gainesville, FL (Gulf Atlantic Division); (5) Panama City, FL (Gulf Atlantic Division); and (6) Bryan, TX

[221] *See* MCS § 1130. This definition took effect January 1, 2020, which occurred at the beginning of FY 2020 Quarter 3. *See* Docket Nos. MC2019-17 and CP2019-155, Order Granting Postal Service's Motion and Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, December 19, 2019, at 2, 18 (Order No. 5372).

[222] *See* FY 2022 ACD at 147 n.236 for a detailed background.

[223] The average performance scores represent simple averages of the division performance scores.

(Southwest Division).[224] In Table V-6, the top grouping of five divisions represents those with DFA implementation in FY 2023. The bottom grouping of eight divisions represents the remaining divisions, those without the DFA Plan implementation in FY 2023. In this color scheme, the lighter green indicates a deviation of 0-5 percentage points above the average, while the darker green represents a deviation above 5-10 percentage points above the average. Conversely, shades of orange signify deviations below the average, with the lighter orange indicating a deviation of 0-5 percentage points below average, and the darker orange representing deviations below 5-10 percentage points below average.[225] There were no deviations that exceeded 10 percentage points.

Table V-6
First-Class Mail Letters/Postcards
Service Performance by Division, FY 2022–FY 2023

	FY 2022					FY 2023				
	Single-Piece		Presorted			Single-Piece		Presorted		
Division	2-Day	3-5-Day	Overnight	2-Day	3-5-Day	2-Day	3-5-Day	Overnight	2-Day	3-5-Day
Target	**90.25%**	**90.50%**	**94.75%**	**93.00%**	**90.50%**	**93.00%**	**90.28%**	**95.00%**	**95.00%**	**92.20%**
New England	91.70%	84.30%	95.80%	92.50%	90.30%	91.70%	85.70%	95.50%	93.50%	92.00%
New York Metro	90.20%	84.10%	94.10%	91.40%	91.50%	90.90%	85.30%	95.10%	92.70%	92.80%
Southeast	90.50%	77.80%	94.20%	92.40%	87.10%	89.60%	80.40%	94.10%	93.30%	91.00%
Southwest	92.20%	83.80%	94.20%	92.60%	91.30%	91.40%	83.00%	94.30%	92.80%	91.80%
Gulf Atlantic	92.00%	83.20%	95.60%	93.60%	91.00%	91.50%	83.30%	95.70%	94.00%	92.10%
Southern California	94.50%	91.50%	95.90%	96.90%	95.90%	93.80%	90.00%	95.10%	96.90%	94.80%
Pacific Northwest	94.60%	88.90%	96.40%	96.10%	94.60%	92.90%	85.00%	95.50%	95.20%	91.20%
Midwest	91.80%	80.80%	94.50%	94.30%	91.70%	89.50%	80.30%	93.70%	92.80%	92.90%
Chesapeake	89.90%	83.00%	94.20%	90.80%	89.40%	91.10%	87.00%	94.90%	93.80%	92.90%
South Atlantic	90.10%	82.20%	94.80%	93.20%	90.80%	91.40%	84.90%	95.60%	94.60%	92.50%
Western	92.10%	85.20%	95.90%	96.90%	92.80%	89.90%	81.50%	95.40%	96.20%	91.00%
Westshore	90.00%	82.30%	94.90%	93.30%	90.30%	89.30%	83.70%	94.50%	92.70%	92.20%
Lakeshore	91.80%	84.10%	95.20%	94.60%	90.60%	91.00%	85.10%	95.20%	93.80%	92.20%

Source: *See generally* FY 2023 Division Report; *see also* United States Postal Service, Delivering for America Second Year Progress Report, April 2023, at 18, (Delivering for America 2-Year Report), available at *https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-two-year-report.pdf.*

[224] In Athens, GA, the Postal Service opened a S&DC on November 19, 2022 (FY 2023 Quarter 1). For each of the remaining five cities listed, the Postal Service opened the S&DC on February 25, 2023 (FY 2023 Quarter 2). February 9 Response to CHIR No. 9, question 8. The Postal Service states that "[i]n FY2023, the Postal Service activated 29 S&DCs and [they] plan to open many more in the coming years." FY 2023 ACR at 56. Each S&DC created by the Postal Service involves repurposing and consolidating delivery units in a nearby area into a single S&DC. *Id.*

[225] For example, the 2-Day Presorted Letters/Postcards category has an average performance score of 94.02 percent in FY 2023. Surpassing this average, the Western Division achieves a score of 96.20 percent, exceeding the category average by 2.18 percentage points. Consequently, when applying the color-coding system to represent the Western Division's score, it falls within the green spectrum to denote its above-average performance. More precisely, it falls within the lighter shade of green, indicating a deviation range of 0 to 5 percentage points from the average.

There is little difference in the distribution of scores between the DFA divisions and the non-DFA divisions or between FY 2022 and FY 2023.

Table V-7 displays the performance scores by division for First-Class Mail Flats categories, with colors again serving as visual indicators of the deviation from the category average. Shades of green denote deviations above the average, with specific thresholds delineating the magnitude of these deviations. Conversely, shades of orange represent deviations below the average. In this color scheme, the lightest color indicates a deviation of 0-5 percentage points from the average, a slightly darker shade represents a deviation above 5-10 percentage points from the average, and the darkest color signifies a deviation above 10 percentage points from the average.

Table V-7
First-Class Mail Flats
Service Performance by Division, FY 2022–FY 2023

	FY 2022					FY 2023				
	Single-Piece		Presorted			Single-Piece		Presorted		
Division	2-Day	3-5-Day	Overnight	2-Day	3-5-Day	2-Day	3-5-Day	Overnight	2-Day	3-5-Day
Target	**94.75%**	**93.00%**	**90.50%**	**90.18%**	**90.18%**	**93.52%**	**91.87%**	**95.00%**	**93.52%**	**91.87%**
New England	75.80%	74.20%	81.40%	72.90%	79.50%	77.70%	74.30%	80.50%	72.70%	82.10%
New York Metro	75.30%	75.00%	81.40%	79.20%	82.00%	77.10%	73.70%	81.00%	82.10%	83.70%
Southeast	78.90%	66.30%	75.90%	80.20%	75.60%	80.10%	68.90%	79.00%	80.90%	79.20%
Southwest	84.10%	75.30%	83.10%	81.00%	82.80%	81.80%	73.30%	84.10%	82.50%	81.90%
Gulf Atlantic	77.50%	72.60%	71.50%	72.50%	76.80%	78.40%	72.80%	79.40%	82.60%	79.70%
Southern California	85.50%	84.80%	88.20%	88.20%	90.50%	86.30%	81.80%	87.30%	91.20%	89.60%
Pacific Northwest	86.50%	83.00%	83.70%	90.70%	88.70%	85.90%	78.20%	85.30%	90.40%	83.70%
Midwest	81.90%	70.70%	80.90%	79.70%	79.70%	80.40%	69.60%	83.90%	85.20%	81.00%
Chesapeake	76.60%	72.30%	83.50%	80.40%	81.40%	78.20%	73.80%	86.50%	84.50%	84.40%
South Atlantic	72.90%	71.20%	79.40%	77.90%	80.10%	78.30%	73.40%	81.90%	81.30%	82.40%
Western	79.80%	73.70%	85.80%	79.40%	84.40%	82.10%	72.80%	87.30%	81.10%	83.10%
Westshore	74.60%	70.20%	79.10%	79.10%	77.70%	74.50%	70.70%	80.10%	80.20%	81.20%
Lakeshore	81.20%	72.90%	84.10%	83.50%	81.70%	79.30%	71.90%	81.70%	78.70%	82.90%

Source: *See generally* FY 2023 Division Report; *see also* Delivering for America 2-Year Report at 18.

The analysis of First-Class Mail Flats performance scores for FY 2023 reveals a notable trend compared to FY 2022: there is less deviation from the average category score across the different divisions. This observation suggests a greater level of consistency in performance across divisions. One possible interpretation is that divisions have implemented more standardized processes or have improved their operational efficiencies, leading to narrower performance variations.

Table V-8 presents the difference in on-time service performance scores between FY 2022 and FY 2023 for First-Class Mail categories (*i.e.*, the FY 2023 score minus the FY 2022 score) in 13 divisions. The values in the table are color-coded. Shades of green denote improvements in performance compared to FY 2022, with darker shades indicating higher values. Conversely, shades of red represent decreases in performance scores, with darker shades indicating more substantial drops in performance.

Table V-8
First-Class Mail
Change in Service Performance Score Between FY 2022–FY 2023
for Divisions with and without DFA Implementation

	Single-Piece Letters/Postcards		Presorted Letters/Cards			Single-Piece Flats		Presorted Flats		
Division	2-Day	3-5-Day	Overnight	2-Day	3-5-Day	2-Day	3-5-Day	Overnight	2-Day	3-5-Day
New England	0.00%	1.40%	-0.30%	1.00%	1.70%	1.90%	0.10%	-0.90%	-0.20%	2.60%
New York Metro	0.70%	1.20%	1.00%	1.30%	1.30%	1.80%	-1.30%	-0.40%	2.90%	1.70%
Southeast	-0.90%	2.60%	-0.10%	0.90%	3.90%	1.20%	2.60%	3.10%	0.70%	3.60%
Southwest	-0.80%	-0.80%	0.10%	0.20%	0.50%	-2.30%	-2.00%	1.00%	1.50%	-0.90%
Gulf Atlantic	-0.50%	0.10%	0.10%	0.40%	1.10%	0.90%	0.20%	7.90%	10.10%	2.90%
Southern California	-0.70%	-1.50%	-0.80%	0.00%	-1.10%	0.80%	-3.00%	-0.90%	3.00%	-0.90%
Pacific Northwest	-1.70%	-3.90%	-0.90%	-0.90%	-3.40%	-0.60%	-4.80%	1.60%	-0.30%	-5.00%
Midwest	-2.30%	-0.50%	-0.80%	-1.50%	1.20%	-1.50%	-1.10%	3.00%	5.50%	1.30%
Chesapeake	1.20%	4.00%	0.70%	3.00%	3.50%	1.60%	1.50%	3.00%	4.10%	3.00%
South Atlantic	1.30%	2.70%	0.80%	1.40%	1.70%	5.40%	2.20%	2.50%	3.40%	2.30%
Western	-2.20%	-3.70%	-0.50%	-0.70%	-1.80%	2.30%	-0.90%	1.50%	1.70%	-1.30%
Westshore	-0.70%	1.40%	-0.40%	-0.60%	1.90%	-0.10%	0.50%	1.00%	1.10%	3.50%
Lakeshore	-0.80%	1.00%	0.00%	-0.80%	1.60%	-1.90%	-1.00%	-2.40%	-4.80%	1.20%

Source: *See generally* FY 2023 Division Report; *see also* Delivering for America 2-Year Report at 18.

In FY 2023, the Gulf Atlantic Division, encompassing plants across Alabama, Mississippi, Florida, and Puerto Rico, demonstrated the most significant improvement in performance across all but one First-Class Mail category. Notably, the Flat categories exhibited the most progress, with a 7.9 percentage point increase for Overnight Presorted Flats and a 10.10 percentage point increase for 2-Day Presorted Flats, marking the highest percentage point improvement among all divisions and First-Class Mail category combinations. On the contrary, the Pacific Northwest Division, spanning plants across Alaska, Washington, Oregon, Montana, Idaho, and Northern California, witnessed the largest decline in service performance compared to FY 2022, with decreases evident in every category except Overnight Flats.

Overall, there was a more pronounced improvement in service performance observed for the Flats categories compared to the Letters/Postcards categories. However, despite this improvement, the service performance for Flats categories trails behind that of the Letters/Postcards categories in every division.

The Commission notes that disparities observed in performance changes from FY 2022 to FY 2023 between DFA and non-DFA divisions across various First-Class Mail service categories may also stem from discrepancies in data collection methodologies between these divisions. The internal SPM system integrates data from diverse sources, including real-time scans of mailpieces at different processing and delivery stages. However, there is ambiguity regarding potential systematic differences in data collection practices between DFA and non-DFA divisions.

This lack of clarity presents challenges in accurately evaluating the impact of DFA on service performance. For example, if there are differences in how the start-the-clock is determined (*i.e.*, when the "clock is started" for purposes of measurement) between DFA and non-DFA divisions, those differences could impact the observed performance metric disparities. Consequently, the Commission refrains from drawing definitive conclusions regarding the effects of DFA in FY 2023. The Commission is aware that service performance began declining after the end of FY 2023 (FY 2023 ended on September 30, 2023) and will continue to monitor the situation. Furthermore, the Commission urges the Postal Service to be forthcoming with the data necessary to allow for a thorough evaluation of DFA's impact on service performance in Docket No. PI2023-4 and subsequent annual compliance determinations.

(6) Commission Findings and Directives

The following First-Class Mail products/categories did not achieve their service performance targets in FY 2023: Single-Piece Letters/Postcards, Overnight and 2-Day Presorted Letters/Postcards, Flats, Inbound Letter Post, and Outbound Single-Piece First-Class Mail International. Considering this, the Commission finds Single-Piece Letters/Postcards, Presorted Letters/Postcards, Flats, Inbound Letter Post, and Outbound Single-Piece First-Class Mail International were each out of compliance in FY 2023. Specifically for Presorted Letters/Postcards, the Commission notes that the 3-5-Day service standard category did exceed its target whereas the Overnight and 2-Day service standard category did not achieve its target in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these First-Class Mail products in FY 2023. The Commission directs the Postal Service to refine and apply its data leveraging techniques to improve service performance for its First-Class Mail products.

The Commission directs the Postal Service to provide information on the following five matters. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be reached. The Postal Service should file a motion for clarification in Docket No. ACR2023, if necessary. Where *appropriate, the Postal Service shall explain the reasons for any differences in the calculation of data in FY 2024 versus FY 2023 and shall propose a method for comparing the data.*

(a) Nationwide Transit and Last Mile Improvement Initiatives

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2024 nationwide initiatives to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.

1. *The transit evaluation shall explain how the progress made in FY 2024 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2024. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the key performance indicators (KPIs) used to measure and evaluate progress toward completion.*
2. *The Last Mile evaluation shall explain how the progress made in FY 2024 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2024. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2024. Because the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally,[226] *the Commission will allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated evaluation and plan shall be filed at the time of the FY 2023 ACR (by December 30, 2024).*

[226] *See, e.g.*, Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman's Information Request No. 1, January 11, 2019, question 22.

(b) Division Improvement Initiatives

Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement initiatives are led by personnel in the Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.

1. *For each Division, the Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2024. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2024.*

2. *For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

Because the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will allow the Postal Service to describe its progress and plans at a class level.[227] *However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization. The report for each Division shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report from each Division shall be filed at the time of the FY 2023 ACR (by December 30, 2024).*

(c) Consistent Data

Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directs the Postal Service to provide the number of CLTs (any HCR that is late by

[227] *See generally* FY 2023 Division Report; FY 2023 Division Report - Attachment A.

more than 4 hours), presented for the nation, each Area, and each District.[228] *Data shall be provided for FY 2024 Quarter 1, Quarter 2, and "mid-year"*[229] *within 90 days of the issuance of this ACD (by June 26, 2024). Data shall be provided for FY 2024 Quarter 3, Quarter 4, "second-half"*[230] *and annualized for the fiscal year, in the FY 2024 ACR (by December 30, 2024). The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.*

(d) ISC Improvement Initiatives

To monitor the Postal Service's initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility responsible for processing Outbound Single-Piece First-Class Mail International) on the following matters, described in items 1 and 2.

1. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International by describing the facility's progress made toward addressing the identified deficiencies related to each facility's adherence to processing requirements and explaining how the facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2024.*
2. *For each facility, the Postal Service shall provide a detailed plan to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations described in items 1 and 2 above shall include quantitative analysis that identifies the KPI(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece First-Class Mail International volume that it processed each Quarter and provide corresponding quantification for the same period during FY 2024. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report from each facility shall be filed at the time of the FY 2023 ACR (by December 30, 2024).

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[228] *See, e.g.,* Library Reference USPS-FY23-29, Excel file "ACR2023 CLT Data.xlsx."

[229] Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2024.

[230] Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2024. Annualized refers to the aggregation of the data for all four quarters of FY 2024.

B. USPS MARKETING MAIL

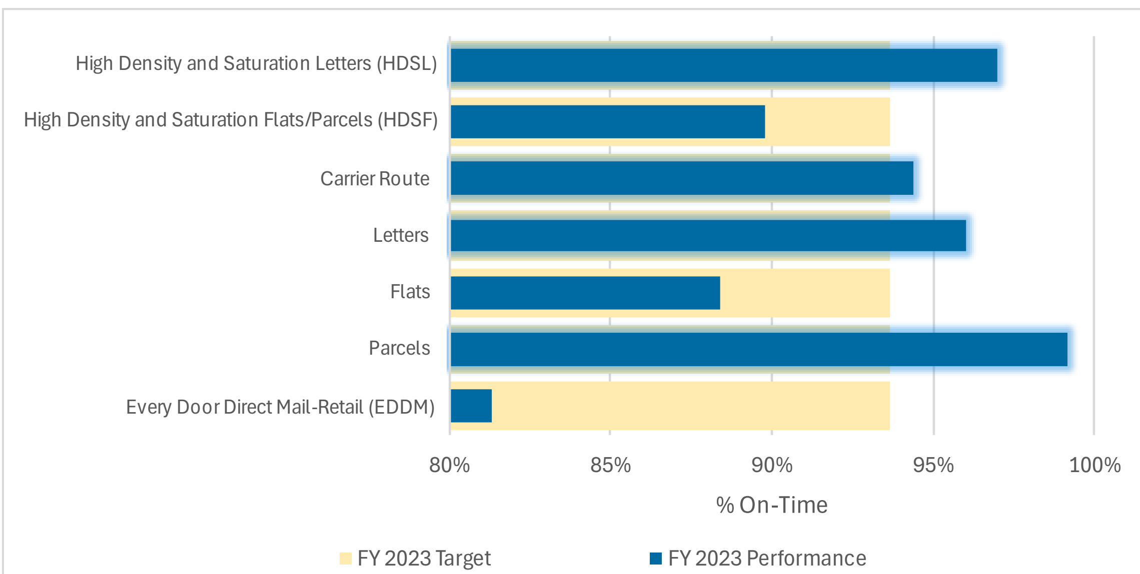
(1) FY 2022 ACD Directives

Finding that three USPS Marketing Mail products did not meet their FY 2022 service performance targets (High Density and Saturation Flats/Parcels, Flats, and Every Door Direct Mail—Retail (EDDM-R)), the Commission found that these products were out of compliance. FY 2022 ACD at 158. The Commission required the Postal Service to evaluate the efficacy of its FY 2023 initiatives to improve service performance and provide a detailed plan to improve performance. *See id.* at 158-59.

(2) FY 2023 Results

Figure V-28 shows the service performance results compared to the FY 2023 targets for USPS Marketing Mail products for FY 2023.

Figure V-28
USPS Marketing Mail
Service Performance Results, by Percent, FY 2023



Note: The Postal Service reports its targets to two decimal places, whereas results are reported to one decimal place. The difference between the target and the result is rounded to two places past the decimal point on this figure.

Source: FY 2023 Service Performance Report at 9.

Table V-9 summarizes service performance results compared to the annual targets for USPS Marketing Mail products for FY 2021, FY 2022, and FY 2023.

Table V-9
USPS Marketing Mail
Service Performance Results, by Percent, FY 2021–FY 2023

Product	FY 2021	Target	FY 2022	Target	FY 2023	Target
High Density and Saturation Letters (HDSL)	92.69	86.62	96.6	91.84	97.0	93.64
High Density and Saturation Flats (HDSF)	85.33	86.62	87.6	91.84	89.8	93.64
Carrier Route	85.1	86.62	93.3	91.84	94.4	93.64
Letters	89.53	86.62	94.4	91.84	96.0	93.64
Flats	72.45	86.62	84.3	91.84	88.4	93.64
Parcels	52.73	86.62	96.8	91.84	99.2	93.64
Every Door Direct Mail (EDDM)	75.67	86.62	78.0	91.84	81.3	93.64

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

The Postal Service explains that a source system error in its measurement of service performance for USPS Marketing Mail Parcels resulted in the drastic decrease in that product's score from FY 2020 to FY 2021. *See, e.g.,* Library Reference USPS-FY22-29 Preface at 6. As directed by the Commission, the Postal Service reports that it resolved this issue prior to Quarter 3 of FY 2022. *Id.*

Source: FY 2023 Service Performance Report at 9; FY 2022 Service Performance Report at 9; FY 2021 Service Performance Report at 10.

(3) Postal Service Report

The Postal Service notes that the service performance scores for all USPS Marketing Mail products increased from FY 2022 to FY 2023 and that four products exceeded their targets: (1) High Density and Saturation Letters; (2) Carrier Route; (3) Letters; and (4) Parcels. FY 2023 Service Performance Report at 11. As directed in the FY 2022 ACD, for USPS Marketing Mail products that failed to achieve their on-time service performance targets in FY 2023, the Postal Service provided explanations of its progress at improving service performance in FY 2023. *See* Library Reference USPS-FY22-29 Preface at 23-27. These initiatives are described in greater detail in Section A.2.d., *supra*.

(4) Comments and Related Commission Analysis

The Public Representative observes generally that, for USPS Marketing Mail, "despite having raised the targets for all service standards, FY 2023's results mirrored last year's results." PR Comments at 67. He also recounts the initiatives implemented by the Postal Service to improve service performance for USPS Marketing Flats, noting that most are targeted at Flats. *Id.* at 69-73.

The Commission has taken these comments into account in formulating its directives, which are aimed to elicit information and data regarding the efficacy of the Postal Service's service performance initiatives and the steps that the Postal Service will take to improve service performance for its USPS Marketing Mail products, as detailed below in Section V.A.4.b.(6), *infra*.

(5) Commission Analysis

USPS Marketing Mail is designed for bulk mailings of items that are not required to be mailed as First-Class Mail or authorized for mailing as Periodicals. *See* MCS § 1200.1; *see also* DMM §§ 243.1.1, 243.2.1. In FY 2023, despite improved performance from FY 2022, three USPS Marketing Mail products failed to meet their targets in FY 2022: (1) High Density and Saturation Flats; (2) Flats; and (3) EDDM-R. All of these products include flat-shaped mailpieces, which have historically trailed letter mail in terms of service performance. The Postal Service attributes this lag in performance to factors such as "bundle breakage, multiple mail flows, and proportion of manual volume compared to letters." FY 2023 Service Performance Report at 11. Conversely, performance results for four USPS Marketing Mail products (Letters, Carrier Route, Parcels, and High Density and Saturation Letters) exceeded the applicable FY 2023 performance targets. Parcels had the best performance in FY 2023, scoring 5.6 percentage points above its target. The remaining products exceeded their FY 2023 targets by more modest amounts.

The Postal Service submitted point impact data representing the amount (number of percentage points) by which on-time results for this class decreased due to each specific root cause of failure.[231] The Commission uses these data to promote transparency and accountability for USPS Marketing Mail service performance and to evaluate the relative significance of the Postal Service's improvement initiatives. The point impact data provided by the Postal Service for USPS Marketing Mail are differentiated by shape (letter-shaped and flat-shaped mailpieces) and origin- versus destination-entry, rather than product. Library Reference USPS-FY22-29 Preface at 3.

The Commission focuses its analysis on those letter-shaped and flat-shaped USPS Marketing Mail products that were entered at the origin due to the increased likelihood of more processing and greater transit duration compared to destination-entered mailpieces.

Table V-10 shows the FY 2023 and FY 2022 top root causes and corresponding point impacts for USPS Marketing Mail Flats and USPS Marketing Mail High Density and Saturation Flats entered at origin.

[231] Library Reference USPS-FY22-29, Excel file "FY22 Marketing Mail Root Cause.xlsx."

Table V-10
USPS Marketing Mail
National Top Five Root Causes and Point Impact FY 2022–FY 2023

Origin-Entered Flats				Origin-Entered High Density Saturation Flats			
3-5-Day				**3-5-Day**			
Root Cause	FY 2022	FY 2023	Point Change	Root Cause	FY 2022	FY 2023*	Point Change*
Transit Missing Outgoing Scan	6.01	5.17	-0.84	Last Mile	6.21	NA	NA
Last Mile	3.46	3.46	0.00	Transit Missing Outgoing Scan	3.58		
Transit Late Secondary Scan	2.46	2.17	-0.29	Transit Late Secondary Scan	2.14		
Unable to Assign	0.93	2.86	1.93	Transit Missing Destination Primary Scans	1.03		
AADC Processing Delay - Non Standard Flow	0.93	NA	NA	AADC Processing Delay - Non Standard Flow	0.88		
6-10-Day				**6-10-Day**			
Transit Missing Outgoing Scan	11.26	18.77	7.51	Last Mile	6.94	NA	NA
Transit Late Secondary Scan	3.22	6.20	2.98	First Mile	4.81		
Last Mile	2.62	2.63	0.01	Transit Late Destination Primary Scan	1.61		
Unable to Assign	1.54	8.38	6.84	Unable to Assign	1.47		
AADC Processing Delay - Non Standard Flow	1.23	0.61	-0.62	Transit Missing Destination Primary Scans	1.26		
11+-Days				**11+-Days**			
Last Mile	4.45	4.19	-0.26	Last Mile	4.70	NA	NA
Transit Missing Outgoing Scan	4.06	13.57	9.51	First Mile	3.49		
AADC Processing Delay - Non Standard Flow	1.03	0.36	-0.67	Transit Late Destination Primary Scan	2.89		
Transit Late Secondary Scan	0.69	1.24	0.55	Transit Missing Outgoing Scan	2.61		
Unable to Assign	0.54	2.53	1.99	Unable to Assign	1.84		

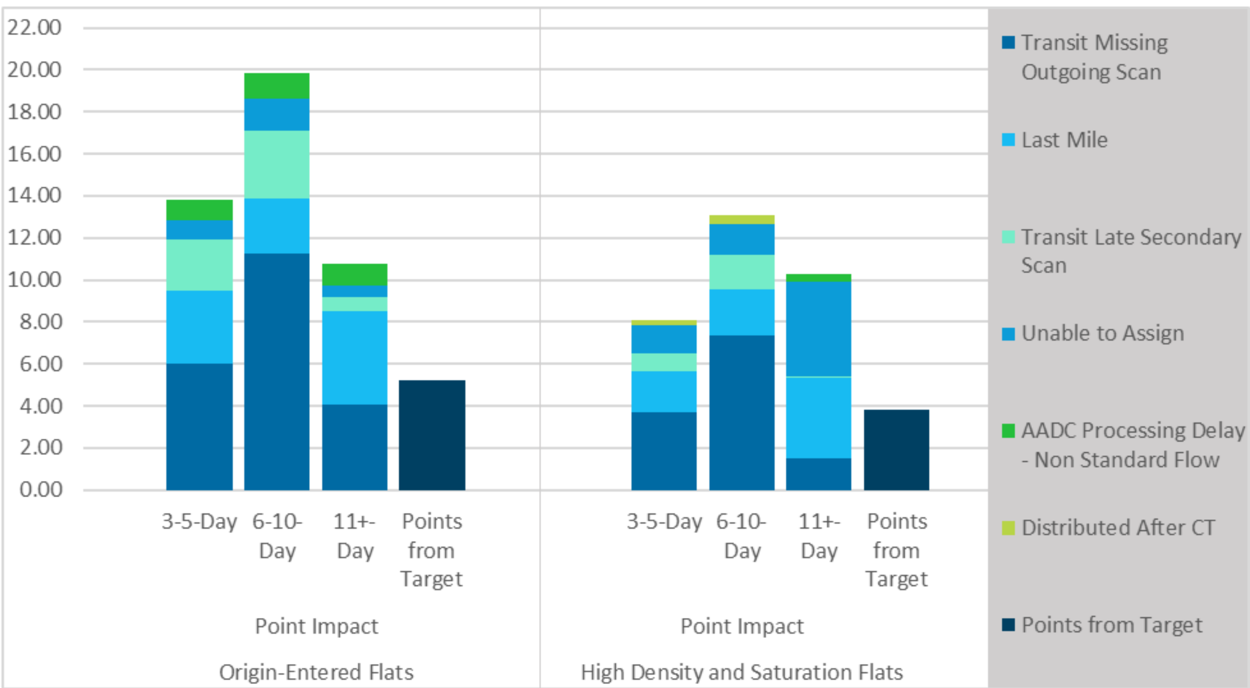
Note: This data is not available. The Commission generally receives root cause point impact data for products that did not reach their target in the previous fiscal year and High Density and Saturation Flats met their target in FY 2022.

Source: Library Reference USPS-FY23-29, Excel file "FY23 Marketing Mail Root Cause.xlsx."

In FY 2023, similar to First-Class Mail, the majority of the top five root causes for origin-entered USPS Marketing Mail categories were related to transportation and Last Mile. However, for High Density and Saturation Flats, First Mile failures were also prominent. In general, the point impacts of the top five root causes decreased or increased only minimally compared with FY 2022. With one exception, the point impacts of the top five root causes for USPS Marketing Mail were in the single digits in FY 2023. That one exception was 6-10-Day USPS Marketing Mail Flats, with the FY 2023 point impact for the Transit Missing Outgoing Scan indicator at 11.28 percent, an increase of 7.5 percent compared to FY 2022 point impact.

Figure V-29 shows the top five root causes of failure for service categories of USPS Marketing Mail Flats and High Density and Saturation Flats, alongside the points by which the Postal Service fell short of the applicable target.

Figure V-29
Comparison of the Point Impacts of the Top Five Root Causes with the Deviation from the Target Performance Score in Percentage Points for USPS Marketing Mail Categories



Source: Library Reference USPS-FY23-29, Excel file "FY23 Marketing Mail Root Cause.xlsx;" Library Reference USPS-FY22-29, Excel file "FY22 Marketing Mail Root Cause.xlsx."

Within both USPS Marketing Mail Flats and High Density and Saturation Flats, the 3-5-Day category has the most volume, thus exerting the greatest impact on product performance. As shown in Figure V-29, the point impact of the Transit Missing Outgoing Scan failure for the 3-5-Day categories exceeds the points by which the product missed the applicable target. Therefore, mitigating transit impacts appears to be the Postal Service's most effective approach for achieving its performance target.

(6) Commission Findings and Directives

Although on-time service performance scores increased for each USPS Marketing Mail product from FY 2022 to FY 2023, three products did not achieve their service performance targets in FY 2023: (1) High Density and Saturation Flats/Parcels; (2) Flats; and (3) EDDM-R. Considering this, the Commission finds that High Density and Saturation Flats/Parcels, Flats, and EDDM-R were each out of compliance in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2024. The Commission directs the Postal Service to refine and apply its data leveraging techniques to improve service performance for USPS Marketing Mail products that did not achieve their targets.

To monitor the Postal Service's initiatives to remediate service performance issues with respect to these non-compliant products, the Commission directs the Postal Service to provide information concerning the following matters for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2024).

The Commission directs the Postal Service to evaluate the efficacy of its FY 2024 nationwide initiatives to improve service performance for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2024), and to provide specific detailed plans to improve these products' service performance, as described in items 1 and 2.

1. *The Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time results for these products by describing the progress made (the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for these products in FY 2024. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2024.*
2. *The Postal Service shall provide a detailed plan to improve on-time results for these products that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to these products, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report shall be filed at the time of the FY 2024 ACR (by December 30, 2024).

C. PERIODICALS

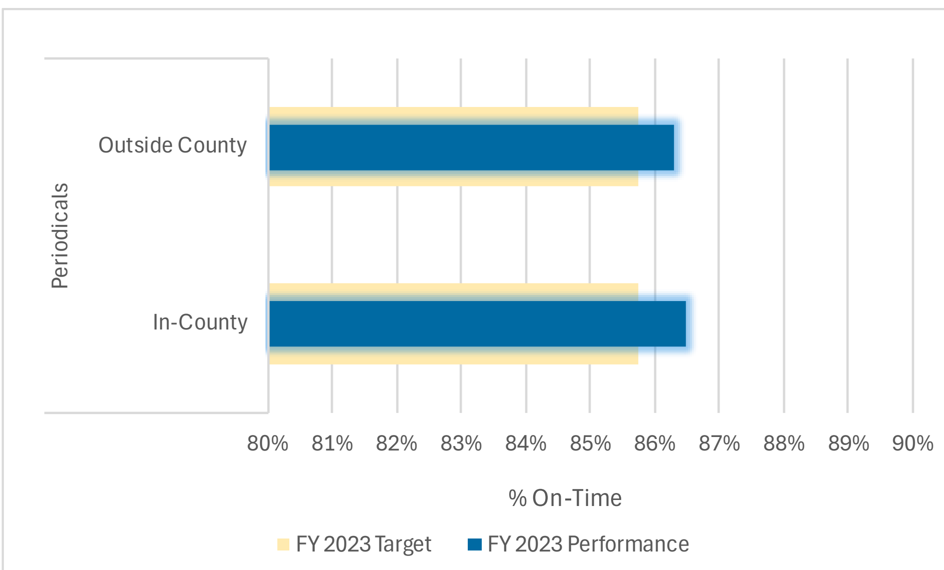
(1) FY 2022 ACD Directives

In FY 2022, the Commission explained that although both Periodicals products met their on-time service performance targets in FY 2022, because these products' targets remained below the targets set for other products (as well as those set historically) and because the Periodicals products performed below target from FY 2009 through FY 2021, the Commission directed the Postal Service to evaluate, for Periodicals falling below target, the efficacy of its FY 2023 initiatives to improve service performance and provide a detailed plan to improve performance. FY 2022 ACD at 164-65.

(2) FY 2023 Results

Figure V-30 shows the service performance results compared to the annual targets for both Periodicals products for FY 2023.

Figure V-30
Periodicals
Service Performance Results, by Percent, FY 2023



Note: The Postal Service reports its targets to two decimal places, whereas results are reported to one decimal place. The difference between the target and the result is rounded to two places past the decimal point on this figure.

Source: FY 2023 Service Performance Report at 13.

Table V-11 summarizes service performance results compared to the annual targets for both Periodicals products for FY 2021, FY 2022, and FY 2023.

Table V-11
Periodicals
Service Performance Results, by Percent, FY 2021–FY 2023

Product	FY 2021	Target	FY 2022	Target	FY 2023	Target
In-County	75.59	**86.62**	83.60	**82.67**	86.50	**85.75**
Outside County	75.04	**86.62**	83.30	**82.67**	86.30	**85.75**

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

Source: FY 2023 Service Performance Report at 13; FY 2022 Service Performance Report at 17; FY 2021 Service Performance Report at 14.

(3) Postal Service Report

The Postal Service explains that both Periodicals products exceeded their service performance targets in FY 2023. FY 2023 Service Performance Report at 14. As directed in the FY 2022 ACD, the Postal Service provided evaluations of the efficacy of its FY 2023 initiatives to improve service performance for both Periodicals products, as well as its plans to further remedy service performance for those products in FY 2024.[232]

(4) Comments and Related Commission Analysis

The Public Representative notes that in FY 2023, both In-County and Outside County Periodicals met their service performance targets, "despite the fact that performance targets were raised[;]" however, he asserts that targets remain significantly below the 95 percent long-term goal. PR Comments at 73. In terms of quarterly performance, he notes that "[t]he primary difference between FY 2022 and FY 2023 is that performance targets were met for all but Quarter 1 in FY 2023. For FY 2022, targets were met in only Quarters 3 and 4." *Id.* at 74. While Quarter 1 performance in FY 2023 remained below other quarters, he notes that scores were noticeably higher than for the same period in FY 2022. *Id.*

N/MA asserts generally that "[t]he service provided to Periodicals mail, while facially improved by a marginal degree…[remains] unacceptable." N/MA Comments at 7. Specifically, N/MA also notes that: (1) the FY 2024 target is merely 87.29 percent on-time delivery, far below the 95 percent target conveyed in the DFA Plan; (2) the Postal Service only measured about half of all Periodicals mail; (3) the Periodicals service performance in FY 2023 is not comparable to that in FY 2022 due to the CET changes deriving from Docket No. N2022-2; and (4) the Postal Service's position that it cannot isolate and quantify the impact of service performance improvement initiatives means that the Commission will be unable to determine whether service has truly improved. *Id.* at 8-10.

In its reply, the Postal Service points out that service performance scores for both categories of Periodicals actually improved from FY 2022 and both met their respective

[232] *See* Library Reference USPS-FY23-29 Preface at 28-31.

targets. Postal Service Reply Comments at 28-29. The Postal Service also explains that a larger portion of unmeasured mail does not necessarily mean that the service performance score for Periodicals is necessarily inaccurate; indeed, "because the Postal Service's measurement system is, by design, 'representative,' such volumes that cannot be measured would be expected to have achieved the same performance as the volume that is measured." *Id.* at 29. Additionally, the Postal Service rejects N/MA's assertion that the CET changes slowed down Periodical service performance, stating that the evidence in the docket considering CET changes suggested that performance would actually improve after they were implemented. *Id.* at 29-31.

The Commission notes the improvement in the service performance scores for Periodicals from FY 2022 to FY 2023. *The Commission recommends that the Postal Service renew its focus on increasing the percentage of mail in measurement for Periodicals specifically.*

(5) Commission Analysis

The Periodicals class includes newspapers or other publications that meet applicable criteria for regular issuance, editorial and advertising content, circulation levels, and sortation/preparation requirements. *See* MCS § 1300.1. Both Periodicals products achieved their on-time target of 85.75 percent during FY 2023. In-County Periodicals exceeded the target by 0.75 percentage points, while Outside County Periodicals surpassed it by 0.55 percentage points. This marks an improvement in on-time performance compared to FY 2022, with In-County Periodicals and Outside County Periodicals increasing by 2.9 and 3.0 percentage points, respectively. However, the Commission notes that similar to previous years, the FY 2023 targets set by the Postal Service for Periodicals are the lowest among Market Dominant product targets and far below the 95 percent target conveyed in the DFA Plan. Nonetheless, FY 2023 represents the second consecutive year of meeting targets for Periodicals products, following more than a decade of falling short. Moreover, despite challenges posed by the COVID-19 pandemic, service performance for both Periodicals products surpassed FY 2019 levels for the first time since the outbreak. Additionally, the average delivery time decreased from 1.8 days in FY 2022 to 1.7 days in FY 2023 for both Periodicals products.

Table V-12 presents the top five root causes for failure of In-County and Outside County Periodicals to be delivered on time in FY 2023, along with the corresponding point impact for FY 2022, and the change from FY 2022.

Table V-12
Periodicals
National Top Five Root Causes and Point Impact FY 2022–FY 2023

Root Cause	FY 2022	FY 2023	Target
Last Mile	4.80	5.56	0.76
Transit Missing Outgoing Scan	2.26	2.56	0.30
Unable to Assign	1.14	3.31	2.17
Distributed After CT	1.08	NA	NA
AADC Processing Delay-Non Standard Flow	0.82	NA	NA

Source: Library Reference USPS-FY23-29, Excel file "FY23 Periodicals Root Cause.xlsx;" Docket No. ACR2022, Library Reference USPS-FY22-29, Excel file "FY22 Periodicals Root Cause.xlsx."

In FY 2023, three of the top five root causes for Periodicals service failures remained consistent with those observed in FY 2022. However, the point impact associated with all three of these root causes decreased in FY 2023. Similar to FY 2022, Last Mile failures continued to stand out as the most prominent root cause of service failures, decreasing from 5.56 in FY 2022 to 4.80 in FY 2023, reflecting a decline of 0.76 percentage points. Conversely, for the second highest root cause category, Transit Missing Outgoing Scan, the point impact experienced a marginal decrease, dropping from 2.56 in FY 2022 to 2.26 in FY 2023.

The top five root causes collectively exert a negative impact of approximately 10 percentage points on the performance score for Periodicals. Given that the FY 2023 performance score stands at approximately 86 percent, it appears that achieving the long-term goal of 95 percent on-time performance would necessitate nearly complete elimination of these top five root causes.

(6) Commission Findings and Directives

The Commission recognizes that both Periodicals products met their on-time service performance targets in FY 2023 and notes that the Postal Service has raised these targets for FY 2023. However, the targets set by the Postal Service for Periodicals remain below targets set for other Market Dominant products as well as below historic targets set for both Periodicals products. With this in mind, and because both Periodicals products performed below target from FY 2009 through FY 2021, the Commission directs the Postal Service to provide, for Periodicals products that do not meet their targets in FY 2024, specific detailed plans to improve service performance as described in items 1 and 2.

1. *The Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time results for Periodicals by describing the progress made (including the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2024. The evaluations*

shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2024.

2. The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.

The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed at the time of the FY 2024 ACR (by December 30, 2024).

D. PACKAGE SERVICES

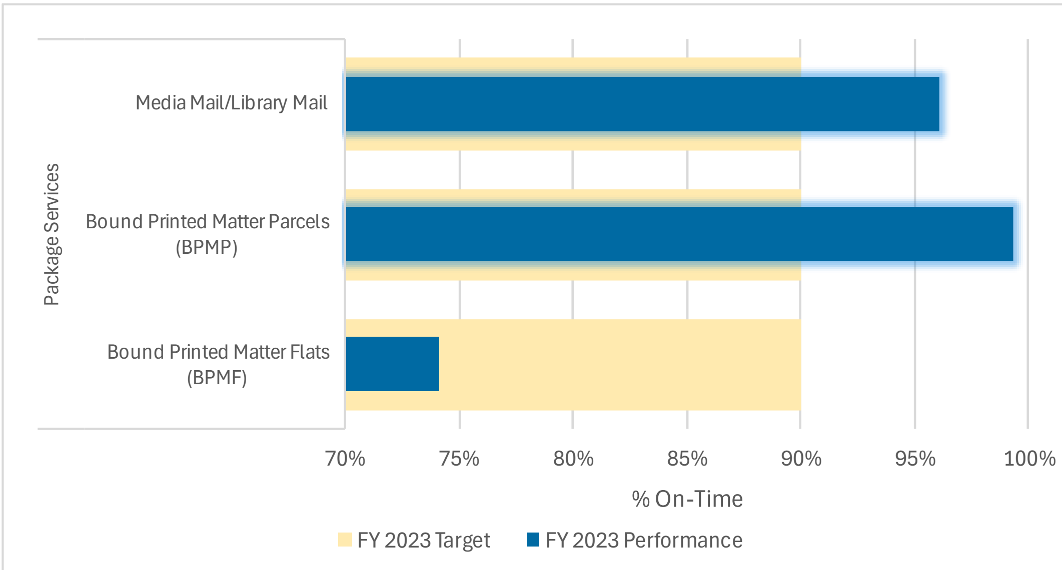
(1) FY 2022 ACD Directives

The Commission found that FY 2022 was the eleventh consecutive year that the service performance result for BPM Flats was below its target. FY 2022 ACD at 170. The Commission also found that service performance results for Media Mail/Library Mail remained below target. *Id.* Thus, the Commission found both products to be out of compliance in FY 2022. *Id.* For these two products, the Commission directed the Postal Service to evaluate the efficacy of its FY 2023 initiatives to improve service performance and provide a detailed plan to improve performance in FY 2024. *Id.*

(2) FY 2023 Results

Figure V-31 shows the FY 2023 service performance results compared to the annual target of 90.0 percent on-time for Package Services products.

Figure V-31
Package Services
Service Performance Results, by Percent, FY 2023



Notes: The Postal Service reports its targets and results to one place past the decimal point. The Commission approved a semi-permanent exception for service measurement of Alaska Bypass Service. Docket No. RM2015-1, Order Concerning Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Alaska Bypass Service, December 23, 2014 (Order No. 2303).

Source: FY 2023 Service Performance Report at 16.

Table V-13 summarizes service performance results compared to the annual targets for Package Services products for FY 2021, FY 2022, and FY 2023.

Table V-13
Package Services
Service Performance Results, by Percent, FY 2021–FY 2023

Product	FY 2021	Target	FY 2022	Target	FY 2023	Target
Bound Printed Matter Flats (BPMF)	61.66	90.00	72.0	90.00	74.1	90.00
Bound Printed Matter Parcels (BPMP)	97.54	90.00	98.2	90.00	99.3	90.00
Media Mail/Library Mail	79.21	90.00	88.0	90.00	96.1	90.00

Note: Red text indicates service performance was below target. Green text indicates service performance was above target.

Source: FY 2023 Service Performance Report at 16; FY 2022 Service Performance Report at 24; FY 2021 Service Performance Report at 21.

(3) Postal Service Report

The Postal Service reports that service performance for BPM Parcels and Media Mail/Library Mail exceeded their target in FY 2023. FY 2023 Service Performance Report at 17. It also notes that, while service performance for BPM Flats did not meet its target, it did improve compared to FY 2022. *Id.* It explains that because Package Services are “relatively low-volume products that are currently processed together with Priority and Ground Advantage packages,” it is more difficult to achieve efficiencies of scale and thus improved service performance. *Id.* As directed in the FY 2022 ACD, the Postal Service provided evaluations of the efficacy of its FY 2023 initiatives to improve service performance for Package Services products, as well as its plans to further remedy service performance for those products in FY 2024. *See* Library Reference USPS-FY22-29 Preface at 32-33.

(4) Comments and Related Commission Analysis

The Public Representative summarizes the primary Postal Service initiatives aimed at improving service performance for BPM Flats. PR Comments at 76.

The Commission has taken these comments into account in formulating its directives, which are aimed to elicit information and data regarding the efficacy of the Postal Service’s service performance initiatives and the steps that the Postal Service will take to improve service performance for BPM Flats, as are detailed below in Section V.A.4.d.(6), *infra*.

(5) Commission Analysis

Package Services are advertised as a cost-effective option, which may receive deferred service, for items that are not required to be mailed as First-Class Mail or Periodicals. *See* MCS § 1400.1. Service performance results for BPM Parcels and Media Mail/Library Mail exceeded the applicable service performance target in FY 2023. Before FY 2023, Media Mail/Library Mail was below target for 5 consecutive years. BPM Flats did not meet its service performance target for FY 2023. The BPM Flats product has experienced service performance challenges for many years, falling below target for over a decade.

Table V-14 presents the top five root causes for the failure of the BPM Flats product to be delivered on time in FY 2023, with the corresponding change from FY 2022.

Table V-14
Bound Printed Matter Flats
National Top Five Root Causes and Point Impact FY 2022–FY 2023

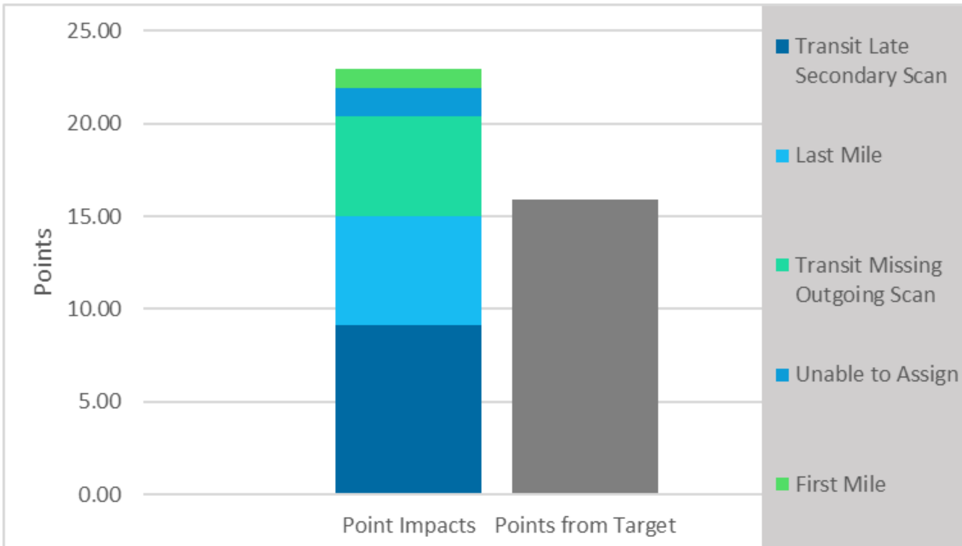
Root Cause	FY 2022	FY 2023	Point Change
Transit Late Secondary Scan	9.15	3.82	-5.33
Last Mile	5.88	5.96	0.08
Transit Missing Outgoing Scan	5.34	5.20	-0.14
Unable to Assign	1.56	9.79	8.23
First Mile	1.05	NA	NA

Source: Library Reference USPS-FY23-29, Excel file "FY 23 BPM Flats Root Cause.xlsx;" Library Reference USPS-FY22-29, Excel file "FY22 BPM Flats Root Cause.xlsx."

In FY 2023, while BPM Flats exhibited an improvement in service performance compared to FY 2022, it still fell short of meeting its FY 2023 target. As illustrated in Table V-14, the point impact increased for the two transit-related root causes are among the top five contributors to service failures. Notably, the point impact for the foremost root cause, Transit Late Secondary Scan, increased from 3.82 in FY 2022 to 9.15 in FY 2023. Transit Missing Outgoing Scan also experienced a slight increase in FY 2023. In contrast, there was a notable decrease in the point impact for Unable to Assign, a category applied to mailpieces lacking sufficient information to ascertain the root cause.

Figure V-32 compares the point impact of the top five root causes of performance failure for BPM Flats with the points by which the Postal Service missed the target for BPM Flats in FY 2023.

Figure V-32
Bound Printed Matter Flats
Point Impact of Top Five Root Causes compared with Points from Target



Source: Library Reference USPS-FY23-29, Excel file "FY 23 BPM Flats Root Cause.xlsx."

As Figure V-32 illustrates, failure to meet the performance target stemmed from a combination of factors rather than a singular cause. The Commission notes that a substantial improvement could be made by addressing transit and Last Mile root causes which, taken together, exceed the points by which BPM Flats missed their target in FY 2023. The Postal Service must address a multitude of issues to improve performance enough to meet the target in FY 2024. Nevertheless, the Commission acknowledges the unique characteristics of BPM Flats, which are offered as a cost-effective option for business mailers[233] and advertised as potentially receiving deferred service. *See* DMM § 263.3.1.

(6) Commission Findings and Directives

Although on-time service performance scores increased for each Package Services product from FY 2022 to FY 2023, BPM Flats did not achieve its service performance targets in FY 2023. While the on-time performance result for BPM Flats increased from FY 2022 to FY 2023 by approximately 2 percentage points, the Commission remains concerned that this product is substantially below its target. Moreover, FY 2023 marks the twelfth consecutive year that BPM Flats has remained below its target. The Commission acknowledges that the Postal Service has repeatedly asserted that this product has significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is

[233] *See* United States Postal Service, *What is Bound Printed Matter Service?*, September 6. 2019, available at *https://faq.usps.com/s/article/What-is-Bound-Printed-Matter-Service*; *see also* MCS § 1415.1(c); DMM § 604.5.1.11. This product is not available at the retail counter; instead, business mailers must follow the preparation, deposit, and permit requirements to use this product. *See* United States Postal Service, *What is Bound Printed Matter Service?*; *see also* DMM § 604.5.1.11.

slower and costlier. Considering this, the Commission finds that BPM Flats was out of compliance in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for this product in FY 2024. The Commission directs the Postal Service to refine and apply its data leveraging techniques to improve service performance for BPM Flats.

To monitor the Postal Service's initiatives to remediate these ongoing issues related to this non-compliant product, the Commission directs the Postal Service to evaluate the efficacy of the Postal Service's FY 2024 initiatives (including the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) to improve on-time service performance for BPM Flats. The Postal Service shall also provide a detailed plan for how each product's results will be improved, describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion. The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to BPM Flats, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report shall be filed at the time of the FY 2023 ACR (by December 30, 2024).

E. SPECIAL SERVICES

(1) FY 2022 ACD Directives

Finding that two Special Services products (Post Office Box Service and Ancillary Services) failed to meet their service performance targets for FY 2022, the Commission deemed both to be out of compliance. FY 2022 ACD at 173. The Commission directed the Postal Service to evaluate the efficacy of its FY 2023 initiatives to improve service performance and provide a detailed plan to improve performance in FY 2024. *Id.*

(2) FY 2023 Results

Table V-15 shows the service performance results compared to the annual target of 90.0 percent on-time for Special Services products for FY 2021, FY 2022, and FY 2023.[234]

[234] The Commission approved a semi-permanent exception for service measurement of the following Special Services: hard-copy Address Correction Service, Applications and Mailing Permits, Business Reply Mail, Bulk Parcel Return Service, Certificate of Mailing, Merchandise Return Service, Parcel Airlift, Restricted Delivery, Shipper-Paid Forwarding, Special Handling, Stamped Envelopes, Stamped Cards, Premium Stamped Stationery, Premium Stamped Cards, International Certificate of Mailing, outbound International Registered Mail, International Return Receipt, International Restricted Delivery, International Insurance in conjunction with Inbound Surface Parcel Post (at UPU Rates), Customs Clearance and Delivery Fee, Caller Service, Change of Address Credit Card Authorization, International Reply Coupon Service, International Business Reply Mail, and Money Orders (sales aspect of this service only, not inquiries). Docket No. RM2010-11, Order Concerning Postal Service Request for Semi-Permanent Exceptions from Periodic Reporting of Service Performance Measurement, September 3, 2010 (Order No. 531); Docket No. RM2010-14, Order Approving Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Applications and Mailing Permits, October 27, 2010 (Order No. 570).

Table V-15
Special Services
Service Performance Results, by Percent, FY 2021–FY 2023

Special Services	Annual			
	% On-Time			Target
	FY 2021	FY 2022	FY 2023	
Ancillary Services	82.9	84.5	81.7	90.0
International Ancillary Services	99.9	99.9	99.9	90.0
Money Orders	98.9	99.9	99.9	90.0
Post Office™ Box Service	87.0	86.7	86.3	90.0
Stamp Fulfillment Services	91.7	99.8	99.7	90.0

Notes: The Postal Service reports its targets and results to one place past the decimal point. Red text indicates service performance was below target. Green text indicates service performance was above target.

Source: FY 2023 Service Performance Report at 19-20; FY 2022 Service Performance Report at 30; FY 2021 Service Performance Report at 25.

(3) Postal Service Report

The Postal Service notes that Post Office Box Service and Ancillary Services again failed to meet their service performance targets in FY 2023. FY 2023 Service Performance Report at 21. As directed in the FY 2022 ACD, the Postal Service provided evaluations of the efficacy of its FY 2023 initiatives to improve service performance for Post Office Box Service and Ancillary Services, as well as its plans to further remedy service performance for those products in FY 2023. Library Reference USPS-FY23-29 Preface at 34-35.

(4) Comments and Related Commission Analysis

No commenters addressed the Special Services class specifically.

(5) Commission Analysis

Special Services are offerings related to the delivery of mailpieces, including acceptance, collection, sorting, transportation, or other functions. *See* MCS § 1500.1. Many of these offerings are coupled with underlying mail matter (such as the services within the Ancillary Services and the International Ancillary Services products), whereas others are stand-alone services (such as Post Office Box Service, Money Orders, and Stamp Fulfillment Services). *See id.*

Service performance results for International Ancillary Services, Money Orders, and Stamp Fulfillment Services exceeded the applicable targets for FY 2023. Two products did not achieve their respective FY 2023 targets: Post Office Box Service and Ancillary Services.

Service performance for Post Office Box Service has remained slightly below the target since FY 2015. For FY 2023, service performance for Post Office Box Service was 3.7 percentage points below the target and has been declining for the past several fiscal years. Service performance for Ancillary Services first fell below target in FY 2020 and has remained below target since then. In FY 2023, Ancillary Services missed its performance target by 8.3 percentage points, a notable increase from the 5.5 percentage point shortfall observed in FY 2022, indicating a decline in performance between the two fiscal years.

(6) Commission Findings and Directives

Two Special Services products did not achieve their service performance targets in FY 2023: Post Office Box Service and Ancillary Services. Considering this, the Commission finds that Post Office Box Service and Ancillary Services were out of compliance in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2024.

To monitor the Postal Service's initiatives to remediate these ongoing issues with respect to these non-compliant products, the Commission directs the Postal Service to provide the following information in the FY 2024 ACR for Post Office Box Service and Ancillary Services: (1) an evaluation of the efficacy of the Postal Service's FY 2024 initiatives (including the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) to improve on-time service performance for each product; and (2) a detailed plan explaining how each product's results will be improved.

5. Nonpostal Services

The PSRA authorizes the Postal Service to provide certain nonpostal services to the public and other Governmental agencies and requires the Postal Service to periodically report the quality of service for these nonpostal services. *See* 39 U.S.C. §§ 3703-3705. As a result, in Docket No. RM2022-7, the Commission established certain reporting requirements for nonpostal services, including that the Postal Service shall provide quantitative measures of service performance for nonpostal services annually (or, where unavailable, qualitative descriptions). *See* 39 C.F.R. § 3055.25. Specifically for interagency agreements (IAAs) under 39 U.S.C. § 3704, the Commission mandated that the Postal Service report the quality of service for the IAA program as a whole. *See id.* § 3055.25(c). The Commission also specified that the reporting requirements shall not go into effect until the beginning of FY 2024 to allow the Postal Service to set service standards and (if needed) file a petition for an exception from reporting pursuant to 39 C.F.R. § 3005.103. Order No. 6439 at 16-17. As a result, the Postal Service has not yet provided any service performance information for nonpostal services, and the Commission will therefore not evaluate these services in FY 2023.[235]

[235] *See, e.g.,* FY 2023 ACR at 109-10 (noting that there were no agreements with state, local, or tribal governments in FY 2022 and that the Postal Service does not currently have a method to measure the service performance for IAAs); Docket No. RM2022-7, Comments of the United States Postal Service and Notice of Filing of Materials Under Seal, October 31, 2022, at 15 ("Certain nonpostal services may also lend themselves to quality-of-service reporting beyond the calculation of revenue; such reporting, however, would need to be tailored to the individual service in question, and should as such be developed on a case-by-case basis.").

B. Customer Access

1. Introduction

A. KEY FINDINGS

Key findings and corresponding Commission directives/recommendations regarding customer access include:

- *Accurate and Consistent Information from the Postal Service*
    - The Commission finds that the information filed by the Postal Service regarding retail facilities and suspended Post Offices contained numerous inconsistencies and inaccuracies that require the Postal Service's attention to provide proper transparency to the public.
    - *Accordingly, the Commission requires the Postal Service to include accurate and consistent information in the FY 2024 ACR.*
- *Post Office Suspensions Remaining from FY 2016*
    - 78 Post Offices have remained suspended since at least FY 2016. Of the 78 suspensions remaining from FY 2016, 50 have been suspended for more than 10 years; 8 have been suspended for more than 20 years; and 3 have been suspended for almost 30 years. The Postal Service should resolve all suspensions as soon as possible and the Postal Service would benefit from resolving the oldest suspensions first because resolving them becomes more difficult as time passes.
    - *Due to the Postal Service's lack of prioritization and progress on resolving the backlog of suspensions in FY 2023, the Commission will incorporate requirements for the Postal Service to update the status of action items related to resolving this backlog via quarterly reports and in the FY 2024 ACR.*
- *Post Offices Suspended Between FY 2017 and FY 2023*
    - Besides the 78 suspended Post Offices remaining from FY 2016, an additional 318 Post Offices suspended between FY 2017 and FY 2023 remained unresolved at the end of FY 2023.
    - *The Commission requires the FY 2024 ACR to include a detailed plan and timeline for resolving Post Offices suspended from FY 2017 through FY 2024.*
- *Wait Time in Line*
    - Wait time in line increased by 2 seconds in FY 2023 but improved over the FY 2020 and FY 2021 results. The Postal Service's plans to deploy new self-service kiosks (SSKs) and Rapid Dropoff Stations appear likely to address the issue of insufficient counter stations by diverting transactions from the window to these machines. However, it is unclear how continued

assessments and training strategies will address the issue of staffing concerns and gaps in District duties and responsibilities.

- *The Commission will monitor wait time in line in Docket No. ACR2024 to ensure continued improvement. The Commission encourages the Postal Service to continue implementing strategies for improving wait time in line. Accordingly, the Commission requires the Postal Service to include in the FY 2024 ACR information aimed at creating effective improvement plans.*

- *Alternative Access*
  - Retail revenue has declined across all channels. However, it appears that customers had sufficient access to postal services in FY 2023 because the Postal Service continued to make postal services available at retail facilities and through alternative access channels. The Commission will continue to monitor alternative access channels to ensure that customers have regular and effective access to postal services in all communities.
  - *The Commission recommends that the Postal Service continue to offer and expand alternative access channels to ensure customers have continued access to essential postal services. If revenue from retail channels continues to decline across the board in FY 2024, the Postal Service must identify the root causes for these declines and describe plans (if any) to address them in the FY 2024 ACR.*

B. BACKGROUND

The PAEA requires the Postal Service to report in the ACR "measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including…the degree of customer satisfaction with the service provided."[236] 39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to four aspects of customer access: Post Offices (including closings and emergency suspensions), residential and business delivery points, collection boxes, and wait time in line. The FY 2023 ACR and Library Reference USPS-FY23-33 contain customer access information responsive to the requirements of Title 39 and the Commission's regulations.[237] The Postal Service provided additional information in a CHIR response.[238]

C. INCONSISTENCIES AND INACCURACIES IN POSTAL SERVICE REPORTING

The Commission finds that the information filed by the Postal Service regarding retail facilities and suspended Post Offices contained numerous inconsistencies and inaccuracies that require the Postal Service's attention to provide proper transparency to the public. First, the number of retail facilities was not consistent between the Postal Service's FY 2023 Annual Report to Congress (*FY 2023 Annual Report*) and FY 2023 ACR. Second, the

[236] 39 U.S.C. § 3652(a)(2)(B)(ii); *see* 39 C.F.R. § 3055.90.

[237] FY 2023 ACR at 88; Library Reference USPS-FY23-33, December 29, 2023.

[238] *See* January 19 Response to CHIR No. 2, questions 42-50.

spreadsheet in Library Reference USPS-FY23-33 reporting the number of Post Offices and suspensions had several data entry and calculation errors.

The Postal Service also provides the number of retail facilities and delivery points in its *Annual Report to Congress* (Annual Report).[239] The number of delivery points is consistent between the *FY 2023 Annual Repor*t and the FY 2023 ACR.[240] By contrast, during the past few years, there have been discrepancies in the number of retail facilities between the Annual Report and ACRs that were reconciled in CHIR responses. *See* FY 2022 ACD at 174-75. In the FY 2022 ACD, to promote consistency between reports, the Commission directed the Postal Service to report the number of retail facilities in the *FY 2023 Annual Report* and FY 2023 ACR using the same system, as well as reconcile any discrepancies in the FY 2023 ACR. *Id.* at 175.

Contractor-operated retail facilities consist of community Postal Offices (CPOs), contract postal units (CPUs), and Village Post Offices (VPOs). For FY 2023, the Postal Service reported the number of contractor-operated retail facilities in the *FY 2023 Annual Report* and FY 2023 ACR using only the Contract Postal Unit Technology (CPUT) system. FY 2023 ACR at 88 n.36. The number of retail facilities at the end of FY 2023 is consistent between the *FY 2023 Annual Report* and FY 2023 ACR except for the total number of stations, branches, and carrier annexes, which the Postal Service addressed in the FY 2023 ACR.[241] However, in a CHIR response, the Postal Service stated that in the *FY 2023 Annual Report*, the number of contractor-operated retail facilities at the end of FY 2022 is not correct. January 19 Response to CHIR No. 2, questions 43.e.-45.e. It explains that in the *FY 2023 Annual Report*, the numbers reported for FY 2022 were copied from the FY 2022 Annual Report to Congress, which listed the wrong number of retail facilities.[242] The Postal Service filed the correct number of retail facilities in the January 19 Response to CHIR No. 2, question 46 and states "[t]hese numbers represent the most accurate accounting currently available" as of January 19, 2024.

The Commission reiterates the importance of providing accurate and consistent information among the Annual Report, ACR, and CHIR responses. To promote consistency, the Postal Service must continue reporting the number of contractor-operated retail facilities using the CPUT system. The FY 2024 Annual Report, FY 2024 ACR, and Library Reference USPS-FY24-33 must report the number of retail facilities for FY 2022 and FY 2023 using data from the January 19 Response to CHIR No. 2, question 46. If there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2024 ACR.

[239] *FY 2023 Annual Report* at 33. Retail facilities are physical locations where the Postal Service offers products and services such as stamps and Post Office (PO) Boxes. They include Post Offices and contractor-operated retail facilities, which are discussed in Section V.B.2., *infra*.

[240] *Compare FY 2023 Annual Report* at 33, *with* Library Reference USPS-FY23-33, folder "FY23-33," Excel file "Annual Report Delivery Points FY23.xlsx," tabs "Beginning FY" and "End FY."

[241] *Compare FY 2023 Annual Report* at 33, *with* FY 2023 ACR at 88.

[242] *See* Library Reference USPS-FY22-17, December 29, 2022, file "FY2022 Annual Report to Congress.pdf," at 28. At the Commission's request, the Postal Service filed corrected numbers in a CHIR response. Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-30 of Chairman's Information Request No. 7, February 3, 2023, questions 22-26.

The spreadsheet in Library Reference USPS-FY23-33 reporting the number of Post Offices and suspensions had several data entry and calculation errors. The Public Representative points out that the number of suspensions reported in the spreadsheet is inconsistent with the number reported in the FY 2023 ACR. PR Comments at 81. CHIR No. 2 was issued to reconcile these discrepancies, and the Postal Service filed a revised spreadsheet.[243] The Postal Service explains that the revised spreadsheet "corrects a number of data entry and calculation errors, some of which were carried over from the FY 2022 Annual Compliance Report." January 19 Response to CHIR No. 2, question 42.

In the FY 2024 ACR, Library Reference USPS-FY24-33 must correct data entry and calculation errors and report accurate, consistent information.

2. Retail Facilities

The Postal Service offers products and services such as stamps and PO Boxes at retail facilities. Retail facilities are operated either by the Postal Service (Postal Service-operated retail facilities) or third-party contractors (contractor-operated retail facilities). *See* 39 C.F.R. § 241.3(a)(2)(i), (ii). Postal Service-operated retail facilities consist of Post Offices, classified stations and branches, and carrier annexes. A classified station is located within the corporate limits or city carrier delivery area of the city or town where a Post Office is located.[244] In general, the name of the classified station does not contain the city name used in delivery addresses. *Id.* By contrast, a classified branch is located outside the corporate limits or city carrier delivery area of the city or town where a Post Office is located.[245] In general, the name of the classified branch contains the city name used in delivery addresses. *Id.* A carrier annex is a facility that in general provides only carrier operations and not retail services.[246]

Contractor-operated retail facilities consist of CPUs, CPOs, and VPOs. CPUs are located at supplier-owned or supplier-leased facilities that provide postal services to the public at Postal Service prices.[247] CPOs are CPUs that provide postal services in small communities, generally in areas where Post Offices have been discontinued, and usually bear their community's name and ZIP Code. *Id.* VPOs are similar to CPUs and CPOs but offer limited services such as Forever Stamps and Priority Mail Flat Rate packages. *Id.* Although VPOs

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[243] January 19 Response to CHIR No. 2, question 42, file "ChIR+2+Public+Response+Attachments.zip," folder "Q.42," file "ChIR2_Q42_PostOfficesFY2023.xlsb" (Post Offices Spreadsheet).

[244] "Classified Station," United States Postal Service, *Postal Service-Operated Retail Facilities Discontinuance Guide*, Handbook PO-101, October 2012, Appendix A at 53 (Handbook PO-101), provided in a CHIR response: Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-26 of Chairman's Information Request No. 10, February 10, 2023, PDF file "chir10_q25_po101.pdf" (Docket No. ACR2022, Response to CHIR No. 10). The Postal Service confirmed that Handbook PO-101 has not changed from this version filed in Docket No. ACR2022. January 19 Response to CHIR No. 2, question 47.

[245] "Classified Branch," Handbook PO-101, Appendix A at 53.

[246] "Carrier annex," Postal Service *Glossary of Postal Terms*.

[247] Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-38 of Chairman's Information Request No. 1, January 19, 2021, question 4.

may contain PO Boxes, the Postal Service is required to provide carrier service to PO Box holders. *Id.*

For each fiscal year, the Postal Service must provide information on the number of retail facilities at the beginning and end of the fiscal year, as well as the number of retail facility closings during the fiscal year. 39 C.F.R. § 3055.91(a)(1)-(3). This information must be disaggregated by type of retail facility and provided at the national and area levels. 39 C.F.R. § 3055.91(a). The Postal Service provided this information for FY 2023 in Library Reference USPS-FY23-33.[248] As previously discussed, the Postal Service filed a revised spreadsheet with corrected information in a CHIR response. *See* Post Offices Spreadsheet. This information is shown in Table V-16.

Table V-16
Number of Retail Facilities, FY 2021–FY 2023

Facility Type	FY 2021	FY 2022	FY 2023	FY 2023 Change from FY 2022	FY 2023 Change from FY 2021
Post Offices	26,361	26,265	26,257	-8	-104
Classified Stations & Branches and Carrier Annexes	4,885	4,849	4,858	9	-27
Total Postal-Managed	**31,246**	**31,114**	**31,115**	**1**	**-131**
Contract Postal Units	1,820	1,731	1,650	-81	-170
Village Post Offices	414	377	350	-27	-64
Community Post Offices	419	397	375	-22	-44
Total Non-Postal-Managed	**2,653**	**2,505**	**2,375**	**-130**	**-278**
Total Retail Facilities	**33,899**	**33,619**	**33,490**	**-129**	**-409**

Source: January 19 Response to CHIR No. 2, question 46. These data, derived from the CPUT system, represent the most up-to-date information provided by the Postal Service.

The total number of retail facilities in FY 2023 was 33,490, which was 129 fewer than FY 2022. Between FY 2022 and FY 2023, the number of contractor-operated retail facilities declined for each facility type (CPU, VPO, and CPO). The largest decrease between FY 2022 and FY 2023 was in the number of CPUs, which decreased by 81. The Commission will continue to monitor the number of retail facilities in the FY 2024 ACD to ensure customers have continued access to postal services.

Handbook PO-101 contains the policies and procedures for discontinuing Post Offices. The contents of Handbook PO-101 contain foundational information necessary for determining compliance with 39 C.F.R. § 3055.91(a). CHIR No. 2 asked the Postal Service to confirm that

[248] Library Reference USPS-FY23-33, folder "FY23-33" Excel file "PostOfficesFY2023.xlsb," tab "Post Offices FY23."

the copy of Handbook PO-101 filed in Docket No. ACR2022 was the most up-to-date version. January 19 Response to CHIR No. 2, question 47. The Postal Service confirmed and stated that the revised Handbook PO-101 is pending management review.[249] To ensure that the Commission and the public have the most up-to-date version of Handbook PO-101, future ACRs must either confirm that no changes were made or include a copy of or link to Handbook PO-101 that the public can access. This directive is consistent with the requirement in 39 C.F.R. § 3050.60(b) to keep the Commission apprised of updates to the Postal Service's publications and handbooks.

In future ACRs, the Postal Service must include a statement confirming that no changes were made to the version of Handbook PO-101 filed in the previous ACR. If changes are made, the Postal Service must include a public copy of (or a working website link that is accessible to the general public rather than restricted to Postal Service employees) to Handbook PO-101.

3. Post Office Suspensions

A Post Office is suspended when the Postal Service stops operations at a Post Office because "an emergency or other condition requires such action."[250] Circumstances that may justify suspending a Post Office include natural disasters, termination of a lease or rental agreement when suitable alternate quarters are not available, lack of qualified personnel to operate the retail facility, irreparable or severe damage to the retail facility, challenge to the sanctity of the mail, and lack of adequate measures to safeguard the retail facility or its revenues. Handbook PO-101 at 39. The Postal Service tracks information on facilities throughout the Post Office suspension process using the Change Suspension Discontinuance Center (CSDC) system.[251] A Post Office suspension is resolved (removed from suspension status) when it is reopened or officially discontinued according to the Post Office discontinuance process in Handbook PO-101.[252]

For each fiscal year, the Postal Service must provide information on the number of suspended Post Offices at the beginning and end of the fiscal year, as well as the number of Post Offices suspended during the fiscal year. 39 C.F.R. § 3055.91(a)(4)-(6). Section V.B.3.a. discusses Post Office suspension activity during FY 2023. Section V.B.3.b. discusses the status of the Post Offices suspended at the end of FY 2016, an issue the Commission has been concerned about and required quarterly reporting on for the past 7 years.

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[249] *Id.* Revisions to Handbook PO-101 are discussed below in Section V.3.b.

[250] "Emergency Suspension," Handbook PO-101, Appendix A at 54.

[251] United States Postal Service, Office of Inspector General, Report No. 21-239-R23, U.S. Postal Service's Plans to Resolve Post Office Suspensions, May 17, 2023, at 1, available at *https://www.uspsoig.gov/reports/audit-reports/us-postal-services-plans-resolve-post-office-suspensions* (OIG Report No. 21-239-R23).

[252] Order No. 6101 describes the discontinuance process in detail. Docket No. PI2022-1, Notice and Order Providing an Opportunity to Comment on the Postal Service's Process for Resolving Suspended Post Offices, February 3, 2022, at 7-18 (Order No. 6101).

A. POST OFFICE SUSPENSION ACTIVITY DURING FY 2023

The Postal Service filed data on the number of suspended Post Offices in Library Reference USPS-FY23-33, which the Postal Service updated in a CHIR response.[253] This library reference also includes data on Post Offices reopened and closed during FY 2023. Table V-16 shows Post Office suspension activity during FY 2023 by facility type. It lists the number of suspensions at the beginning and end of FY 2023, as well as the number of Post Offices suspended, reopened, and closed during FY 2023. The number of suspensions at the end of FY 2023 is calculated by adding the number of suspensions at the beginning of the fiscal year to the number of Post Offices suspended during the fiscal year, and then subtracting the number of suspensions reopened and closed during the fiscal year. Table V-17 shows that the total number of suspended Post Offices increased by 17 in FY 2023. At the end of FY 2023, there were a total of 396 suspended Post Offices.

Table V-17
Post Office Suspension Activity During FY 2023

	Post Offices	Stations/ Branches	Carrier Annexes	Total
Under Suspension at the Start of FY 2023	292	80	7	**379**
Suspended During FY 2023	78	17	0	**95**
Offices Suspended Prior FYs and Reopened During FY 2023	34	7	0	**41**
Offices Suspended During FY 2023 and Reopened During FY 2023	23	3	0	**26**
Closed During FY 2023	8	1	2	**11**
Under Suspension at the End of FY 2023	305	86	5	**396**

Source: Post Offices Spreadsheet, tab "Suspension Summary."

Note: The numbers in Table V-17 reflect the most up-to-date numbers reported by the Postal Service.

B. STATUS OF POST OFFICES SUSPENDED AT THE END OF FY 2016

(1) Background

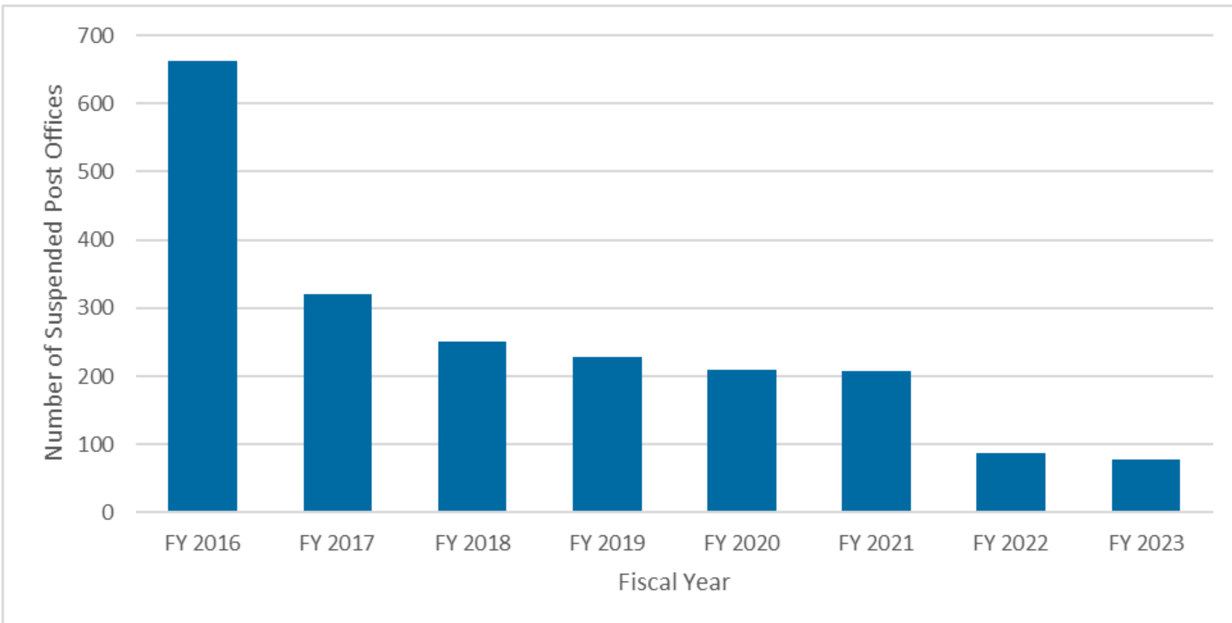
Since FY 2017, the Commission has monitored the Postal Service's progress in resolving the 663 Post Offices suspended at the end of FY 2016.[254] Beginning in FY 2017, the Postal Service has filed quarterly reports on the status of these suspended Post Offices and included year-end information in the ACR. These reports did not include the status of Post Offices suspended after FY 2016.

[253] *See* Post Offices Spreadsheet, tab "Suspension Summary."

[254] Order No. 6101 describes in detail the history of the Commission's concerns regarding suspended Post Offices and Post Office suspension activity through FY 2021. *See* Order No. 6101 at 18-26.

Figure V-33 shows the number of suspensions remaining from the end of FY 2016 for each fiscal year through the end of FY 2023.

Figure V-33
Suspended Post Offices Remaining from FY 2016
FY 2016–FY 2023



Source: Docket No. ACR2022, Tenth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2022 Annual Compliance Determination, February 9, 2024, question 1 (FY 2024, Quarter 1 Report).

Figure V-33 shows that the Postal Service made significant progress resolving suspensions in FY 2017 and FY 2018, but progress slowed between FY 2019 and FY 2021. In the FY 2019 ACD, the Commission directed the Postal Service to file more detailed quarterly reports "[g]iven the substantial number of remaining suspended Post Offices and the Postal Service's failure to meet its timeline [for resolving suspensions]." FY 2019 ACD at 144. This information included the steps taken during the quarter to resolve the suspension and anticipated next steps. *Id.*

In FY 2022, responding to the Postal Service's continued lack of commitment to resolving the remaining suspensions, the Commission initiated Docket No. PI2022-1 to "identify and address issues impeding the Postal Service's progress in resolving these suspended post offices in a timely manner." Order No. 6101 at 3. It sought public input on suggested procedures or courses of action for how the Postal Service may expeditiously resolve suspended Post Offices and received three comments in response.[255] The Postal Service's

[255] *Id.* at 27; Docket No. PI2022-1, Public Representative Comments on the Postal Service's Process for Resolving Suspended Post Offices, May 16, 2022; Docket No. PI2022-1, Initial Comments of Steve Hutkins, May 16, 2022; Docket No. PI2022-1, Initial Comments of the United States Postal Service, May 16, 2022 (Docket No. PI2022-1, Postal Service Comments).

comments also included a list of suspensions that qualified for "swift official Discontinuance."[256] This proceeding remains pending until the Postal Service resolves all of the suspensions remaining from the end of FY 2016.

Between FY 2021 and FY 2022, the Postal Service reduced the number of suspensions from 207 to 87 at the end of FY 2022. *See* Figure V-33. In the FY 2022 ACR, the Postal Service proposed a three-pronged approach to resolve all remaining suspensions: (1) resolve suspensions first identified in Docket No. PI2022-1; (2) assemble a team to review documentation for those suspensions with incomplete internal dockets; and (3) lift the pause on customer-facing activities to allow community meetings to resume.[257] This approach is discussed in Section V.B.3.b.(3)(b), *infra*.

In the FY 2022 ACD, the Commission directed the Postal Service to continue filing quarterly reports on the status of the suspensions remaining from the end of FY 2016. FY 2022 ACD at 182-83. It stated that if the Postal Service does not resolve the remaining suspensions from the end of FY 2023, "it must explain why in the FY 2023 ACR, as well as how it plans to resolve them in FY 2024." *Id.* at 183. It also directed that the FY 2023 ACR include "a detailed plan and timeline for resolving post offices suspended from FY 2017 through FY 2023." *Id.*

(2) FY 2023 Postal Service Actions

In FY 2023, the Postal Service continued to file quarterly reports on the status of the remaining suspensions at the end of FY 2016.[258] On May 17, 2023, the Postal Service Office of Inspector General (OIG) issued a report evaluating the effectiveness of the Postal Service's plans to resolve suspensions.[259] The Postal Service filed the FY 2023 ACR on December 29, 2023 and the quarterly report for FY 2024, Quarter 1 on February 9, 2024.[260]

The Postal Service resolved 9 suspensions in FY 2023, Quarter 1, but did not resolve any more suspensions during FY 2023. Thus, of the 663 suspensions at the end of FY 2016, 78 remain suspended at the end of FY 2023. Figure V-34 shows a breakdown of the reasons these Post Offices were suspended. It shows that almost half were suspended because the landlord terminated the lease.

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[256] Docket No. PI2022-1, Postal Service Comments at 2, Excel file "PI2022-1+Listed+Sites.xlsx."

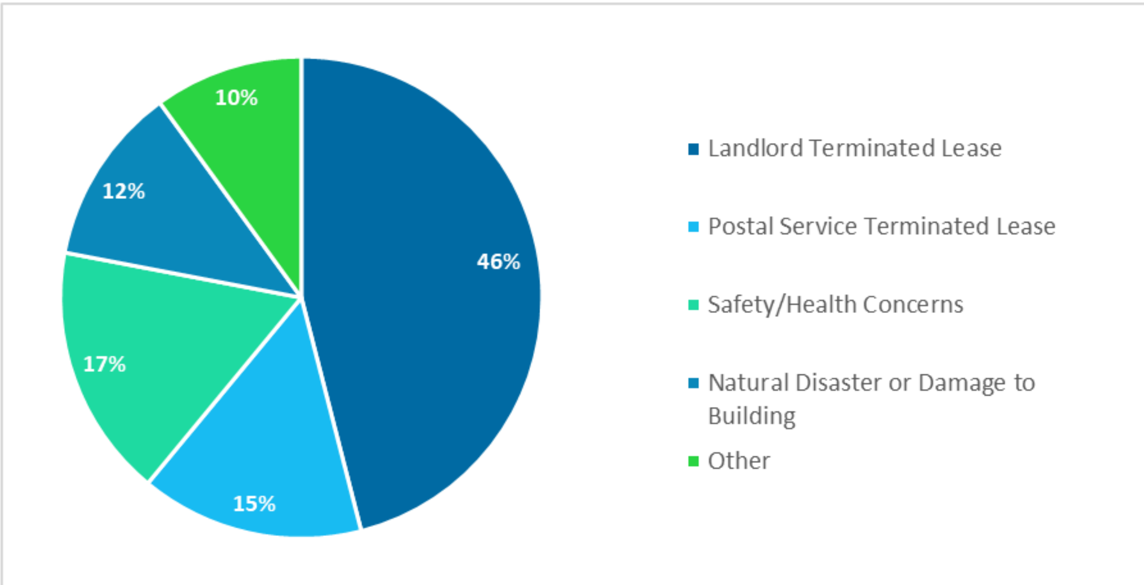
[257] Docket No. ACR2022, United States Postal Service *Annual Compliance Report*, December 29, 2022, at 89 (FY 2022 ACR).

[258] Docket No. ACR2021, Sixth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2021 Annual Compliance Determination, February 9, 2023, question 6; Docket No. ACR2022, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2022 Annual Compliance Determination, May 10, 2023, question 1; Docket No. ACR2022, Fifth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2022 Annual Compliance Determination, August 9, 2023, question 1; Docket No. ACR2022, Eighth Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2022 Annual Compliance Determination, November 9, 2023, question 1.

[259] *See* OIG Report No. 21-239-R23. Findings and recommendations from the OIG Report are discussed in Section V.B.3.b.(3)(a), *infra*.

[260] *See* FY 2023 ACR at 93-95; FY 2024, Quarter 1 Report.

Figure V-34
Reasons for Suspending Post Office
For the 78 Suspensions Remaining from FY 2016



Source: FY 2024, Quarter 1 Report; Docket No. ACR2022, Excel file "FY24_Q1_Suspensions_Update.xlsx" tab "Remaining Suspended" column "J," February 9, 2024 (FY 2024, Quarter 1 Suspensions).

(3) OIG Report and FY 2022 ACR

The sections below describe the OIG's report and recommendations (along with related information obtained by the Commission from the Postal Service), as well as the status of the Postal Service's three-pronged approach to resolving suspensions described in the FY 2022 ACR.

(a) Office of Inspector General (OIG) Recommendations

The OIG analyzed the Postal Service's plans for resolving suspensions and made several findings. It found that the Postal Service lacked documentation supporting implementation of these plans before FY 2022 because of staffing changes resulting from the Postal Service's organizational restructuring in FY 2020, which transferred assigned responsibilities for the suspension process to a different department. OIG Report No. 21-239-R23 at 4. It attributed the lack of documentation to "the Postal Service's lack of prioritization to resolve post office suspensions timely." *Id.* The OIG also identified data reliability issues caused by "the Postal Service's lack of quality assurance policies and procedures to monitor the accuracy and completeness of post office suspension data." *Id.* at 4-5. Based on these findings, the OIG made the following three recommendations, with which Postal Service management agreed. *Id.* at 6.

Update Handbook PO-101. First, the OIG recommended that the Postal Service should "update policies and procedures applicable to the post office suspension process to reflect current organizational structure and assigned responsibilities." *Id.* at 4. The Postal Service responded that "it is reviewing and identifying necessary updates to Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*, to include current organizational structure and assigned responsibilities." *Id.* at 6. The target implementation date was October 31, 2023. *Id.* In a CHIR response, the Postal Service stated that the revised Handbook PO-101 is pending management review, and it cannot provide a projected implementation date.[261]

Document and monitor plans. Second, the OIG recommended that the Postal Service "develop a process to formally document and monitor implementation of current and future plans to resolve post office suspensions as reported in the Annual Compliance Reports." OIG Report No. 21-239-R23 at 4. The Postal Service responded that "it will continue to deploy current systems, including Handbook PO-101 and accompanying software, to effectively resolve suspensions that are pending discontinuance." *Id.* The target implementation date was January 31, 2024. *Id.*

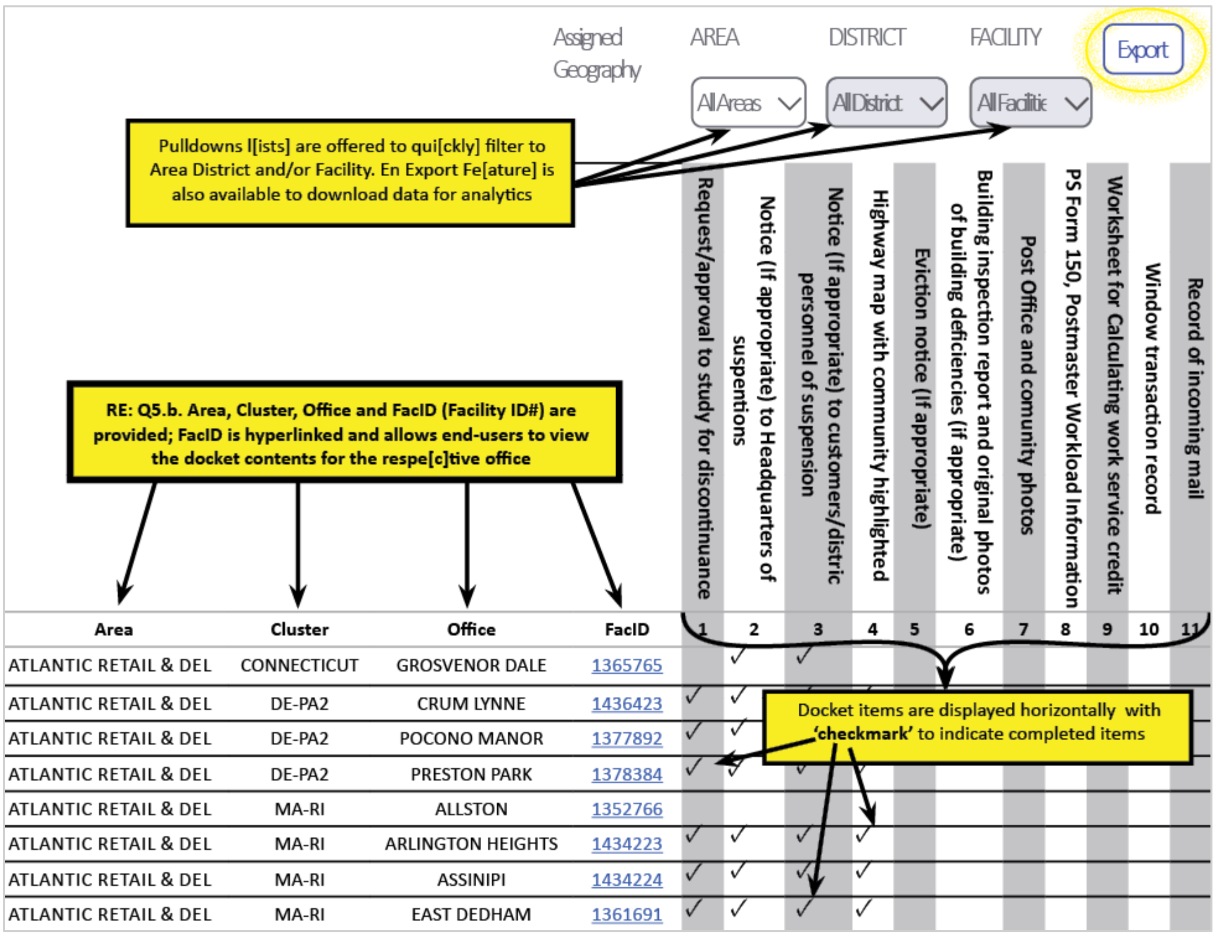
In a CHIR response, the Postal Service clarified that it will implement this recommendation by deploying the new Suspensions Dashboard, which is discussed below. February 9 Response to CHIR No. 9, question 2.b.

Develop Suspensions Dashboard. Third, the OIG recommended that the Postal Service "develop and implement formally documented quality assurance processes over the data in the post office suspension tracking system." OIG Report No. 21-239-R23 at 6. The Postal Service responded that "it is developing and implementing a dashboard using the data in the post office suspension tracking system to help inform other Postal Service Headquarters' stakeholders of the status of suspended post offices." *Id.*

In a CHIR response, the Postal Service provided a graphic of the suspension dashboard. Figure V-35 provides a snapshot of this graphic.

[261] Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-3 Of Chairman's Information Request No. 40, November 29, 2023, question 1 (Docket No. ACR2022, Response to CHIR No. 40); January 19 Response to CHIR No. 2, question 47.

Figure V-35
Graphic of Suspensions Dashboard



Source: Graphic provided by the Postal Service in Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 32, June 14, 2023, question 5.b. (Docket No. ACR2022, Response to CHIR No. 32).

As Figure V-35 shows, for each suspension the Suspensions Dashboard includes the corresponding Area Name, Cluster Post Office name, and Facility ID, along with a linear display of docket items completed and outstanding. Docket No. ACR2022, Response to CHIR No. 32, question 5.b. This display enables users to determine which items to focus on to ensure all required discontinuance actions are completed. *Id.* question 5.a. The Facility ID is hyperlinked to allow end-users to view the docket contents for each suspension. *Id.* question 5.b. Docket items are displayed horizontally with a checkmark to note completed items. *Id.* Pulldown lists and an export feature enables users to filter suspensions by area, district, or facility and download data analytics. *Id.*

Regarding access, all Headquarters and field employees with proper computer credentials may access and view the Suspensions Dashboard. *Id.* question 5.c.i. and 5.c.ii. The dashboard's data tracks when docket items are completed in the CSDC system and thus is not editable. *Id.* question 5.c.iii. The dashboard is updated as responsible parties complete the various docket items for each suspension. *Id.* The Suspension and Discontinuance team will maintain oversight for updating and monitoring the dashboard's quality assurance, including accuracy and completeness. *Id.* question 5.c.iv.

The target implementation date for implementing the Suspension Dashboard was October 31, 2023. OIG Report No. 21-239-R23 at 6. In a CHIR response, the Postal Service reported that the dashboard was not yet implemented as of February 9, 2024.[262] It explains that the dashboard contains information from the CSDC system, which the Postal Service uses to track information on Post Offices through the suspension process.[263] However, the CSDC system had a technical issue that discards docket items stored for Post Offices suspended more than once, and the Postal Service is reconfiguring the CSDC system to resolve this issue. Docket No. ACR2022, Response to CHIR No. 40, question 2. The Postal Service states that the Suspensions Dashboard will be available concurrently with the new CSDC system, which it aims to complete by the end of FY 2024, Quarter 2 (March 31, 2024). *Id*.

(b) FY 2022 ACR Three-Pronged Approach

In the FY 2022 ACR, the Postal Service proposed a three-pronged approach to resolve all remaining suspensions.

Resolve suspensions identified in Docket No. PI2022-1. First, the Postal Service stated it plans to continue resolving the 40 suspensions first identified in Docket No. PI2022-1 as candidates for official discontinuance awaiting Headquarters review, which it targeted completing in June 2023.[264] The Postal Service reported that at the end of FY 2023, Quarter 3, Headquarters completed its review of 18 of the 40 suspensions identified in Docket No. PI2022-1.[265] For the rest of these suspensions, the Postal Service states that it will need to complete missing docket items before resolving them. Docket No. ACR2022, Response to CHIR No. 37, question 1. It explains that locating missing docket items requires collaborating with district coordinators, and tracking down relevant information may be difficult and time-consuming. *Id.*

In the FY 2024, Quarter 1 Report, the Postal Service states that for the 18 suspensions that have completed Headquarters review, nine will be published in the *Postal Bulletin* in March

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[262] Docket No. ACR2022, Response to CHIR No. 40, question 2; February 9 Response to CHIR No. 9, question 2.b.

[263] Docket No. ACR2022, Response to CHIR No. 40, question 2; *see* OIG Report No. 21-239-R23 at 1.

[264] FY 2022 ACR at 89; *see* Docket No. PI2022-1, Postal Service Comments. The Postal Service filed an updated list in Docket No. ACR2023. Post Offices Spreadsheet, tab "HQ Review."

[265] Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 37, August 30, 2023, question 1 (Docket No. ACR2022, Response to CHIR No. 37). Although the CHIR response mentions 17 suspensions, there are 18 suspensions that have completed Headquarters review. *See* Docket No. ACR2022, Response to CHIR No. 37, Excel file "FY23_Q3_Suspensions_Update_CHIR 37.xlsx" tab "Remaining Suspended."

2024,[266] and nine will be discontinued pending resolution of the technical issue in the CSDC system.[267]

Review suspensions with incomplete internal dockets. Second, the Postal Service stated that it plans to assemble a team to review documentation for those suspensions with incomplete internal dockets that lack certain steps necessary to successfully resolve them. FY 2022 ACR at 89. In a June 14, 2023 CHIR response, the Postal Service confirmed that it assembled this team. Docket No. ACR2022, Response to CHIR No. 32, question 2. Regarding the status of incomplete dockets, the Postal Service stated that "41 are currently at the Headquarters review stage of the process and a final review of the docket items is currently being conducted to ensure that all docket items are complete." *Id.* question 2.a.ii.

On January 26, 2024, a follow-up CHIR was issued asking, among other questions, how long each of the 41 suspensions currently at the Headquarters review stage has been pending: (1) a final review of the docket items to ensure that all docket items are complete; and (2) the Headquarters review stage of the process. CHIR No. 7, question 18.b. In response, the Postal Service filed a motion to reconsider this question, asserting that the request was unduly burdensome "due to the substantial amount of time it would require its staff to retrieve, validate, and process this information[.]" Motion for Reconsideration, Question 18, at 1. However, it stated that "[s]hould the Commission believe that there is a regulatory need for this information, the Postal Service requests a 60-day extension to respond to this question." *Id.* at 2 n.2.

No party commented on this issue or filed any response to the Motion for Reconsideration, Question 18. On February 13, 2024, the Commission denied the motion in part and granted it in part for several reasons. *See generally* Order No. 6971. First, it explained that there was a regulatory need for this information because the Postal Service did not adequately respond to the Commission's directive to explain in the FY 2023 ACR why it did not resolve all of the suspensions remaining from the end of FY 2016. Order No. 6971 at 2. Second, it observed that the Postal Service provided the requested information for 18 of the 41 suspensions in a separate CHIR response on February 6, 2024. February 6 Response to CHIR No. 7, question 20.b. For the remaining 23 suspensions, the Commission stated that the requested information should be available from the suspension quarterly reports. Order No. 6971 at 3. It directed the Postal Service to file the requested information for these 23 suspensions by March 8, 2024,[268] which the Postal Service did. March 8 Response to CHIR No. 7.

[266] These nine suspensions are in: (1) Wallpack Center, NJ; (2) West Harrison, NY; (3) Homewood, PA; (4) Mallard, IA; (5) Panther Burn, MS; (6) Mumford, TX; (7) Picacho, AZ; (8) Civic Center Post Office Box Unit, CA; and (9) South San Francisco, CA. *See* FY 2024, Quarter 1 Suspensions.

[267] These nine suspensions are in: (1) Head Waters, VA; (2) Norristown, GA; (3) Twin Oaks, OK; (4) Boneville, GA; (5) Gateway, GA; (6) Manor, GA; (7) Millwood, GA; (8) Seville, GA; and (9) Danciger, TX. *Id.*

[268] *Id.* at 4.

Resume community meetings. Third, in FY 2023, Quarter 2, the Postal Service stated that it plans to lift the pause on customer-facing activities to allow community meetings to resume virtually or in person, which is necessary to complete the Post Office discontinuance process. FY 2022 ACR at 89. It noted that lifting the pause on customer-facing activities should allow the Postal Service to discontinue those suspended Post Offices that cannot be reopened or relocated. *Id*.

In a CHIR response, the Postal Service confirmed that it lifted the pause on customer-facing activities in FY 2023 Quarter 2, which would allow community meetings to resume. Docket No. ACR2022, Response to CHIR No. 32, question 3.a. It noted that it is finalizing a new overall strategy for gathering community input, which will be incorporated into the revised Handbook PO-101. *Id.*; February 2 Response to CHIR No. 7, question 19.b. It observed that per its regulations in 39 C.F.R. § 241.3(d)(3), authorization to forgo a community meeting may be granted "where exceptional circumstances make a community meeting infeasible, such as where the community no longer exists because of a natural disaster or because residents have moved elsewhere." Docket No. ACR2022, Response to CHIR No. 32, question 3.a. The Postal Service did not invoke its authorization to forgo a community meeting pursuant to 39 C.F.R. § 241.3(d)(3) in FY 2023. February 2 Response to CHIR No. 7, question 19.a. It stated that forgoing a community meeting may be appropriate for some Post Offices that have been suspended for a long time. Docket No. ACR2022, Response to CHIR No. 32, question 3.a. However, the Postal Service adds that it has not made a final decision regarding whether to invoke its authorization to forgo a community meeting pursuant to 39 C.F.R. §.241.3(d)(3) in FY 2024. February 2 Response to CHIR No. 7, question 19.b.

(4) Comments

TPA comments that although the Postal Service deserves praise for reducing the backlog of suspensions from FY 2016, "there are still far too many post offices that remain in administrative limbo." TPA Comments at 2. It states that resolving the status of these remaining suspensions will help the Postal Service control costs and deliver the best possible service to consumers. *Id.*

The Public Representative comments that the Postal Service's three-pronged approach appears to have been fairly effective in reducing the number of suspensions remaining from FY 2016. *See* PR Comments at 3. He points out that quarterly suspension reports are filed quarterly in past ACD dockets and are often difficult to locate. *Id.* at 81. He suggests that the Commission direct the Postal Service to provide data annually "to maximize transparency and make the data easier to locate." *Id.* at 3. He comments that bifurcating suspensions between those suspended at the end of FY 2016 and those suspended after FY 2017 appeared useful, but the distinction was now artificial because Post Offices suspended after FY 2017 have also been suspended for a long time. *Id.* at 81.

The Commission appreciates the commenters' input and shares their concern with the lack of progress in FY 2023 at resolving suspensions. This input has been incorporated into the directives described below, which aim to increase transparency and accountability regarding the Postal Service's efforts to resolve suspensions in FY 2024.

Regarding the DFA Plan, the Public Representative expresses concerns about the Delivery Unit Removal initiative that "involves relocating letter carriers out of local post offices, stations, or branches, and consolidating them into larger, centralized delivery offices due to expirations of leases or safety concerns caused by space constraints." *Id.* at 80. He asserts that this initiative "appears to validate the fears of those who claim the Postal Service is going to use the Delivering for America Plan as cover for closing small Post Offices." *Id.*

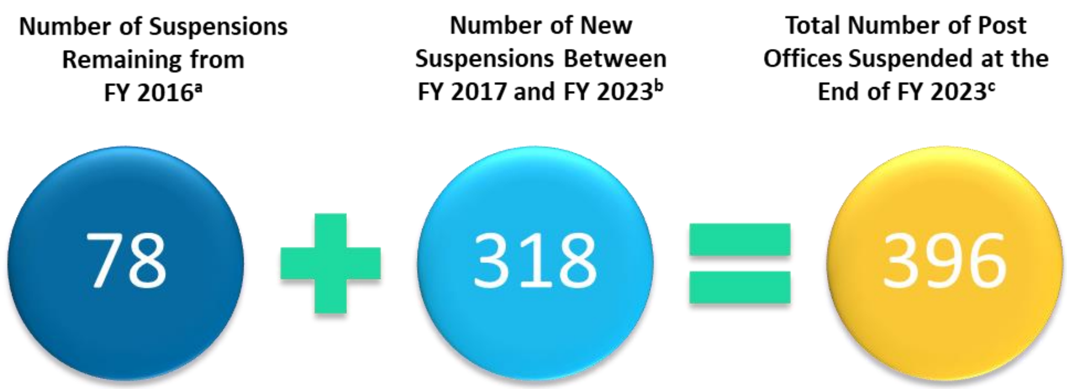
In its reply comments, the Postal Service responds that suspensions occur during the normal course of operations and are typically caused by catastrophic events, lease terminations, and other interruptions in planned service. Postal Service Reply Comments at 33. It asserts that "[t]here is no causal relationship between the Postal Service's strategic plan and externally driven Post Office suspensions." *Id.*

The Commission is separately monitoring the impact of the implementation of the DFA Plan via Docket No. PI2023-4 and urges the Postal Service to be more transparent to assuage public concerns regarding how the implementation of the DFA Plan may affect customer access.

(5) Commission Analysis

The total number of suspensions at the end of FY 2023, as reported by the Postal Service, is shown in Figure V-36. Besides the 78 suspended Post Offices remaining from FY 2016, an additional 318 Post Offices suspended between FY 2017 and FY 2023 remained unresolved at the end of FY 2023. *See* Section V.B.3.a., *supra.*

Figure V-36
Remaining Suspended Post Offices
At the End of FY 2023



[a] FY 2024, Quarter 1 Report.

[b] This number was calculated as the number of suspensions the Postal Service reported at the end of FY 2023 (396) minus the 78 suspensions remaining from FY 2016. It does not include Post Offices that were suspended and subsequently reopened or closed during this time period.

[c] Post Offices Spreadsheet, tab "Suspension Summary," cell I17.

Note: The numbers in Figure V-36 reflect the most up-to-date numbers provided by the Postal Service.

The Commission acknowledges the Postal Service's progress in reducing the suspensions at the end of FY 2016 from 663 to 78 at the end of FY 2023. However, the Commission is concerned that these suspensions remain unresolved 7 years after the Postal Service began reporting on them. Despite increased scrutiny from Docket No. PI2022-1 and the OIG's suspensions report, the Postal Service only resolved 9 suspensions in FY 2023. Based on the quarterly reports and CHIR responses, the Commission identifies two main reasons for the lack of progress: staffing and data reliability issues, both of which require the Postal Service's attention and focus to correct.

(a) Staffing Issues

The Postal Service attributed the lack of progress made in FY 2023 to shortages in staffing handling suspension matters. February 2 Response to CHIR No. 7, question 16.d. This is consistent with the OIG's findings attributing the lack of documentation for resolving suspensions to staffing changes that resulted from the Postal Service organizational restructuring in FY 2020. OIG Report No. 21-239-R23 at 4. Before FY 2020, a team within the Delivery Operations business unit was responsible for the Post Office suspension process. *Id.* After the restructuring, the Postal Service transferred this responsibility to the Retail and Post Office Operations business unit, which did not assign a suspensions team until a year later in August 2021. *Id.* As a result, the new team could only provide documentation supporting the Postal Service's implementation of its plans to resolve suspension from FY 2022 forward. *Id.*

Initially, the Postal Service represented that during FY 2023, the Suspension and Discontinuance team responsible for resolving suspensions had three Postal Service employees: one full-time employee to work through pending cases and two employees to help with review and docket content verification. Docket No. ACR2022, Response to CHIR No. 32, question 2.a.i. It subsequently clarified that because of the organizational restructuring, staffing in FY 2023 only included one temporary full-time position. February 16 Response to CHIR No. 10, question 13.a. The Postal Service states that it plans to create a full-time permanent employee, but "[a]dditional staffing has not yet been secured, and is not guaranteed to be approved at Human Resources." *Id.* question 13.d.i.

The Commission is dismayed not only at the staff turnover, but the lack of staff available to resolve the suspensions. Consistent with the OIG's observations, the Postal Service showed its lack of prioritization to resolve suspensions timely by waiting more than a year to assign a new suspensions team, reducing the team to one temporary full-time employee, and indicating that it may create a full-time position but that Human Resources may not even approve its creation. *See* OIG Report No. 21-239-R23 at 4. Resolving suspensions is an important public policy issue because suspensions deprive customers of access to local Post Offices and services. Suspending a Post Office indefinitely leaves communities in limbo, who deserve prompt resolution of these suspensions. Assigning only one temporary full-time employee shows that the Postal Service is not dedicating enough staff and resources to this important issue.

The staffing issues also demonstrate the importance of resolving suspensions in a timely manner. Resolving a suspended Post Office becomes more difficult as time passes because of lost knowledge from staff turnover and misplaced or missing documents. Indeed, the Postal Service states that "[s]ignificant time and resources are needed to review all the materials related to these older suspensions to ensure a complete and accurate docket is maintained." February 2 Response to CHIR No. 7, question 16.d. When suspensions are not timely resolved, the number of suspensions accumulates quickly, and the backlog becomes more difficult to resolve. The Postal Service can prevent this issue by ensuring that the staff resolving the suspension is sufficient on a consistent basis.

(b) Data Reliability Issues

The lack of progress in resolving suspensions was also caused by accuracy and consistency issues with suspension data similar to those the OIG observed, such as inaccurate status information and forms with incomplete information. *See* OIG Report No. 21-239-R23 at 4-5. These issues are consistent with the Commission's review of suspension quarterly reports. In the FY 2021 ACD, the Commission expressed concern about the accuracies and discrepancies in suspension data reported by the Postal Service. FY 2021 ACD at 210-11. In FY 2023, several CHIRs were issued to reconcile discrepancies between quarterly reports. *See, e.g.,* Docket No. ACR2022, Response to CHIR No. 37, question 6; Docket No. ACR2022, CHIR No. 40, question 3.

Accurate and reliable data is essential for the Postal Service to resolve suspensions efficiently and effectively. The Commission and the public require accurate information to properly evaluate the suspensions and conduct related data analyses. The Postal Service does not always provide accurate consistent data because "it does not have formally documented quality assurance processes to monitor the data and timely respond to unanticipated deviations." *See* OIG Report No. 21-239-R23 at 5.

Implementing the Suspensions Dashboard will likely improve the accuracy and reliability of suspension data. The dashboard is linked to the CSDC system and tracks the completion of steps in the Post Office discontinuance process. Docket No. ACR2022, Response to CHIR No. 32, question 5.c.iii. As responsible parties complete these steps, the dashboard is updated accordingly. *Id.* The dashboard's data are not editable, which ensures consistency with the information in the CSDC system. *Id.*

The Suspensions Dashboard will also improve transparency in the Postal Service's efforts to resolve suspensions. As the Public Representative observes, suspension data for each quarter are filed in separate spreadsheets in different ACR dockets. They are often revised in CHIR responses providing new spreadsheets with updated information. This process hinders transparency by making it difficult to find accurate and current suspension data and compare them across quarters. The Suspensions Dashboard will improve transparency by providing a centralized location for suspensions data that the Postal Service can monitor for quality assurance. In the meantime, to facilitate finding quarterly reports, the Postal Service must file future quarterly reports both in Docket No. PI2022-1 and the appropriate ACR docket so that the reports are easier to locate.

(c) FY 2024 Postal Service Plans and Commission Directives

Table V-18 summarizes the Postal Services plans for resolving the 78 suspensions remaining from FY 2016.

Table V-18
FY 2024 Plans for Resolving Suspensions

FY 2024 Plans					
Update Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*	Develop and Implement Suspensions Dashboard	Fix technical issue in the Change Suspensions Discontinuance Center (CSDC) system	Publish 9 suspensions in the *Postal Bulletin*[b]	Discontinue 9 suspensions after fixing technical issue in the CSDC system[c]	Hiring one full-time employee to work on the suspension and discontinuance process
Target Implementation Date					
Not Provided[a]	End of FY 2024, Quarter 2	End of FY 2024, Quarter 2	March 2024[a]	Not Provided	Not Provided[a]

Source: Docket No. ACR2022, Response to CHIR No. 40, question 2; January 19 Response to CHIR No. 2, question 47; FY 2024, Quarter 1 Suspensions.

[a] The Postal Service must provide status updates on these plans in the suspension quarterly reports.

[b] These suspensions are: (1) Wallpack Center, NJ; (2) West Harrison, NY; (3) Homewood, PA; (4) Mallard, IA; (5) Panther Burn, MS; (6) Mumford, TX; (7) Picacho, AZ; (8) Civic Center Post Office Box Unit, CA; and (9) South San Francisco, CA.

[b] These suspensions are: (1) Head Waters, VA; (2) Norristown, GA; (3) Twin Oaks, OK; (4) Boneville, GA; (5) Gateway, GA; (6) Manor, GA; (7) Millwood, GA; (8) Seville, GA; and (9) Danciger, TX.

Due to the Postal Service's lack of prioritization and progress on each of these items and on resolving the backlog of suspensions in FY 2023, the Commission will incorporate requirements for the Postal Service to update the status of these items in its quarterly reports as described below.

The Public Representative questions the utility of bifurcating the suspensions and monitoring the 78 suspensions remaining from the end of FY 2016 separately. When the Commission began closely monitoring suspensions in FY 2017, it did not expect that some suspensions remaining from the end of FY 2016 would remain unresolved 7 years later. The Commission continues to prioritize the 78 remaining suspensions because they have been suspended the longest. Of the 78 suspensions remaining from FY 2016, 50 have been suspended for more than 10 years; 8 have been suspended for more than 20 years; and 3 have been suspended for almost 30 years. *See* FY 2024, Quarter 1 Suspensions. The Postal Service would benefit from resolving the oldest suspensions first because resolving them becomes more difficult as time passes.

The Postal Service must resolve the 78 suspensions remaining from the end of FY 2016. It has had more than 7 years to do so and resolving them becomes more difficult as time passes. Further, the number of Post Offices suspended after the end of FY 2016 continues to grow. Resolving the 78 suspensions is necessary for creating an effective strategy for timely resolving the rest of the suspensions and preventing another backlog.

The following directives are intended to monitor the Postal Service's progress and provide transparency into the Postal Service's efforts to resolve suspensions. The directives are intended to hold Postal Service accountable for its plans in Table V-18, as well as representations made in the OIG suspensions report and CHIR responses.

The Postal Service must resolve all of the 78 suspended Post Offices remaining from the end of FY 2016. The Commission directs the Postal Service to continue filing quarterly reports on the status of these suspended Post Offices in both Docket No. ACR2023 and Docket No. PI2022-1. The Postal Service must file this information within 40 days after the end of each quarter in FY 2024 and in FY 2025 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing, at a minimum, the same columns and information provided in the spreadsheet filed with the FY 2024, Quarter 1 Suspensions report on February 9, 2024.

Each quarterly report must reflect the most accurate data currently available and correct any discrepancies from the prior quarterly report. The Postal Service must identify and reconcile any discrepancies or differences in the body of the report and the accompanying Excel spreadsheet by highlighting information added or changed and striking through information removed.

Each quarterly report shall identify any changes to the staffing of the Suspension and Discontinuance team, including the relevant chain of command, the responsible management-level personnel, and the current staffing levels (including number of careers versus contractor support roles). Each quarterly report shall also include status updates on the Postal Service's progress in addressing each of the following items (along with the projected implementation date for incomplete items or the actual implementation date for complete items):

- *Revising Handbook PO-101*
- *Fixing the technical issue with the CSDC system*
- *Developing and implementing the Suspensions Dashboard*
- *Publishing nine suspensions in the Postal Bulletin*
- *Discontinuing nine suspensions pending resolution of the CSDC system technical issue*
- *Hiring one full-time employee to work on the suspension and discontinuance process*

If the Postal Service does not resolve all 78 remaining suspended Post Offices by the end of FY 2024, it must explain why in the FY 2024 ACR, as well as how it plans to resolve them in FY 2025. The FY 2024 ACR must also include a detailed plan and timeline for resolving Post Offices suspended from FY 2017 through FY 2024.

For each Post Office that is suspended at the end FY 2024, the FY 2024 ACR or Library Reference USPS-FY24-33 must contain a spreadsheet that includes the following information:

a. Post Office Name

b. Street Address

c. City, State, and ZIP

d. Suspension Date

e. Suspension Reason

f. Postal Area

g. Postal District

h. Finance Number

i. Facility ID

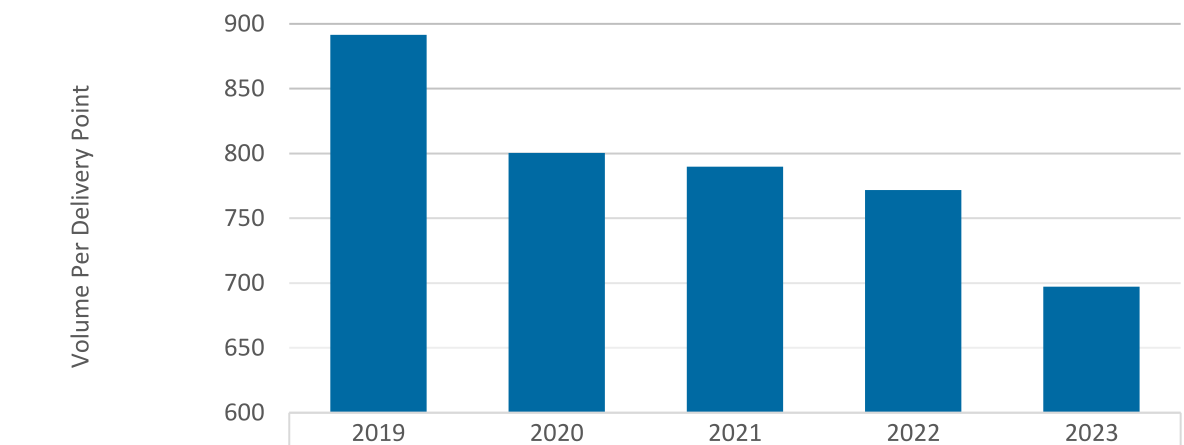
j. Facility Type

4. Delivery Points

The Postal Service is required to provide information on the number of residential and business delivery points at the beginning and end of the fiscal year. 39 C.F.R. § 3055.91(b). The Postal Service provided this information for FY 2023 in Library Reference USPS-FY23-33 and in the *FY 2023 Annual Report*.[269] The total number of delivery points in FY 2023 was 166,577,596, an increase of 1,673,504 from FY 2022. *FY 2023 Annual Report* at 33. Figure V-37 shows the volume per delivery point between FY 2019 and FY 2023.

[269] Library Reference USPS-FY23-33, folder "FY23-33" Excel file "Annual Report Delivery Points FY23.xlsx;" *FY 2023 Annual Report* at 33.

Figure V-37
Annual Volume per Delivery Point, FY 2019–FY 2023



	2019	2020	2021	2022	2023
Density [a]	892	800	790	772	697
Delivery Points (Millions)	160	161	163	165	167
Mail Volume (Billions)	143	129	129	127	116

[a] Density is the Market Dominant and Competitive volumes divided by the number of delivery points.

Source: FY 2022 ACD at 183; Commission calculation is based on *FY 2023 Annual Report* at 33.

The Commission has been tracking delivery point data since the enactment of the PAEA, when volume per delivery point was at its highest level of 1,458 mailpieces per delivery point in FY 2006. Volume per delivery point was 697 in FY 2023, a 52 percent decrease since FY 2006.

5. Collection Boxes

A collection box is a container dedicated to collecting mail deposited by customers.[270] The Postal Service must report, at the national and area levels, the number of collection boxes at the beginning and end of the fiscal year, as well as the number of collection boxes added and removed during the fiscal year. 39 C.F.R. § 3055.91(c). In the FY 2022 ACD, the Commission reiterated this requirement by directing "[t]he FY 2023 ACR [to] include the number of collection boxes added to new locations and removed during FY 2023 as required by 39 C.F.R. § 3055.91(c)(3) and (4)." FY 2022 ACD at 186.

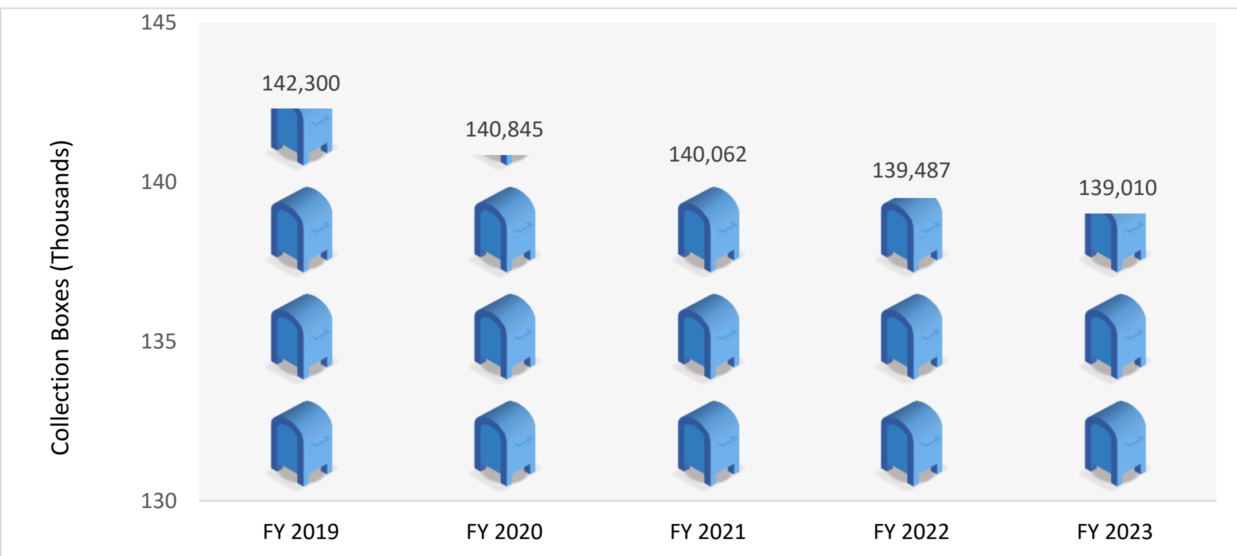
[270] The Postal Service defines "collection box" as "[a] four-footed, free-standing blue-painted street box that is used by the public to deposit outgoing prepaid letters, flats, and lightweight parcels. It has a rounded top and a protective opening cut in near the top that pivots to open and close to receive and protect the items." "Collection Box," Postal Service *Glossary of Postal Terms*.

The Postal Service filed the number of collection boxes at the beginning and end of FY 2023 in Library Reference USPS-FY23-33.[271] However, it did not provide the number of collection boxes added and removed during FY 2023 in its initial FY 2023 ACR filing. CHIR No. 2 asked the Postal Service to provide the number of collection boxes removed, installed in new locations, and relocated during FY 2023. CHIR No. 2, question 48.a. In response, the Postal Service reported that during FY 2023, 623 collection boxes were removed; 146 collection boxes were installed in new locations, and 17 collection boxes were relocated. January 19 Response to CHIR No. 2, question 48.a.

The Postal Service should have included the number of collection boxes added and removed in the FY 2023 ACR because this data is required by both the Commission's rules and FY 2022 ACD. Future ACRs must comply with 39 C.F.R. § 3055.91(c) by including all of the required information, including the number of collection boxes added and removed.

Nationally, there were 139,010 collection boxes at the end of FY 2023, 477 fewer than in FY 2022.[272] Figure V-38 shows historical data on the number of collection boxes between FY 2019 and FY 2023.

Figure V-38
Number of Collection Boxes, FY 2019–FY 2023



Source: Library Reference USPS-FY23-33, folder "FY23-33" Excel file "CollectionBoxesFY2023.xlsx;" FY 2022 ACD at 184.

[271] Library Reference USPS-FY23-33, folder "FY23-33" Excel file "CollectionBoxesFY2023.xlsx." The Postal Service also filed two spreadsheets containing data on the Collection Point Management System Blue Box Collection Schedule and Density. January26 Response to CHIR No. 6, question 16, folder "ChIR.6.Public+Response+Attachments.zip," folder "Q.16," files "ChIR6_Q16_CPMS Blue Box Collection Schedule FY2023.xlsx" and "ChIR6_Q16_CPMS Density FY2023.xlsx."

[272] Library Reference USPS-FY23-33, folder "FY23-33" Excel file "CollectionBoxesFY2023.xlsx," cells C9 and G9.

The Postal Service determines whether to add, remove, or relocate collection boxes by conducting annual volume density tests to measure the volume of mail moving through each collection point.[273] During the density test, carriers estimate or count the number of mailpieces in each collection point they visit, including collection boxes, and record the data. OIG Report No. RISC-WP-22-007 at 3. The Postal Service uses this data to add, remove, or relocate collection boxes.

The Postal Operations Manual (POM) sets forth procedures for conducting volume density tests.[274] The process involves using an actual count for letters or recording a linear measurement of letters contained in the collection box; converting the linear measurement to pieces at 227 pieces per foot (or current conversion figure); and adding actual piece counts for flats and small parcels. POM § 314.3. Density tests should be conducted during a continuous 2-week period and must be performed at least annually. *Id.*

In a CHIR response, the Postal Service confirms that in FY 2023 it continued to follow procedures specified in the POM for conducting an annual volume density test to determine which collection boxes to remove. February 2 Response to CHIR No. 7, question 23.a. The POM states that "[c]ollection boxes averaging less than 25 pieces a day should be relocated within the neighborhood or community to a potentially higher volume location." POM § 315.3. If the Postal Service exhausts potential relocation options, a collection box may be removed if approved by the Area manager, Delivery Programs Support. *Id.* §§ 313.33, 315.3. Before removing or relocating a collection box, the Postal Service must place a notice on the box 30 days before the removal or relocation showing the locations and collection schedules for other collection points in the area.[275] The Postal Service states that when determining whether to remove a collection box, aside from density, it considers factors such as the appearance and condition of collection boxes, the security of its location due to vandalism and/or tampering, and "factors such as staffing, logistics, safety, security, volume declines or increases, operational limitations, or other circumstances that justify an exception." February 2 Response to CHIR No. 7, question 23.b.; POM §§ 315.1, 315.4.

The Commission will continue to monitor the number of collection boxes in Docket No. ACR2024. The FY 2024 ACR must comply with 39 C.F.R. § 3055.91(c) by reporting, at the national and area levels, the number of collection boxes at the beginning and end of FY 2024, as well as the number of collection boxes added to new locations and removed during FY 2024. If there are any discrepancies between the number of collection boxes at the beginning

[273] United States Postal Service, Office of Inspector General, Report No. RISC-WP-22-007, The Postal Service's Collection Point Management System, May 18, 2022, at 3, available at *https://www.oversight.gov/report/USPS/Postal-Service%E2%80%99s-Collection-Point-Management-System* (OIG Report No. RISC-WP-22-007).

[274] United States Postal Service, Postal Operations Manual § 311.a., July 2002 (updated with revisions through April 30, 2022) (POM). The Postal Service filed a PDF of the most recent version of the POM with a CHIR response. February 2 Response to CHIR No. 7, question 22, PDF file "POM+Nov+2023.pdf."

[275] *Id.* § 315.3. A collection box that has been vandalized or tampered with may be removed immediately without notice if the Area manager, Delivery Programs Support, determines that the location is unsecure. *Id.* § 315.4.

and end of FY 2024 and the number of collection boxes added and removed during FY 2024, the Postal Service must reconcile these discrepancies in the FY 2024 ACR.

In FY 2024, the Commission recommends that the Postal Service continue conducting annual volume density testings consistent with the procedures specified in the POM to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission also recommends that the Postal Service describe in the FY 2024 ACR any plans or initiatives to remove collection boxes beyond the procedures specified in the POM.

6. Wait Time in Line

The Postal Service must report the average customer wait time in line for retail service at the beginning of the fiscal year and at the end of each successive fiscal quarter at the national and area levels. 39 C.F.R. § 3055.91(d). The Postal Service provided this information for FY 2023 in Library Reference USPS-FY23-33.[276] The national average wait time in line increased slightly from 2 minutes 20 seconds in FY 2022 to 2 minutes 22 seconds in FY 2023. FY 2023 ACR at 89. Table V-19 shows the national average customer wait time in line annually and by quarter for FY 2019 through FY 2023.

Table V-19
National Average Wait Time in Line (in Minutes) by Quarter, FY 2019–FY 2023

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Quarter 1	2:25	1:57	3:14	2:30	2:31
Quarter 2	2:34	2:06	3:15	2:33	2:32
Quarter 3	1:54	2:59	2:38	2:17	2:12
Quarter 4	1:39	3:05	2:05	1:59	2:12
Annual	**2:08**	**2:26**	**2:48**	**2:20**	**2:22**

Source: Library Reference USPS-FY23-33, folder “FY23-33,” Excel file “WaitTimeInLine FY2023.xlsx,” tab “Nat’l Avg Wait Time by Qtr FY23;” FY 2022 ACD at 186.

[276] Library Reference USPS-FY23-33, folder “FY23-33” Excel file “WaitTimeInLineFY2023.xlsx.”

Table V-19 shows that in FY 2023, the national average wait time in line increased slightly in Quarter 1 and significantly in Quarter 4 but improved during Quarters 2 and 3. The wait time in line results are still better for Quarters 1 through 3 relative to FY 2021, but the improvement observed in FY 2022 Quarter 4 proved unsustainable in FY 2023 Quarter 4. The Postal Service describes measures it has undertaken to continue to minimize wait time in line, which include:

- Daily and weekly Customer Experience (CX) Point of Sale (POS) reporting to retail leaders
- Distributing various communications to retail employees to train them on how to help customers in line to facilitate transactions
- Retail Gemba assessments during peak season and as needed[277]
- Relocating 9 SSKs and adding 6 new SSKs in FY 2023[278]
- Deploying 5 Rapid Dropoff Stations to expedite Label Broker® pre-paid parcel acceptance transactions, which the Postal Service plans to expand in FY 2023[279]
- Completing 2,103 national retail-specific assessments that include on-site training and coaching for both managers and clerks
- Launching a CX Assessment program to evaluate wait time in line
- Conducted a Retail Madness Contest to increase overall satisfaction and customer response rates for the POS CX survey[280]

[277] During a Retail Gemba Assessment, trained staff visit Post Offices to evaluate work practices at these locations, identify opportunities for improvement, and advise employees how to take advantage of these opportunities. Docket No. ACR2022, Responses of the United States Postal Service to Questions 1-28 of Chairman's Information Request No. 4, January 20, 2023, question 26.c. These assessments help inform and coach both employees and managers how to improve their performance to decrease wait time in line. *Id.*

[278] There were 2,742 SSKs operating at the end of FY 2023. January 26 Response to CHIR No. 6, questions 17.a.

[279] The Rapid Dropoff Station is a self-service, non-revenue retail lobby technology that allows customers to conduct prepaid mail acceptance transactions with receipts, helps with Label Broker® transactions, and features screen mirroring technology to provide a contactless option for customers. FY 2023 ACR at 89 n.40. The Label Broker® secure repository allows authorized merchants to store label data and images for deferred printing. *Id.* These merchants then provide a “Label Identifier” to their customers via a QR Code on their mobile phone that customers can use to retrieve the label via USPS.com and at Post Offices equipped with Retail Systems Software. *Id.*

[280] FY 2023 ACR at 89-90.

Although national average wait time in line increased in FY 2023, the increase was minor and better than FY 2020 and FY 2021 results. The Postal Service has taken appropriate steps to improve wait time in line, including employee and management training as well as applying technology to facilitate transactions. Specifically, adding and relocating SSKs appears to improve wait time in line. The Postal Service reports that the FY 2023 SSK transaction rate increased by 1.14 percent between FY 2022 and FY 2023, with a total of 52,571,992 transactions diverted from the window. FY 2023 ACR at 91. The most common transaction conducted at SSKs in FY 2023 was prepaid acceptance, which was 52 percent of total SSK transactions. January 26 Response to CHIR No. 6, question 17.h. During FY 2023, customers completed approximately 26.2 million prepaid acceptance scans at SSKs, which was a 2.3 million increase from FY 2022. FY 2023 ACR at 62. This shift in transactions that would normally be made at the retail counter may have helped reduce wait time in line during FY 2023, Quarters 2 and 3.

Table V-20 compares the average wait time in line for each postal area with the number of SSKs operating in each area at the end of FY 2023. Table V-20 shows a reverse correlation because areas with longer wait time in line have more SSKs. These results show that some SSKs are underutilized, and Postal Service could improve utilization rates for these SSKs (especially those in the Western Pacific area) by either relocating them or letting customers know where the SSKs are located and how to use them.

Table V-20
FY 2023 Comparison of Average Wait Time in Line (in Minutes) to the Number of Self-Service Kiosks

Postal Area	Average Area Wait Time in Line	Number of SSKs Operating at End of FY 2023
Atlantic	2:02	681
Central	1:54	548
Southern	2:39	665
Western Pacific	2:59	848

Source: Library Reference USPS-FY23-33, folder “FY23-33,” Excel file “WaitTimeInLine FY2023.xlsx,” tab “Area Avg. Wait Time FY23;” January 26 Response to CHIR No. 6, question 17.b.

The Postal Service attributes the increase in national average wait time in line to “staffing concerns, not enough available counter stations staffed to assist with the lines, and gaps in duties and responsibilities of certain District retail positions….” February 6 Response to CHIR No. 7, question 25.a. To improve wait time in line in FY 2024, the Postal Service plans to deploy 35 new SSKs to S&DCs, deploy approximately 100 Rapid Dropoff Stations, and continue assessments and training strategies conducted in FY 2023.[281] It explains that the new SSKs and Rapid Dropoff Stations will help make more counter stations available. February 6 Response to CHIR No. 7, question 25.a. It states that the continued assessments

[281] *Id.* at 91. Response to CHIR No. 6, question 17.e.

and training strategies will help address staffing concerns and gaps in District duties and responsibilities. *Id.* question 25.b.

The Postal Service's plans to deploy new SSKs and Rapid Dropoff Stations that appear likely to address the issue of insufficient counter stations by diverting transactions from the window to these machines. However, it is unclear how continued assessments and training strategies will address the issue of staffing concerns and gaps in District duties and responsibilities. If wait time in line declines in FY 2024, the Postal Service should create plans specifically for adding new staff and filling gaps in District duties and responsibilities.

The Commission will monitor wait time in line in Docket No. ACR2024 to ensure continued improvement. The Commission encourages the Postal Service to continue implementing strategies for improving wait time in line. In the FY 2024 ACR, the Postal Service must:

- *Describe actions taken and strategies implemented during FY 2024 to improve wait time in line*
- *Explain which actions and strategies were most and least effective in reducing wait time in line*
- *Identify the strategies and actions for addressing the issue of staffing concerns and gaps in District duties and responsibilities*
- *Explain whether these strategies and actions were effective in addressing staffing concerns and gaps in District duties and responsibilities*

If wait time in line worsens during FY 2024, the FY 2024 ACR must:

- *Explain why wait time in line increased, and identify causes and factors contributing to the increase*
- *Describe plans for improving wait time in line during FY 2025 that identify specific actions, strategies, and initiatives for addressing the causes of increased wait time in line*

7. Alternative Access

In addition to providing products and services at retail facilities, the Postal Service continues to provide customer access through alternative access channels, which allow customers to obtain postal products and services outside of traditional brick and mortar Post Offices. Alternative access channels include:

- Stamp Sales by Partners – stamps sold by key suppliers such as Costco, Walmart, and other retailers
- SSKs – transactions performed via SSKs in lobbies of retail facilities
- Stamps by Mail/Phone – online stamp ordering via usps.com
- Contractor-operated retail facilities – revenue from CPUs, CPOs, and VPOs
- Click-N-Ship – an online mail service allowing customers to create an account, buy postage for packages, and schedule pick up service
- Other alternative access points – online services, commemorative stamp sales and philatelic products, stamped envelope sales, Approved Shipper sales, Forever Stamps, and Stamps to Go[282]

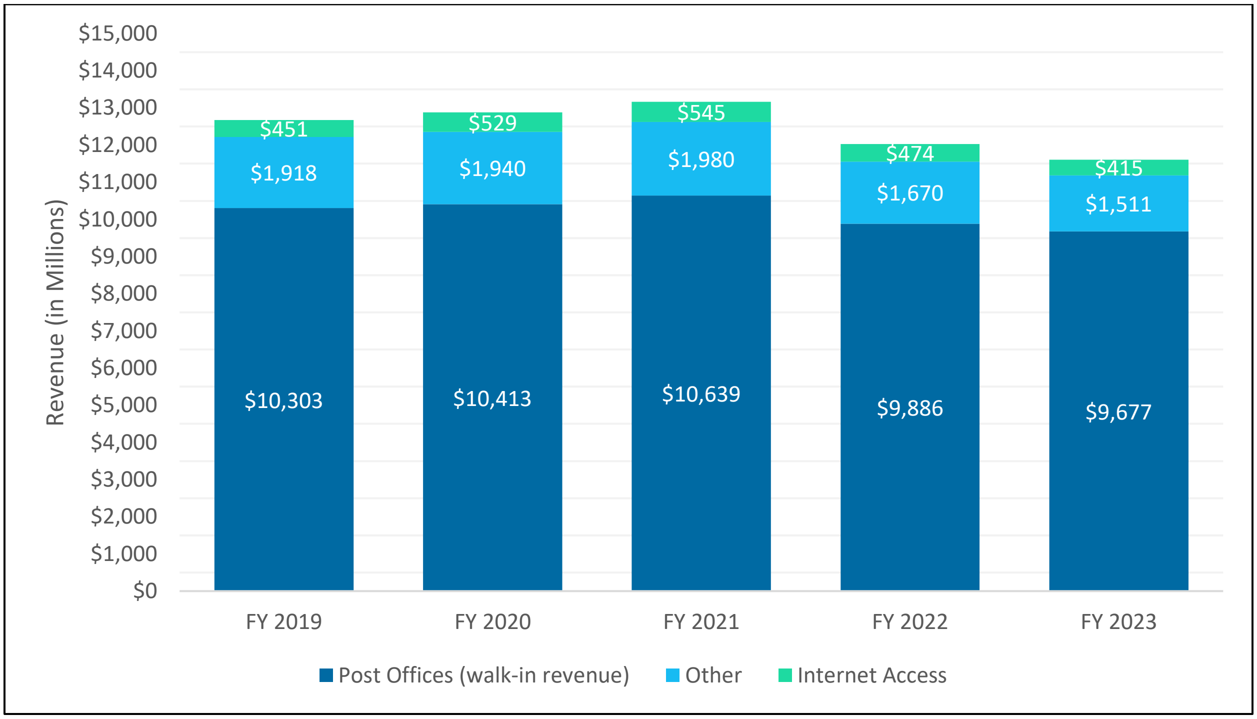
In the FY 2023 ACR, the Postal Service provided a table containing information on retail revenue from Post Offices and alternative access channels for FY 2022 and FY 2023. FY 2023 ACR at 91-92. Figure V-39 compares retail revenue by channel from FY 2019 through FY 2023 in three categories:

- Post Offices (walk-in revenue from Post Offices and contractor-operated retail facilities)[283]
- Internet Access (Click-N-Ship)
- Other (including Stamp Sales by Partners, SSKs, Stamps by Mail/Phone, and other alternative access points)

[282] Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-18 of Chairman's Information Request No. 13, February 17, 2022, questions 2.b.i., 2.b.iv. (Docket No. ACR2021, Response to CHIR No. 13).

[283] Post Office revenue consists of retail postage; retail services (insurance, certified mail, registered mail, signature confirmation, etc.); and retail product sales (stamps, greeting cards, packaging products, money orders, etc.). Docket No. ACR2021, Response to CHIR No. 13, question 4.b.

Figure V-39
Retail Revenue, by Channel, FY 2019–FY 2023



Source: FY 2023 ACR at 91-92; FY 2022 ACD at 189.

Figure V-39 shows that in FY 2023, revenue from all retail revenue channels declined substantially. Overall, the revenue decline between FY 2022 and FY 2023 was approximately $427 million, or 3.55 percent. Of the channels, Post Offices (walk-in-revenue) fared the best, decreasing by about 2.11 percent. Unfortunately, the Other and Internet Access channels decreased by approximately 9.52 percent and 12.53 percent, respectively. Since the Commission began actively tracking retail revenue by channel metrics in FY 2012, the Post Offices (walk-in-revenue) and Other channels have trended towards year-over-year revenue reductions. That trend continued in FY 2020 and FY 2021, but the effects were offset by the COVID-19 pandemic-induced change in consumer behavior that saw a surge in revenue for the Internet Access channel. The results observed in FY 2023 are a product of a continued revenue reduction for the Post Offices (walk-in-revenue) and Other channels while simultaneously seeing a return to "normal" consumer behavior with respect to the Internet Access channel. The FY 2023 retail revenue amount of approximately $11.60 billion represents the lowest level of retail revenue seen by the Commission since tracking this metric began.

In the FY 2022 ACD, the Commission stated, "[i]f revenue from retail channels continues to decline across the board in FY 2023, the Postal Service must identify the root causes for these declines and describe plans to address them in the FY 2023 ACR." FY 2022 ACD at 190. In the FY 2023 ACR, the Postal Service asserts that it cannot exhaustively catalog the root causes for these declines with any degree of precision. FY 2023 ACR at 92. However, it observes that the number of customer visits to retail facilities declined in FY 2023, with correlative declines in transactions and revenue. *Id.*

In a CHIR response, the Postal Service asserts that "declines in mail volume, postage stamps, and other associated transactions reduced revenue generated by retail channels" likely contributed to the decline in revenue from alternative access channels. February 9 Response to CHIR No. 9, question 3.a. Specifically, it states that Click-N-Ship revenue likely declined because competitive rates not of general applicability became available to business customers via the Business Rate Card. *Id.* As background, it explains that launching the Connect eCommerce Program in early 2022 allowed customers to buy Postal Service products from third parties at lower prices compared to Click-N-Ship. *Id.* It states that access to the Business Rate Card for competitive products diverted some revenue from other channels, such as Click-N-Ship in the short term. *Id.* It notes that Click-N-Ship revenue declines also reflect the availability of published commercial shipping rates on Click-N-Ship effective May 18, 2023. *Id.*

To address retail revenue declines, the Postal Service states that it plans to continue "mitigating wait times, raising [POS] customer satisfaction, and leveraging alternative access channels to make the retail experience more convenient overall." FY 2023 ACR at 92. It asserts that "not all causes of decline in retail revenue lie within the Postal Service's control, nor are they necessarily amenable to retail-focused solutions." February 9 Response to CHIR No. 9, question 3.b. It points out that its plans reflect strategies that the Postal Service can feasibly implement. *Id.* It acknowledges that making the retail experience more convenient overall may not reverse long-term trends in mail volume. *Id.* However, it posits that these efforts may encourage more frequent use of the Postal Service's retail network. *Id.*

The decline in retail revenue for all channels is concerning. However, it appears that customers had sufficient access to postal services in FY 2023 because the Postal Service continued to make postal services available at retail facilities and alternative access channels. The Commission will continue to monitor alternative access channels to ensure that customers have regular and effective access to postal services in all communities.

The Commission recommends that the Postal Service continue to offer and expand alternative access channels to ensure customers have continued access to essential postal services. If revenue from retail channels continues to decline across the board in FY 2024, the Postal Service must identify the root causes for these declines and describe plans to address them in the FY 2024 ACR.

C. Customer Satisfaction with Market Dominant Products

1. Introduction

A. KEY FINDINGS

Key findings and corresponding Commission directives/recommendations regarding customer satisfaction include:

- Overall, Market Dominant product satisfaction was positive in FY 2023. However, the Commission has some concerns about the actions taken in FY 2023 and plans in FY 2024 to improve satisfaction. To create effective improvement plans, the Postal Service must first understand the key drivers of Market Dominant product satisfaction and the root causes of lower satisfaction results.
- In FY 2024, the Postal Service should continue to take appropriate actions to maintain Market Dominant product satisfaction for residential, small/medium business, and large business customers. Accordingly, the Commission requires the Postal Service to include in the FY 2024 ACR information aimed at creating effective customer satisfaction improvement plans.

B. BACKGROUND

The PAEA requires the Postal Service to report "measures of the degree of customer satisfaction with the service provided" for each Market Dominant product. 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90. The Postal Service measures customer satisfaction with Market Dominant products and CX generally using surveys. The ACR must include a copy of each type of customer survey and information obtained from each survey. 39 C.F.R. § 3055.92. This information must include a description of the type of customer targeted by the survey, the number of surveys initiated and received, and the number of responses received for each multiple-choice question, disaggregated by each possible response. *Id.* The Postal Service provided the surveys and other customer satisfaction information in the FY 2023 ACR, Library Reference USPS-FY23-38, and a CHIR response.[284]

In FY 2023, the Postal Service measured CX using eight surveys: (1) Business Service Network; (2) POS; (3) Delivery; (4) Customer Care Center; (5) Customer 360; (6) Large Business Panel; (7) Business Mail Entry Unit; and (8) USPS.com.[285] Each survey measures a customer touchpoint or interaction between the customer and the Postal Service. For

[284] FY 2023 ACR at 57-88; Library Reference USPS-FY23-38, December 29, 2023, file "USPS-FY23-38 Preface.pdf" (Library Reference USPS-FY23-38, Preface); Library Reference USPS-FY23-38, folder "FY23.38.Files," PDF files "CX_Surveys_FY23.pdf" (CX Surveys) and "CX_Question_Response_Counts_FY23.xlsx." The Postal Service provided the number of surveys initiated and received in a CHIR response. January 19 Response to CHIR No. 2, question 50.

[285] Library Reference USPS-FY23-38, Preface at 1-2.

example, the POS survey measures CX at retail facilities with POS systems. Library Reference USPS-FY23-38, Preface at 3.

In this section, the Commission evaluates "the degree of customer satisfaction with the service provided" for Market Dominant products as required by 39 U.S.C. § 3652(a)(2)(B)(ii). "Customer satisfaction" in this section refers specifically to customer satisfaction with Market Dominant products. Other topics related to CX—including the surveys, FY 2023 targets and results, and CX metrics—will be analyzed in detail in the Commission's forthcoming *Analysis of the FY 2023 Annual Performance Report and FY 2024 Annual Performance Plan*.

To measure customer satisfaction with Market Dominant products, the Postal Service uses data from the Delivery and Large Business Panel surveys for three types of customers: residential, small/medium business, and large business. FY 2023 ACR at 78. The Delivery survey measures residential and small/medium business customer satisfaction with receiving mail and packages. Library Reference USPS-FY23-38, Preface at 3. In FY 2023, residential and small/medium business customers were randomly selected and mailed a weekly invitation to take the Delivery survey, which they may complete online or by phone.[286]

The Large Business Panel survey measures customer satisfaction of large businesses with 500 or more employees. Library Reference USPS-FY23-38, Preface at 5. A third-party vendor manages customers who sign up to participate in the survey panel. *Id.* The Large Business Panel survey is conducted monthly to account for seasonal variation in Market Dominant product satisfaction. *Id.* In this section, the Delivery and Large Business surveys are together referred to as the Customer Satisfaction surveys.

To measure customer satisfaction with Market Dominant products, the Customer Satisfaction surveys ask residential, small/medium business, and large business customers about their experience using several domestic and international mailing services, such as First-Class Mail International and Media Mail.[287] They group classes and products into mailing services. Customers were asked to rate their level of satisfaction with each mailing service using a six-point scale ranging from Very Satisfied to Very Dissatisfied.[288] The customer satisfaction result for each mailing service is expressed as the percentage of customers who selected Very Satisfied or Mostly Satisfied. *See* FY 2023 ACR at 79-81.

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[286] *Id.* The Postal Service states that "[r]esidential and small/medium businesses were sufficiently sampled to ensure, at the District-level, a minimum precision level of +/- 5 percentage points, at the 90 percent level of confidence per postal quarter." FY 2023 ACR at 78.

[287] CX Surveys at 35-36, 64-66. Although the surveys also ask about customer satisfaction with Competitive products such as Priority Mail, the ACR is required to include "measures of the quality of service afforded by the Postal Service" for each Market Dominant product, including "the degree of customer satisfaction with the service provided." 39 U.S.C. § 3652(a)(2)(B)(ii). For this reason, the ACD focuses on Market Dominant product satisfaction.

[288] CX Surveys at 35-36, 64-66. The question asked is "Now thinking about your experience with these [domestic or international] products, what is your satisfaction with…."

C. FY 2023 POSTAL SERVICE INITIATIVES

In the FY 2022 ACD, the Commission directed that the FY 2023 ACR must, for each customer type:

- Describe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2023 to improve residential and small/medium business Market Dominant product satisfaction
- Explain how these actions, plans, initiatives, and strategies were targeted to improve Market Dominant product satisfaction for each customer type

FY 2022 ACD at 195. In the FY 2023 ACR, the Postal Service responds that in FY 2023, it continued to support all mailers, including residential and business customers, through education and continued engagement. FY 2023 ACR at 82. It states that it educates customers about products, product requirements, mailing standards, and operational processes by collaborating with industry associations, alliance partners, Postal Customer Councils, the Postmaster General's Mailers Technical Advisory Committee (MTAC), and Areas Inspiring Mail (AIM). *Id.* It notes that it participated in the National Postal Forum and engaged with customers in meetings with AIM, Postal Customer Councils, and MTAC. *Id.* It asserts that "[t]hese efforts had a direct impact on the Postal Service's business customers who attended these meetings and events." *Id.* The Postal Service explains that it expanded engagement efforts to academia across colleges and universities "to showcase the value of mail as a marketing channel[,]" which will continue in FY 2024. *Id.* at 82-83.

The Postal Service describes several incentives designed to engage customers. First, it states that the Marriage Mail incentive implemented in July 2023 "alleviate[d] pricing pressures for marriage mailers who send mailpieces under 2 ounces."[289] It asserts that this incentive "allow mailers to remain competitive with other advertising channels, stabilize mail volume in at-risk markets, and potentially expand into markets where the cost of entry was previously too high." *Id.* Second, the Postal Service asserts that the First-Class Mail and USPS Marketing Mail Growth incentives, which will run concurrently during CY 2024, will drive increased mail volume into the network and provide customers with postage credit that they will be able to use on future mailings, which would allow them to maximize their total return on investment.[290]

Also, the Postal Service describes several promotions implemented in FY 2023, which it asserts improve Market Dominant product satisfaction by helping mailers incorporate techniques in their mailpieces that will help reach more customers. FY 2023 ACR at 83. It states that promotions drive significant changes in direct mail marketing and are valuable

[289] *Id.* at 83. To qualify for the incentive, mailpieces must contain inserts from at least 4 advertisers and be mailed at least 10 times every 12 months. *Id.*

[290] *Id.* Under both growth incentives, "for every qualifying piece mailed in calendar year 2024 after the first million pieces , mailers receive a credit equal to 30 percent of the average per-piece price paid for mailing all qualifying piece" unless they mailed more than 1 million qualifying pieces in in FY 2023. *See* Order No. 6713 at 4.

because 92 percent of the top 100 marketing mailers use promotions. *Id.* Promotions implemented in FY 2023 include the Reply Mail Intelligent Mail barcode Accounting (IMbA) Promotion, and Retargeting Promotion and Informed Delivery Promotion.[291] It notes that it expanded the Informed Delivery Promotion to Saturation volume to improve visibility, as well as the Emerging and Advanced Technology Promotion to incorporate the Mobile Shopping Promotion. *Id.* at 84.

Other initiatives aimed at improving Market Dominant product satisfaction in FY 2023 include rolling out the USPS Connect Local Mail experimental product to all 50 states and the District of Columbia.[292] The Postal Service states it is also conducting market research on the catalog market to determine volume and usage, which "will inform the Postal Service's future initiatives to improve the customer satisfaction of catalog mailers and increase their mail volume." FY 2023 ACR at 84-85.

The FY 2023 ACR did not group the initiatives described above by customer type as the FY 2022 ACD directed. *See* FY 2022 ACD at 195. CHIR No. 7 asked the Postal Service to explain how the actions, plans, initiatives, and strategies implemented in FY 2023 affected each customer type and identify the ones targeted to residential customers. CHIR No. 7, question 26. The Postal Service responded "[t]here were no actions, plans, initiatives, and strategies targeted to improve Market Dominant product satisfaction specifically for residential customers." February 2 Response to CHIR No. 7, question 26.a. It reiterated information from the FY 2023 ACR and asserted that the USPS Connect Local Mail service likely improved Market Dominant product satisfaction for residential and small/medium business customers. *Id.* question 26.b. It stated that the promotions likely improve Large Business product satisfaction, noting that the adoption rate of promotions increased by 40.9 percent in FY 2023.[293]

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[291] *Id.* at 83-84. The Reply Mail IMbA Promotion encourages reply mail customers to adopt IMbA static or serialized barcodes. *Id.* The Retargeting Promotion incentives marketers to send postcards to recent website or mobile app visitors. *Id.* at 84.

[292] *Id.* USPS Connect Local Mail that allows businesses to send documents locally the same day or next day using a fast, convenient service. *See* Docket No. MT2022-1, Order Authorizing Extension of USPS Connect Local Mail Market Test, December 13, 2023, at 2 (Order No. 6860).

[293] *Id.* This is based on the volume of mail that participates in promotions versus the volume of eligible mail. *Id.*

D. FY 2024 POSTAL SERVICE PLANS

In the FY 2022 ACD, the Commission directed that "[i]f customer satisfaction with Market Dominant products declines for any customer type between FY 2022 and FY 2023, the FY 2023 ACR must explain why, as well as how the Postal Service will address these declines in FY 2024." FY 2022 ACD at 195. The Postal Service acknowledges that between FY 2022 and FY 2023, Market Dominant product satisfaction declined for several mailing services, which are discussed below. *Id.* at 85; *see* Section V.C.2., *infra.* However, it points out that these declines were "relatively modest," and Market Dominant product satisfaction results for each customer type were overall better in FY 2023 compared to past years. FY 2023 ACR at 85. It points out that the mailing industry as a whole has struggled with issues affecting Market Dominant product satisfaction, including ongoing diversion from mail to digital communications and the economic downturn. *Id.*

To improve Market Dominant product satisfaction in FY 2024, the Postal Service states that it will continue its efforts to educate customers and engage colleges and universities. *Id.* at 83. It notes that the First-Class Mail and USPS Marketing Mail Growth Incentives will run concurrently during CY 2024, and the Emerging and Advanced Tech Promotion will expand to allow mailers to choose their own start date and let the promotion run for 6 months from that date. *Id.* at 83-84. It states it will also continue offering the USPS Connect Local Mail service and conduct market research on the catalog market to determine volume and usage. *Id.* at 84.

Also, in FY 2024 the Postal Service states that it will continue to "leverage its network realignment to simplify and improve its product offerings" by improving usage, profitability, and customer satisfaction through new, enhanced, or simplified products. *Id.* at 85. It notes that for the USPS Connect Local Mail service, it will process improvements through the SCF Pallet discount. *Id.* It states it will continue network improvements under the DFA Plan to improve service performance for all products. *Id.*; *see* Section V.A., *supra*.

2. Commission Analysis

For each customer type, Table V-21 compares customer satisfaction results for select Market Dominant mailing services between FY 2022 and FY 2023. Results are expressed as the percentage of customers who were Very Satisfied or Mostly Satisfied with a Market Dominant mail class or category.

Table V-21
Customer Satisfaction with Market Dominant Mailing Services, by Percentage
FY 2022–FY 2023

Market Dominant Products (Mailing Services)	Residential Customers		Small/Medium Business Customers		Large Business Customers	
	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023
First-Class Mail Domestic	77.07%	76.42%	77.92%	78.90%	85.06%	85.91%
First-Class Mail International	77.79%	79.89%	75.30%	79.18%	87.89%	88.75%
USPS Marketing Mail	N/A		73.56%	73.36%	83.43%	84.12%
Periodicals			81.84%	82.33%	82.84%	83.14%
Media Mail	80.37%	83.06%	80.69%	81.90%	83.48%	82.04%
Library Mail	76.03%	79.16%	76.78%	76.33%	83.70%	83.42%

N/A – Residential customers were not asked about their satisfaction with this mailing service.

Red indicates the score was worse than the FY prior.

Source: FY 2023 ACR at 80-81.

Table V-21 shows that in FY 2023, Market Dominant product satisfaction improved or remained the same for each mailing service except for domestic First-Class Mail (Residential), USPS Marketing Mail (Small/Medium Business), Media Mail (Large Business), and Library Mail (Small/Medium and Large Businesses). However, results for the mailing services that declined in FY 2023 remained within 1 percentage point the FY 2022 result.

Overall, Market Dominant product satisfaction for most Market Dominant mailing services improved from FY 2022 to FY 2023. However, the Commission has some concerns about the actions taken in FY 2023 and plans in FY 2024 to improve satisfaction. First, the mailing incentives did not significantly affect customer satisfaction in FY 2023. The Marriage Mail incentive began in July 2023, and the First-Class Mail and USPS Marketing Mail Growth incentives were not implemented until CY 2024.

Second, the FY 2023 ACR describes general initiatives designed to improve satisfaction for all mailers instead of grouping by customer type as the FY 2022 ACD directed. *See* FY 2022 ACD at 195. Residential, small/medium business, and large business customers may have different drivers of customer satisfaction. Grouping actions taken and plans for improvement by customer type will help identify these drivers to allow the Postal Service to target Market Dominant products with lower levels of customer satisfaction.

Third, the Postal Service is not prioritizing satisfaction for residential customers. It stated that in FY 2023 "[t]here were no actions, plans, initiatives, and strategies targeted to improve Market Dominant product satisfaction specifically for residential customers." February 2 Response to CHIR No. 7, question 26.a. Indeed, the incentives, promotions, and education initiatives are geared toward business customers. Similarly, USPS Connect Local

Mail is an experimental product targeted at addressing "the needs of businesses that send important documents locally with regular frequency."[294] Moreover, USPS Connect Local Mail volume was extremely low in FY 2023, which indicates that this service had minimal impact on customer satisfaction.[295]

The Postal Service asserts that "residential customers were likely positively impacted as a result of the Postal Service's other actions, plans, initiatives and strategies" described in the FY 2023 ACR. February 2 Response to CHIR No. 7, question 26.a. Because residential customers may have different drivers of customer satisfaction compared to business customers, a "one-size-fits-all" approach for improving satisfaction will not target specific customers or products with lower customer satisfaction scores, such as domestic First-Class Mail for residential customers.

Fourth, it is unclear how the Postal Service's plans will improve Market Dominant product satisfaction. TPA comments that the Postal Service plans to improve satisfaction "by increased public relations and outreach." TPA Comments at 2. The Commission observes that educating customers and engaging colleges and universities "to showcase the value of mail as a marketing channel" may increase product usage but not satisfaction with the product itself. February 2 Response to CHIR No. 7, question 26.b. Although the growth incentives and promotions may increase mail volume and customer outreach, they do not directly affect the level of satisfaction with using a product.

To create effective improvement plans, the Postal Service must first understand the key drivers of Market Dominant product satisfaction and the root causes of lower satisfaction results. TPA comments that the Postal Service "fails to grasp the causes and consequences of declining customer satisfaction." TPA Comments at 1. The Commission observes that the Customer Satisfaction surveys ask respondents to rate their satisfaction level with Market Dominant products but does not ask why they chose that rating. Understanding the reasons for low satisfaction is essential for creating effective improvement plans. For example, if residential customer satisfaction with domestic First-Class Mail declined due to on-time delivery issues, the Postal Service could improve results by addressing service performance for this product.

To identify the causes of low satisfaction, the Customer Surveys could include more specific questions about Market Dominant product satisfaction. Drafting survey questions as specific as possible decreases respondent confusion and makes the survey results more consistent and reliable. For example, the surveys could include a comment box asking customers to explain the reason for their rating. Also, in the FY 2020 ACD, the Commission recommended that the surveys ask customers to rate their satisfaction level with service performance for each mailing service "to allow the Postal Service to assess how service

[294] Docket No. MT2022-1, United States Postal Service Notice of Market Test of Experimental Product – USPS Connect Local Mail, November 10, 2021, at 1.

[295] *See* Docket No. MT2022-1, FY23 Q4 Cover Letter and Data Collection Report for Connect Local Mail Q4 FY23, November 9, 2023.

performance results affect customer satisfaction with those mailing services." FY 2020 ACD at 234.

In the FY 2021 ACR, the Postal Service stated that it considered this recommendation, but did not adopt it because increasing the survey length could lead to possible negative consequences, such as higher abandonment rate.[296] The Commission recommends that the Postal Service reconsider adding questions to the Customer Satisfaction surveys or find another way to determine key drivers and root causes of Market Dominant product satisfaction. For example, the Postal Service states that "[i]n FY 2023, the Customer Experience Department conducted driver analyses to determine the factors that drive overall satisfaction for each [CX] survey." FY 2023 ACR at 59. The Postal Service could conduct a similar analysis to identify the factors that drive Market Dominant product satisfaction for each customer type.

Without understanding the "why" behind customer satisfaction ratings, the Postal Service cannot create effective improvement plans that target customers and products with low satisfaction levels.

In FY 2024, the Postal Service should continue to take appropriate actions to maintain Market Dominant product satisfaction for residential, small/medium business, and large business customers. In the FY 2024 ACR, the Postal Service must:

- *Identify the factors that drive Market Dominant product satisfaction for residential, small/medium business, and large business customers*
- *Identify the root causes of lower customer satisfaction for any mailing service with a result that declines between FY 2023 and FY 2024*
- *Describe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2024 to improve customer satisfaction with Market Dominant products*
- *Explain how these actions, plans, initiatives, and strategies improved Market Dominant product satisfaction for residential, small/medium business, and large business customers*
- *Explain how these actions, plans, initiatives, and strategies impacted FY 2024 results*
- *Describe specific plans for improving Market Dominant product satisfaction in FY 2025 that target mailing services with lower satisfaction results in FY 2024*

[296] Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-18 of Chairman's Information Request No. 13, February 17, 2022, question 8.

Appendix A: Key Commission Findings and Directives Requiring Postal Service Action for Future Annual Compliance Reports

Workshare Discounts:

- *The Commission finds that all workshare discounts in effect in FY 2023 were in compliance with 39 C.F.R. part 3030, subpart J at the time they were introduced in rate adjustment proceedings based on the most recent avoided costs available at the time of each rate adjustment filing.* FY 2023 ACD, Chapter II.

- *The Commission directs the Postal Service to bring all current workshare discounts approved in Docket No. R2024-1 and identified in Table II-1 that are not equal to their avoided costs based on the new FY 2023 avoided costs into compliance with 39 C.F.R. § 3030.283 and 39 C.F.R. § 3030.284 in the next rate adjustment proceeding, which could include aligning workshare discounts with avoided costs or explaining how the workshare discounts comply with existing exceptions (including waivers granted in accordance with the rules set forth in 39 C.F.R. § 3030.286). In addition, all workshare discounts proposed in rate adjustment proceedings must be consistent with 39 C.F.R. § 3030.282.* FY 2023 ACD, Chapter II.

Market Dominant, Non-Compensatory Classes:

- Periodicals:
  - *The Commission reiterates its longstanding findings that despite numerous cost-reduction initiatives designed to reduce flat-shaped mail costs, including Periodicals costs, these costs have risen over time.* FY 2023 ACD, Chapter III.
  - *Furthermore, the Commission encourages the Postal Service to continue to maximize its usage of rate authority granted under 39 C.F.R. § 3030.222 and to maximize its cost coverage by strategically pricing Periodicals.* FY 2023 ACD, Chapter III.

Market Dominant, Non-Compensatory Products in Compensatory Classes:

- USPS Marketing Mail Flats:

    - *The Commission finds that the cost coverage for USPS Marketing Mail Flats remained severely deficient in FY 2023 and reminds the Postal Service that under 39 C.F.R. § 3030.221, it must propose a rate increase for USPS Marketing Mail Flats that is at least 2 percentage points above the average increase for the class in any rate adjustment filing affecting USPS Marketing Mail.* FY 2023 ACD, Chapter III.

    - *In addition, the Commission urges the Postal Service to continue to pursue cost reductions of flat-shaped products, including USPS Marketing Mail Flats.* FY 2023 ACD, Chapter III.

- USPS Marketing Mail Carrier Route:

    - *The Commission finds that the FY 2023 revenue for USPS Marketing Mail Carrier Route was not sufficient to cover attributable cost. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must propose a rate increase for USPS Marketing Mail Carrier Route that is at least 2 percentage points above the average increase for USPS Marketing Mail whenever the Postal Service files a rate adjustment filing affecting USPS Marketing Mail.* FY 2023 ACD, Chapter III.

    - *In addition, the Commission urges the Postal Service to continue to pursue cost reductions of flat-shaped products, including USPS Marketing Mail Carrier Route.* FY 2023 ACD, Chapter III.

- Package Services—Media Mail/Library Mail:

    - *The Commission finds that the FY 2023 revenue for Media Mail/Library Mail was not sufficient to cover its attributable cost. The Commission reminds the Postal Service that under 39 C.F.R. § 3030.221, the Postal Service must increase the prices of Media Mail/Library Mail by at least 2 percentage points above the class average in each Market Dominant rate adjustment affecting Package Services through the issuance of the FY 2024 ACD.* FY 2023 ACD, Chapter III.

    - *Further, the Commission directs the Postal Service to include the percentage of Media Mail/Library Mail volume sent by air transportation in FY 2024 in their discussion of the Package Services class in the FY 2024 ACR. If that number is greater than zero, the Postal Service must explain why that occurred.* FY 2023 ACD, Chapter III.

Competitive Products, Cross-Subsidization:

- *The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2023.* FY 2023 ACD, Chapter IV.

Competitive Products, Cost Coverage, Domestic:

- *The Commission finds that, in FY 2023, every Competitive domestic product with rates of general applicability covered its attributable cost*[1] *and, thereby, satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2).* FY 2023 ACD, Chapter IV.

Competitive Products, Cost Coverage, Negotiated Service Agreements:

- *The Commission finds that Priority Mail Contract 543 and Parcel Select Contract 52 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023. However, because these contracts have already terminated, no further action is required*. FY 2023 ACD, Chapter IV.

- *To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in the instant proceeding, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations including exact dates and respective notices filed*. FY 2023 ACD, Chapter IV.

- *Each report must include correct contract partner names, contract type and number, docket number(s), and dates in the identical format as ACR reports. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first such report due April 8, 2024, and the last such report due January 9, 2025*. FY 2023 ACD, Chapter IV.

- *The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary*. FY 2023 ACD, Chapter IV.

[1] *See* Library Reference PRC-LR-ACR2023-1, Excel file "FY23 Summary_NPLR-1.xlsx," tab "Total All Mail Appendix A."

Competitive Products, Cost Coverage, International:

- Inbound Parcel Post (at UPU Rates):
    - *The Commission directs the Postal Service to take all necessary steps to ensure that it meets all UPU requirements for parcel rate bonuses.* FY 2023 ACD, Chapter IV.
    - *The Commission also directs the Postal Service to provide a progress report on its efforts to this end, including detailing any technology and process limitations, and to provide its most recently available UPU report cards for FY 2024 showing the Postal Service's compliance with all UPU parcel rate bonus requirements within 180 days of the issuance of this ACD.* FY 2023 ACD, Chapter IV.
    - *The Commission further directs the Postal Service to provide the amount of any revenue forgone on UPU bonuses on parcel rates with an explanation of the calculation with all future ACRs*. FY 2023 ACD, Chapter IV.
    - *The Commission encourages the Postal Service to work through the UPU to change the methodology to calculate the remuneration for Inbound Parcel Post (at UPU rates) to bring it to a compensatory level.* FY 2023 ACD, Chapter IV.
    - *The Commission also encourages the Postal Service to continue to expend a reasonable amount of resources given the size of the product to explore and implement measures to reduce the unit cost of Inbound Parcel Post (at UPU rates). The Postal Service shall report on these measures and results in the FY 2024 ACR.* FY 2023 ACD, Chapter IV.
- International Surface Air Lift (ISAL):
    - *The Commission finds that ISAL was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023.* FY 2023 ACD, Chapter IV.
    - *The Commission recognizes that ISAL has generally covered its cost in prior years, and this is likely a unique issue, as confirmed by the Postal Service. Nonetheless, the Commission directs the Postal Service to file a report within 180 days of the issuance of this ACD on its progress toward a more timely settlement process as well as a status report on its consideration of a potential rulemaking. Should the Postal Service conclude that a rulemaking is not appropriate, it shall discuss how it reached this conclusion in its status report.* FY 2023 ACD, Chapter IV.
    - *The Commission also encourages the Postal Service to monitor the impact of the price increase that took effect in January 2024 on the product and to request further price increases as necessary based on its continued assessment of the product's projected cost coverage.* FY 2023 ACD, Chapter IV.

- International Money Transfer Service (IMTS)—Outbound:
    - *The Commission finds that the IMTS—Outbound product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023.* FY 2023 ACD, Chapter IV.
    - *The Commission directs the Postal Service to propose a price increase for the IMTS—Outbound product that more adequately reflects the costs of the product in its next request to adjust prices of general applicability for Competitive products.* FY 2023 ACD, Chapter IV.
    - *The Commission encourages the Postal Service to consider potential costing methodological changes or special cost studies that would improve the cost estimation of IMTS products.* FY 2023 ACD, Chapter IV.
- International Ancillary Services—Inbound Competitive International Registered Mail:
    - *The Commission finds that the International Ancillary Services product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023 because one of its sub-components, Inbound Competitive International Registered Mail, did not cover its attributable cost.* FY 2023 ACD, Chapter IV.
    - *The Commission directs the Postal Service to file a follow-up report on its efforts to move registered items to a tracked offering within 180 days of the issuance of this ACD and in the FY 2024 ACR. This filing should include a specific description of the Postal Service's plan, including anticipated major milestones and progress toward achieving them.* FY 2023 ACD, Chapter IV.

Competitive Products, Cost Coverage, Competitive Outbound International Products Consisting of Negotiated Service Agreements:

- Outbound:
    - *The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2), except for eight Competitive outbound international NSAs that did not cover their attributable costs.*[2] *Of these agreements, three have expired and five are still in effect.*[3] FY 2023 ACD, Chapter IV.

[2] The Commission notes that one of these eight NSAs was a serial-numbered agreement within the GEPS—NPR 15 product. Although this NSA did not cover its attributable cost, the GEPS—NPR 15 product as whole covered its attributable cost.

[3] As noted above, one of these five NSAs, which is scheduled to expire on April 30, 2024, is inactive due to the customer no longer mailing pursuant to this NSA.

- *The Commission strongly recommends that the Postal Service continually monitor the financial performance of each outbound international NSA, ensure built-in contingencies are sufficient to ensure the product remains compensatory, and take steps to terminate or renegotiate agreements that are non-compensatory.* FY 2023 ACD, Chapter IV.

- *The Commission continues to strongly encourage the Postal Service to enforce the minimum volume and/or revenue requirement in each NSA and to seriously consider the viability of certain outbound NSAs whose projected cost coverage calls into question whether their financial performance will be compensatory given the current volatility of cost increases in transportation, processing, and delivery, and losses in economies of density.* FY 2023 ACD, Chapter IV.

- *To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within seven days after the conclusion of each quarter of the fiscal year, with the first report due April 8, 2024, and the last report due January 7, 2025.* FY 2023 ACD, Chapter IV.

- *The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.* FY 2023 ACD, Chapter IV.

Competitive Products, Cost Coverage, Competitive Inbound International Products Consisting of Negotiated Service Agreements:

- Inbound Express Mail Services (EMS):

  - *The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2), except for Inbound EMS that did not cover its attributable cost. The Commission finds that the Inbound EMS product was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2023.* FY 2023 ACD, Chapter IV.

  - *The Commission directs the Postal Service to increase the price of Inbound EMS to a compensatory level at the next available opportunity, which would be by August 31, 2024, for rates to go into effect in CY 2025.* FY 2023 ACD, Chapter IV.

  - *In addition, regardless of whether the Postal Service decides to increase its annual rates for Inbound EMS in the future or not, the Commission directs the Postal Service to file for Commission approval each year Inbound EMS rates for the* *following CY and related financial workpapers. These financial workpapers should demonstrate estimated cost coverage and incorporate the most recently available cost projections. They should be filed with the Commission for approval on or before August 16 each year in the event that new rates need to be communicated to the UPU by August 31.* FY 2023 ACD, Chapter IV.

- *Furthermore, the Commission directs the Postal Service to identify and fix issues impeding the Postal Service from being able to collect full remuneration for Inbound EMS in accordance with the UPU EMS Pay-for-Performance Plan, to file a report within 180 days of the issuance of this ACD on progress it is making to fix those issues, and to provide all available EMS report card results for FY 2024.* FY 2023 ACD, Chapter IV.

- *The Commission also directs the Postal Service to file the applicable UPU EMS Pay-for-Performance Plans with its future annual filings in the ACR docket.* FY 2023 ACD, Chapter IV.

- *To ensure accurate recordkeeping and timely identification of any discrepancies, the Commission directs the Postal Service to file in this docket, on a quarterly basis, a summary spreadsheet listing all NSAs active during the prior quarter and identifying all extensions, expirations, and early terminations. Each report is due within 7 days after the conclusion of each quarter of the fiscal year, with the first report due April 8, 2024, and the last report due January 7, 2025.* FY 2023 ACD, Chapter IV.

- *The Commission encourages the Postal Service to review the spreadsheet and related docket filings each quarter to identify errors, ensure the quality and accuracy of the spreadsheet, and file notices of termination or errata where necessary.* FY 2023 ACD, Chapter IV.

Competitive Products, Other Issues Related to International Products:

- Remuneration for Returned Undeliverable Letter Post Items:

  - *The Commission commends the Postal Service for increasing revenue by collecting remuneration for the return of undeliverable letter post items for which it could not prior to CY 2022 and encourages the Postal Service to maximize this revenue.* FY 2023 ACD, Chapter IV.

  - *The Commission directs the Postal Service to specify the remuneration it pays to and receives from each foreign designated operator for the return of undeliverable letter post items in its future ACRs. This information should include the formats (letters, flats, and small packets/bulky letters) to which the remuneration applies.* FY 2023 ACD, Chapter IV.

- Forfeited Revenue Based on UPU Quality Link to Terminal Dues Score:
    - *The Commission directs the Postal Service to incorporate in future ACRs any potential terminal dues bonus that it would have received if it met or exceeded the UPU annual service performance target in a CY in its Inbound Letter Post and Inbound Letter Post Small Packets and Bulky Letters forfeited revenue calculations, if applicable.* FY 2023 ACD, Chapter IV.

Competitive Products, Appropriate Share:

- *The Commission finds that in FY 2023 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs.* FY 2023 ACD, Chapter IV.

Competitive Products, Pilot Program—Gift Cards:

- *The Commission directs the Postal Service to continue to report quarterly information on the Pilot Program. The report shall be filed in Docket No. MC2022-60 and shall include information on volume, revenue, and costs (which should include training development costs, as well as the costs of conducting the training, labor costs associated with the retail transactions, and supply costs). In addition, the report must include any plans for modifications or other future plans of the Pilot Program, including any plans for termination of the Pilot Program.* FY 2023 ACD, Chapter IV.

Interagency Agreements:

- *The Commission finds that the Postal Service complied with the applicable requirements of 39 U.S.C. chapter 37 during FY 2023.* FY 2023 ACD, Chapter IV.

Service Performance Overall for Market Dominant Products:

- *The Commission recommends that the Postal Service analyze trends in employee availability and focus its efforts to reduce seasonal variation in employee availability to improve service performance.*

- *The Commission recommends that the Postal Service analyze the diverse impacts of employee turnover across functional areas to focus retention efforts where they are likely to yield the most benefit for service performance.*

- *Because decreasing CLTs represents an opportunity to improve service performance across many products and categories, the Commission recommends that the Postal Service prioritize the migration to CLEAR and the full implementation of its ILE as* *soon as possible. The Commission also recommends that continued consistent monitoring of delayed inventory to mitigate other transportation backlogs.*

- *The Commission recommends that the Postal Service develop an independent method to enable it to isolate and measure the impact of specific improvement initiatives on service performance.*

- *The Commission recommends that the Postal Service provide greater clarity regarding the purpose and basis behind changed targets to help the Commission evaluate the reasonableness of such targets and promote public transparency.*

- *The Commission reiterates its expectation that the Postal Service continue to consistently monitor and leverage CLTs and delayed inventory metrics to improve the efficacy of its transportation initiatives.*

- *The Commission recommends that the Postal Service continue to consider options to maximize peak season staffing for November-December 2024 (FY 2025 Quarter 1) to ensure that it is able to maintain consistent levels of service performance throughout this period.*

- *The Commission recommends that the Postal Service develop an independent method to enable it to isolate and measure the impact of specific improvement initiatives on service performance. In particular, the Commission encourages the Postal Service to develop a method that would enable it to measure the impact of changes associated with requests for advisory opinions under 39 U.S.C. § 3661, given that the Postal Service often justifies such changes with expectations about service performance effects made prior to implementation.*

- *The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these non-compliant products in FY 2024. The Commission has specifically developed directives designed to increase transparency regarding service performance for non-compliant products. These directives elicit data from the Postal Service and information on the steps that the Postal Service will have to take to restore service performance for those products in FY 2024. These directives include continued Postal Service reporting of specific information developed from its internal metrics within 90 days of the issuance of this ACD and as part of the Postal Service's FY 2024 ACR.*

Service Performance Measurement for Market Dominant Products:

- *Given that the Commission has been closely monitoring mail included and excluded in measurement for several fiscal years, the Commission expects the Postal Service to again file this information in table form, including detailed descriptions for data that are not available or not applicable, for FY 2024 along with the FY 2024 ACR.*

- *The Commission recommends that the Postal Service prioritize pursuing the full implementation of its ILE as soon as possible. The Commission also reminds the Postal Service that, pursuant to 39 C.F.R. § 3055.5, "all changes to measurement systems" are required to be filed with the "30 days prior to planned implementation." Further, the Commission intends to evaluate if the quality of service data has become significantly inaccurate pursuant to 39 U.S.C. § 3652(e)(2)(B) and to determine if any planned Postal Service changes to the "measurement systems, service standards, service goal or reporting methodologies [will] have a material impact on the accuracy, reliability, or utility of the [service performance] measurement" pursuant to 39 C.F.R. § 3055.5.*

- *The Commission recommends that the Postal Service renew its focus on increasing the percentage of mail in measurement and analyzing and improving its mail in measurement program.*

First-Class Mail Service Performance:

- *The following First-Class Mail products/categories did not achieve their service performance targets in FY 2023: Single-Piece Letters/Postcards, Overnight and 2-Day Presorted Letters/Postcards, Flats, Inbound Letter Post, and Outbound Single-Piece First-Class Mail International. Considering this, the Commission finds Single-Piece Letters/Postcards, Presorted Letters/Postcards, Flats, Inbound Letter Post, and Outbound Single-Piece First-Class Mail International were each out of compliance in FY 2023. Specifically for Presorted Letters/Postcards, the Commission notes that the 3-5-Day service standard category did exceed its target whereas the Overnight and 2-Day service standard category did not achieve its target in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these First-Class Mail products in FY 2023. The Commission directs the Postal Service to refine and apply its data leveraging techniques to improve service performance for its First-Class Mail products.*

- *The Commission directs the Postal Service to provide information on the following five matters. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative explaining the level of granularity provided in the response and detailing why the requested level of granularity could not be reached. The Postal Service should file a motion for clarification in Docket No. ACR2023, if necessary. Where appropriate, the Postal*

Service shall explain the reasons for any differences in the calculation of data in FY 2024 versus FY 2023 and shall propose a method for comparing the data.

(a) Nationwide Transit and Last Mile Improvement Initiatives

First, the Commission directs the Postal Service to evaluate the efficacy of its FY 2024 nationwide initiatives to improve transit and Last Mile and to provide specific detailed plans to improve service performance results for First-Class Mail, as described in items 1 and 2.

1. *The transit evaluation shall explain how the progress made in FY 2024 (or lack thereof) toward ensuring on-time departures, ensuring timely tender to transit suppliers, and minimizing en route delays affected on-time service performance results for First-Class Mail in FY 2024. The transit plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the key performance indicators (KPIs) used to measure and evaluate progress toward completion.*
2. *The Last Mile evaluation shall explain how the progress made in FY 2024 (or lack thereof) toward ensuring that facilities have proper education and are held accountable affected on-time service performance results for First-Class Mail in FY 2024. The Last Mile plan shall explain how the Postal Service will improve results for First-Class Mail by describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2024. Because the Postal Service has indicated that its progress and plans related to transit and the Last Mile apply to all categories of First-Class Mail generally,[4] the Commission will allow the Postal Service to describe its progress and plans at a class level. However, where appropriate, the evaluation shall indicate if the reported progress and effect on results apply only to particular categories of First-Class Mail (e.g., shape, product, or service standard). The evaluation and plan shall identify a responsible Postal Service representative, with knowledge of these matters, who will be available to provide prompt responses to requests for clarification from the Commission. The evaluation and plan shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated evaluation and plan shall be filed at the time of the FY 2023 ACR (by December 30, 2024).

[4] *See, e.g.*, Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-15, 17-50 of Chairman's Information Request No. 1, question 22, January 11, 2019.

(b) Division Improvement Initiatives

Second, the Commission directs the Postal Service to provide information for each of the geographic Postal Service Divisions on the following matters, described in items 1 and 2. Because the Postal Service has indicated that these service performance improvement initiatives are led by personnel in the Logistics and Processing Operations unit, and the Commission continues to have concerns regarding whether local actions are adhering to national strategies, the Commission directs the Postal Service to provide narrative reports from each Division to ensure a sufficiently wide set of narrative responses of geographic breadth.

1. *For each Division, the Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time service performance results for First-Class Mail by describing the Division's progress made toward addressing the top root causes of failure to deliver First-Class Mail on time and explaining how the Division's progress (or lack thereof) toward addressing each root cause affected on-time results for First-Class Mail in FY 2024. This evaluation shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2024.*
2. *For each Division, the Postal Service shall provide a detailed plan to improve on-time service performance results for First-Class Mail that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

Because the Postal Service has indicated that its progress and plans apply to all categories of First-Class Mail generally, the Commission will allow the Postal Service to describe its progress and plans at a class level.[5] *However, where appropriate, the report shall indicate if the information applies only to particular categories of First-Class Mail (e.g., shape, product, presort/single-piece, or service standard). The report for each Division shall identify a responsible Postal Service representative, with knowledge of these matters specific to the Division, who will be available to provide prompt responses to requests for clarification from the Commission. Each Division's narrative report shall specify its area of geographic oversight as compared to the legacy geographic organization. The report for each Division shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report from each Division shall be filed at the time of the FY 2023 ACR (by December 30, 2024).*

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[5] *See generally* FY 2023 Division Report; FY 2023 Division Report - Attachment A.

(c) Consistent Data

Third, to facilitate the consistent monitoring of First-Class Mail service performance, the Commission directs the Postal Service to provide the number of CLTs (any HCR that is late by more than 4 hours), presented for the nation, each Area, and each District.[6] *Data shall be provided for FY 2024 Quarter 1, Quarter 2, and "mid-year"*[7] *within 90 days of the issuance of this ACD (by June 26, 2024). Data shall be provided for FY 2024 Quarter 3, Quarter 4, "second-half"*[8] *and annualized for the fiscal year, in the FY 2024 ACR (by December 30, 2024). The Commission continues to direct the Postal Service to provide Area- and District-level data to allow comparability to prior fiscal years.*

(d) FY 2023 ISC Improvement Initiatives

To monitor the Postal Service's initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International, the Commission directs the Postal Service to provide information from each ISC (and the Honolulu, Hawaii facility responsible for processing Outbound Single-Piece First-Class Mail International) on the following matters, described in items 1 and 2.

1. *For each facility, the Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time service performance results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International by describing the facility's progress made toward addressing the identified deficiencies related to each facility's adherence to processing requirements and explaining how the facility's progress (or lack thereof) toward addressing each identified deficiency affected results for these products in FY 2024.*

2. *For each facility, the Postal Service shall provide a detailed plan to improve on time service performance results for Inbound Letter Post and Outbound Single-Piece First-Class Mail International that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

The evaluations described in items 1 and 2 above shall include quantitative analysis that identifies the KPI(s) used in support thereof, and if quantitative support is unavailable, the facility shall explain why it is unavailable and provide qualitative analysis in support of the evaluation. The report for each facility shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the facility, who will be available to provide prompt responses to requests for clarification from the Commission. Each facility shall quantify the Inbound Letter Post and Outbound Single-Piece First-Class Mail International volume that it processed each Quarter and provide corresponding

[6] *See, e.g.*, Library Reference USPS-FY23-29, Excel file "ACR2023 CLT Data.xlsx."

[7] Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2024.

[8] Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2024. Annualized refers to the aggregation of the data for all four quarters of FY 2024.

quantification for the same period during FY 2024. The report for each facility shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report from each facility shall be filed at the time of the FY 2023 ACR (by December 30, 2024).

USPS Marketing Mail Service Performance:

- *Although on-time service performance scores increased for each USPS Marketing Mail product from FY 2022 to FY 2023, three products did not achieve their service performance targets in FY 2023: (1) High Density and Saturation Flats/Parcels; (2) Flats; and (3) EDDM-R. Considering this, the Commission finds that High Density and Saturation Flats/Parcels, Flats, and EDDM-R were each out of compliance in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2024. The Commission directs the Postal Service to refine and apply its data leveraging techniques to improve service performance for USPS Marketing Mail products that did not achieve their targets.*

- *To monitor the Postal Service's initiatives to remediate service performance issues with respect to these non-compliant products, the Commission directs the Postal Service to provide information concerning the following matters for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2024).*

- *The Commission directs the Postal Service to evaluate the efficacy of its FY 2024 nationwide initiatives to improve service performance for High Density and Saturation Flats/Parcels, Flats, and EDDM-R (as well as any other USPS Marketing Mail product that fails to meet its applicable service performance target in FY 2024), and to provide specific detailed plans to improve these products' service performance, as described in items 1 and 2.*

    1. *The Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time results for these products by describing the progress made (the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for these products in FY 2024. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices observed to remediate the underlying problem(s) in FY 2024.*
    2. *The Postal Service shall provide a detailed plan to improve on-time results for these products that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

- *The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to these products, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report shall be filed at the time of the FY 2024 ACR (by December 30, 2024).*

Periodicals Service Performance:

- *The Commission recognizes that both Periodicals products met their on-time service performance targets in FY 2023 and notes that the Postal Service has raised these targets for FY 2023. However, the targets set by the Postal Service for Periodicals remain below targets set for other Market Dominant products as well as below historic targets set for both Periodicals products. With this in mind, and because both Periodicals products performed below target from FY 2009 through FY 2021, the Commission directs the Postal Service to provide, for Periodicals products that do not meet their targets in FY 2024, specific detailed plans to improve service performance as described in items 1 and 2.*

  1. *The Postal Service shall evaluate the efficacy of its FY 2024 initiatives to improve on-time results for Periodicals by describing the progress made (including the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) and explaining how the Postal Service's progress (or lack thereof) affected on-time results for Periodicals in FY 2024. The evaluations shall include quantitative comparisons of the same period last year (e.g., compare FY 2024 Quarter 1 to FY 2023 Quarter 1) and provide a narrative explaining the practices employed to remediate the underlying problem(s) in FY 2024.*
  2. *The Postal Service shall provide a detailed plan to improve on-time results for Periodicals that describes each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion.*

- *The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to Periodicals, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed at the time of the FY 2024 ACR (by December 30, 2024).*

Package Services Service Performance:

- *Although on-time service performance scores increased for each Package Services product from FY 2022 to FY 2023, BPM Flats did not achieve its service performance targets in FY 2023. While the on-time performance result for BPM Flats increased from FY 2022 to FY 2023 by approximately 2 percentage points, the Commission remains concerned that this product is substantially below its target. Moreover, FY 2023 marks the twelfth consecutive year that BPM Flats has remained below its target. The Commission acknowledges that the Postal Service has repeatedly asserted that this product has significant volumes that are incompatible with existing equipment and therefore undergo manual processing, which is slower and costlier. Considering this, the Commission finds that BPM Flats was out of compliance in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for this product in FY 2024. The Commission directs the Postal Service to refine and apply its data leveraging techniques to improve service performance for BPM Flats.*

- *To monitor the Postal Service's initiatives to remediate these ongoing issues related to this non-compliant product, the Commission directs the Postal Service to evaluate the efficacy of the Postal Service's FY 2024 initiatives (including the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) to improve on-time service performance for BPM Flats. The Postal Service shall also provide a detailed plan for how each product's results will be improved, describing: each planned initiative, the problem that the planned initiative is expected to remediate, the estimated timeframe for implementation and completion of each planned initiative, and the KPI(s) used to measure and evaluate progress toward completion. The report shall identify a responsible Postal Service representative, with knowledge of these two matters specific to BPM Flats, who will be available to provide prompt responses to requests for clarification from the Commission. This report shall be filed within 90 days of the issuance of this ACD (by June 26, 2024). An updated report shall be filed at the time of the FY 2023 ACR (by December 30, 2024).*

Special Services Service Performance:

- *Two Special Services products did not achieve their service performance targets in FY 2023: Post Office Box Service and Ancillary Services. Considering this, the Commission finds that Post Office Box Service and Ancillary Services were out of compliance in FY 2023. The Commission directs the Postal Service to improve service performance results to achieve the applicable on-time percent target level for these products in FY 2024.*

- *To monitor the Postal Service's initiatives to remediate these ongoing issues with respect to these non-compliant products, the Commission directs the Postal Service to provide the following information in the FY 2024 ACR for Post Office Box Service and*

Ancillary Services: (1) an evaluation of the efficacy of the Postal Service's FY 2024 initiatives (including the status of initiatives identified in Docket Nos. ACR2021, ACR2022, and ACR2023) to improve on-time service performance for each product; and (2) a detailed plan explaining how each product's results will be improved.

Customer Access:

- *The Commission reiterates the importance of providing accurate and consistent information among the Annual Report, ACR, and CHIR responses. To promote consistency, the Postal Service must continue reporting the number of contractor-operated retail facilities using the CPUT system. The FY 2024 Annual Report, FY 2024 ACR, and Library Reference USPS-FY24-33 must report the number of retail facilities for FY 2022 and FY 2023 using data from the January 19 Response to CHIR No. 2, question 46. If there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2024 ACR.*

- *In the FY 2024 ACR, Library Reference USPS-FY24-33 must correct data entry and calculation errors and report accurate, consistent information.*

Retail Facilities:

- *In future ACRs, the Postal Service must include a statement confirming that no changes were made to the version of Handbook PO-101 filed in the previous ACR. If changes are made, the Postal Service must include a public copy of (or a working website link that is accessible to the general public rather than restricted to Postal Service employees) Handbook PO-101.*

Post Office Suspensions:

- *The Postal Service must resolve all of the 78 suspended Post Offices remaining from the end of FY 2016. The Commission directs the Postal Service to continue filing quarterly reports on the status of these suspended Post Offices in both Docket No. ACR2023 and Docket No. PI2022-1. The Postal Service must file this information within 40 days after the end of each quarter in FY 2024 and in FY 2025 for Quarters 1 and 2. Quarterly reports must continue to include a spreadsheet containing, at a minimum, the same columns and information provided in the spreadsheet filed with the FY 2024, Quarter 1 Suspensions report on February 9, 2024.*

- *Each quarterly report must reflect the most accurate data currently available and correct any discrepancies from the prior quarterly report. The Postal Service must identify and reconcile any discrepancies or differences in the body of the report and the accompanying Excel spreadsheet by highlighting information added or changed and striking through information removed.*

- *Each quarterly report shall identify any changes to the staffing of the Suspension and Discontinuance team, including the relevant chain of command, the responsible management-level personnel, and the current staffing levels (including number of careers versus contractor support roles).*

- *Each quarterly report shall also include status updates on the Postal Service's progress in addressing each of the following items (along with the projected implementation date for incomplete items or the actual implementation date for complete items):*
    - *Revising Handbook PO-101*
    - *Fixing the technical issue with the CSDC system*
    - *Developing and implementing the Suspensions Dashboard*
    - *Publishing nine suspensions in the Postal Bulletin*
    - *Discontinuing nine suspensions pending resolution of the CSDC system technical issue*
    - *Hiring one full-time employee to work on the suspension and discontinuance process*

- *If the Postal Service does not resolve all 78 remaining suspended Post Offices by the end of FY 2024, it must explain why in the FY 2024 ACR, as well as how it plans to resolve them in FY 2025. The FY 2024 ACR must also include a detailed plan and timeline for resolving Post Offices suspended from FY 2017 through FY 2024.*

- *For each Post Office that is suspended at the end FY 2024, the FY 2024 ACR or Library Reference USPS-FY24-33 must contain a spreadsheet that includes the following information:*
    - *a. Post Office Name*
    - *b. Street Address*
    - *c. City, State, and ZIP*
    - *d. Suspension Date*
    - *e. Suspension Reason*
    - *f. Postal Area*
    - *g. Postal District*
    - *h. Finance Number*
    - *i. Facility ID*
    - *j. Facility Type*

Collection Boxes:

- *The Commission will continue to monitor the number of collection boxes in Docket No. ACR2024. The FY 2024 ACR must comply with 39 C.F.R. § 3055.91(c) by reporting, at the national and area levels, the number of collection boxes at the beginning and end of FY 2024, as well as the number of collection boxes added to new locations and removed during FY 2024. If there are any discrepancies between the number of collection boxes at the beginning and end of FY 2024 and the number of collection boxes added and removed during FY 2024, the Postal Service must reconcile these discrepancies in the FY 2024 ACR.*

- *In FY 2024, the Commission recommends that the Postal Service continue conducting annual volume density testings consistent with the procedures specified in the POM to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission also recommends that the Postal Service describe in the FY 2024 ACR any plans or initiatives to remove collection boxes beyond the procedures specified in the POM.*

Wait Time in Line:

- *The Commission will monitor wait time in line in Docket No. ACR2024 to ensure continued improvement. The Commission encourages the Postal Service to continue implementing strategies for improving wait time in line. In the FY 2024 ACR, the Postal Service must:*
    - *Describe actions taken and strategies implemented during FY 2024 to improve wait time in line*
    - *Explain which actions and strategies were most and least effective in reducing wait time in line*
    - *Identify the strategies and actions for addressing the issue of staffing concerns and gaps in District duties and responsibilities*
    - *Explain whether these strategies and actions were effective in addressing staffing concerns and gaps in District duties and responsibilities*

- *If wait time in line worsens during FY 2024, the FY 2024 ACR must:*
    - *Explain why wait time in line increased, and identify causes and factors contributing to the increase*
    - *Describe plans for improving wait time in line during FY 2025 that identify specific actions, strategies, and initiatives for addressing the causes of increased wait time in line*

Alternative Access:

- *The Commission recommends that the Postal Service continue to offer and expand alternative access channels to ensure customers have continued access to essential postal services. If revenue from retail channels continues to decline across the board in FY 2024, the Postal Service must identify the root causes for these declines and describe plans to address them in the FY 2024 ACR.*

Customer Satisfaction:

- *In FY 2024, the Postal Service should continue to take appropriate actions to maintain Market Dominant product satisfaction for residential, small/medium business, and large business customers. In the FY 2024 ACR, the Postal Service must:*
  - *Identify the factors that drive Market Dominant product satisfaction for residential, small/medium business, and large business customers*
  - *Identify the root causes of lower customer satisfaction for any mailing service with a result that declines between FY 2023 and FY 2024*
  - *Describe specific actions taken as well as plans, initiatives, and strategies implemented in FY 2024 to improve customer satisfaction with Market Dominant products*
  - *Explain how these actions, plans, initiatives, and strategies improved Market Dominant product satisfaction for residential, small/medium business, and large business customers*
  - *Explain how these actions, plans, initiatives, and strategies impacted FY 2024 results*
  - *Describe specific plans for improving Market Dominant product satisfaction in FY 2025 that target mailing services with lower satisfaction results in FY 2024*

Appendix B: Initial and Reply Comments FY 2023 *Annual Compliance Determination*

Commenter	Comment Citation	Citation Short Form
Alliance of Nonprofit Mailers (Alliance)	Comments of Alliance of Nonprofit Mailers January 29, 2024	Alliance Comments
Amazon.com Services, Inc. (Amazon)	Reply Comments of Amazon.com Services LLC February 13, 2024	Amazon Reply Comments
American Catalog Mailers Association (ACMA)	Initial Comments of the American Catalog Mailers Association January 30, 2024	ACMA Comments
Association for Postal Commerce (PostCom)	Comments of the Association for Postal Commerce, January 30, 2024	PostCom Comments
Greeting Card Association (GCA)	Initial Comments of the Greeting Card Association, January 30, 2024	GCA Comments
National Postal Policy Council (NPPC)	Comments of the National Postal Policy Council, January 30, 2024	NPPC Comments
The News/Media Alliance (N/MA)	Comments of the News/Media Alliance January 30, 2024	N/MA Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc. January 30, 2024	Pitney Bowes Comments
Public Representative (PR)	Public Representative Comments January 30, 2024	PR Comments
Taxpayers Protection Alliance (TPA)	Taxpayers Protection Alliance Comments for ACR 2023 – Annual Compliance Review, 2023 January 22, 2024	TPA Comments
United States Postal Service (Postal Service)	Reply Comments of the United States Postal Service, February 13, 2024	Postal Service Reply Comments

Appendix C: Information Requests and Responses to Information Requests FY 2023 *Annual Compliance Determination*

Full Form Citation	Short Form Citation
Chairman's Information Requests	
Chairman's Information Request No. 1, January 5, 2024.	CHIR No. 1
Chairman's Information Request No. 2 and Notice of Filing Under Seal, January 12, 2024.	CHIR No. 2
Chairman's Information Request No. 3, January 17, 2024.	CHIR No. 3
Chairman's Information Request No. 5, January 18, 2024.	CHIR No. 5
Chairman's Information Request No. 6 and Notice of Filing Under Seal, January 19, 2024.	CHIR No. 6
Chairman's Information Request No. 7 and Notice of Filing Under Seal, January 26, 2024.	CHIR No. 7
Chairman's Information Request No. 8, January 31, 2024.	CHIR No. 8
Chairman's Information Request No. 9 and Notice of Filing Under Seal, February 2, 2024.	CHIR No. 9
Chairman's Information Request No. 10 and Notice of Filing Under Seal, February 9, 2024.	CHIR No. 10
Chairman's Information Request No. 12 and Notice of Filing Under Seal, February 14, 2024.	CHIR No. 12
Chairman's Information Request No. 14 and Notice of Filing Under Seal, February 20, 2024.	CHIR No. 14
Chairman's Information Request No. 15 and Notice of Filing Under Seal, February 26, 2024.	CHIR No. 15
Chairman's Information Request No. 17, March 1, 2024.	CHIR No. 17
Chairman's Information Request No. 18, March 8, 2024.	CHIR No. 18

Full Form Citation	Short Form Citation
Responses to Chairman's Information Requests[1]	
Responses of the United States Postal Service to Questions 1-7, 9-15(a-f), 16, and 18 of Chairman's Information Request No. 1, January 12, 2024.	January 12 Response to CHIR No. 1
Responses of the United States Postal Service to Questions 8, 15(g), and 17 of Chairman's Information Request No. 1, January 19, 2024.	January 19 Response to CHIR No. 1
Responses of the United States Postal Service to Questions 1-26, 28-57, 61 of Chairman's Information Request No. 2, January 19, 2024.	January 19 Response to CHIR No. 2
Responses of the United States Postal Service to Questions 21, 27, and 59-60 of Chairman's Information Request No. 2, January 22, 2024.	January 22 Response to CHIR No. 2
Notice of the United States Postal Service of Reformatted Response to Question 16 of Chairman's Information Request No. 2 -- Errata, January 22, 2024.	Errata to January 19 Response to CHIR No. 2
Responses of the United States Postal Service to Questions 58 and 62 of Chairman's Information Request No. 2, January 25, 2024.	January 25 Response to CHIR No. 2
Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 3, January 24, 2024.	Response to CHIR No. 3
Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 5, January 24, 2024.	Response to CHIR No. 5
Responses of the United States Postal Service to Questions 1-11, 12.b - 21 of Chairman's Information Request No. 6, January 26, 2024.	January 26 Response to CHIR No. 6

[1] The Postal Service filed motions for late acceptance. *See* United States Postal Service Motion for Late Acceptance of Responses to Questions 8, 15(g), and 17 of Chairman's Information Request No. 1, January 19, 2024; Motion of the United States Postal Service for Late Acceptance of Responses to Questions 21, 27, and 59-60 of Chairman's Information Request No. 2, January 22, 2024; Motion of the United States Postal Service for Late Acceptance of Nonpublic Material Relating to Responses to Chairman's Information Request No. 2, January 22, 2024; Motion of the Postal Service for Late Acceptance of Responses to Questions 58 and 62 of Chairman's Information Request No. 2, January 25, 2024;Motion of the United States Postal Service for Late Acceptance of the Response to Question 12.a of Chairman's Information Request No. 6, January 29, 2024; Motion of the United States Postal Service for Late Acceptance of Responses to Questions 20.b and 25 of Chairman's Information Request No. 7, February 6, 2024; Motion of the United States Postal Service for Late Acceptance of Responses to Questions 12 and 14 of Chairman's Information Request No. 9, February 13, 2024; Motion of the United States Postal Service for Late Acceptance of Response to Question 10 of Chairman's Information Request No. 10, February 20, 2024; Motion of the United States Postal Service for Late Acceptance of the Response to Question 4 of Chairman's Information Request No. 17, March 12, 2024. These motions for late acceptance are all granted.

Full Form Citation	Short Form Citation
Responses to Chairman's Information Requests, continued	
Response of the United States Postal Service to Question 12.a of Chairman's Information Request No. 6, January 29, 2024.	January 29 Response to CHIR No. 6
Responses of the United States Postal Service to Questions 1-5, 7-18.a, 18.c-24, 26-27 of Chairman's Information Request No. 7, February 2, 2024.	February 2 Response to CHIR No. 7
Motion for Reconsideration of Question 6 of Chairman's Information Request No. 7, February 2, 2024.	Motion for Reconsideration, Question 6
Motion for Reconsideration of Question 18 in Chairman's Information Request No. 7, February 2, 2024.	Motion for Reconsideration, Question 18
Responses of the United States Postal Service to Questions 20.b and 25 of Chairman's Information Request No. 7, February 6, 2024.	February 6 Response to CHIR No. 7
Response of the United States Postal Service to Question 18(B) of Chairman's Information Request No. 7, March 8, 2024.	March 8 Response to CHIR No. 7
Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 8, February 6, 2024.	Response to CHIR No. 8
Notice Concerning Chairman's Information Request No. 7, Question 6, February 8, 2024.	Notice CHIR No. 7
Responses of the United States Postal Service to Questions 1-11, 13, and 15-22 of Chairman's Information Request No. 9, February 9, 2024.	February 9 Response to CHIR No. 9
Responses of the United States Postal Service to Questions 12 and 14 of Chairman's Information Request No. 9, February 13, 2024.	February 13 Response to CHIR No. 9
Responses of the United States Postal Service to Questions 1-9, 11-19 of Chairman's Information Request No. 10, February 16, 2024.	February 16 Response to CHIR No. 10
Response of the United States Postal Service to Question 10 of Chairman's Information Request No. 10, February 20, 2024.	February 20 Response to CHIR No. 10
Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 12, February 21, 2024.	Response to CHIR No. 12

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Responses to Chairman's Information Requests, continued	
Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 14, February 27, 2024.	Response to CHIR No. 14
Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 15, February 29, 2024.	Response to CHIR No. 15
Responses of the United States Postal Service to Questions 1-3 and 5-9 of Chairman's Information Request No. 17, March 8, 2024.	March 8 Response to CHIR No. 17
Response of the United States Postal Service to Question 4 of Chairman's Information Request No. 17, March 12, 2024.	March 12 Response to CHIR No. 17
Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 18, March 14, 2024.	Response to CHIR No. 18
Commission Information Requests[2]	
Commission Information Request No. 1, February 8, 2024.	CIR No. 1
Responses to Commission Information Requests	
Response of the United States Postal Service to Question 1 of Commission Information Request No. 1, February 20, 2024.	Response to CIR No. 1

[2] The Postal Service file a motion of late acceptance. *See* Motion of the United States Postal Service for Late Acceptance of Response to Commission Information Request No. 1, February 20, 2024. The motion is granted.

Appendix D: Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
ACD	*Annual Compliance Determination*
ACMA	American Catalog Mailers Association, Inc.
ACR	*Annual Compliance Report*
ADC	area distribution center
AIM	Areas Inspiring Mail
BPM	Bound Printed Matter
CeC	Connect eCommerce
C.F.R.	Code of Federal Regulations
CET	critical entry time
CHIR	Chairman's Information Request
CLEAR	Contract Logistics Enterprise Acquisition Resource
CIR	Commission Information Request
CLT	Critically Late Trip
CPI	consumer price index
CPI-U	consumer price index for all urban consumers
CPO	community Post Office
CPU	contract postal unit
CPUT	Contract Postal Unit Technology
CRA	Cost and Revenue Analysis
CSDC	Change Suspension Discontinuance Center
CX	Customer Experience
CY	Calendar Year
DADC	destination area distribution center
DDU	destination delivery unit
DFA	Delivering for America
DMM	Domestic Mail Manual
DMU	Detached Mail Unit
DNDC	destination network distribution center
ECSI	educational, cultural, scientific, or informational (value)
EDDM	Every Door Direct Mail
EDDM-R	Every Door Direct Mail—Retail
EMS	Express Mail Service
FAST	Facility Access and Shipment Tracking
FPO	foreign postal operator
FY	Fiscal Year
GCA	Greeting Card Association

Acronym/Abbreviation	Meaning
GEPS—NPR	Global Expedited Package Services—Non-Published Rates
HCR	Highway Contract Route
HD	High Density
HDSF	High Density and Saturation Flats/Parcels
HDSL	High Density and Saturation Letters
HD+	High Density Plus
IB	International Bureau
ICRA	International Cost and Revenue Analysis
ILE	Integrated Logistics Environment
IMb	Intelligent Mail barcode
IMbA	Intelligent Mail barcode Accounting
IMTS—Inbound	International Money Transfer Service—Inbound
IMTS—Outbound	International Money Transfer Service—Outbound
Internal SPM	Internal Service Performance Measurement System
IOCS	In-Office Cost System
IAA	interagency agreement
IPKs	items per kilogram
IPA	International Priority Airmail
ISAL	International Surface Air Lift
ISC	International Service Center
KPI	key performance indicator
LPC	Local Processing Center
MCS	Mail Classification Schedule
MTAC	Mailer's Technical Advisory Committee
N/MA	The News/Media Alliance
NDC	network distribution center
NPPC	National Postal Policy Council
NSA	negotiated service agreement
OIG	Office of Inspector General
OPP	Operating Plan Precision
OADC	origin area distribution center
ONDC	origin network distribution center
OSCF	origin sectional center facility
P&DC/F	processing and distribution center/facility
PAEA	Postal Accountability and Enhancement Act
Pitney Bowes	Pitney Bowes Inc.
PO Boxes	Post Office Boxes
POM	Postal Operations Manual
POS	Point of Sale

Acronym/Abbreviation	Meaning
PostCom	Association for Postal Commerce
PR	Public Representative
PSAs	Package Support Annexes
PSRA	Postal Service Reform Act of 2022
PTR	Product Tracking and Reporting System
RPDC	Regional Processing and Delivery Center
S&DC	Sorting and Delivery Center
SCF	sectional center facility
SPM	service performance measurement
SRP	supplementary remuneration program
SSKs	Self-Service Kiosks
SSOP	site-specific operating plan
SV	Surface Visibility
TPA	Taxpayers Protection Alliance
U.S.C.	United States Code
UPU	Universal Postal Union
VPO	Village Post Office

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